Farm Credit Midsouth

A Farm Credit Midsouth Publication • **2019 Annual Report**

Membership Has Its Privileges!

Letter from the CEO

We are once again pleased to present to you, our members, this report on Farm Credit Midsouth and its 2019 performance. Our team has covered all of the necessary particulars, as well as highlighted the hard work and remarkable events that made for a memorable year, and we hope you enjoy reading it in its entirety.

This year has been a successful one for your Cooperative, despite the challenges in our farm economy. Our success can be attributed in part to Farm Credit Midsouth's exceptional Board of Directors, management and employees, but most of all to the success of you, our members.

If you "Google" the definition of a cooperative you will find the following: "a farm, business or other organization which is owned and run jointly by its members, who share the profits or benefits." *Farm Credit Midsouth truly meets this definition on all counts.*

- We are a financial organization in the business of lending and providing financial services to our members—farmers and rural America!
- We are owned and run by our members—the farmers, ranchers, agribusinesses and rural homeowners in Eastern Arkansas. We currently have over 3500 members who annually elect the Nominating Committee (made up of farmers) and the 10 Directors (also made up of farmers.) These Farmer/Directors govern Farm Credit Midsouth establishing policies, procedures, a strategic plan, and hiring a CEO to carry those out.
- Our members "share in the profits or benefits." This year, we will pay out nearly $6.6 million in patronage to you, our members. *This will be approximately 33 percent of the 2019 net earnings.*

In short, we are owned by you *(farmers)*, run by you *(farmers)*, and we return profits and benefits to you *(farmers)*. Since this is your Cooperative, you may ask what you can do to help it grow and be profitable.

1. Participate in the governance by nominating or electing the directors, or becoming one yourself.
2. Provide feedback to your directors, CEO or branch employees as to what we can do to better serve our members.
3. Do all of *your* business with *your* Cooperative.
4. Refer new members.

The bottom line is the more your Cooperative grows, the more it pays! On behalf of the entire Farm Credit Midsouth association, I ask all of our members to help us grow **YOUR** organization this year and in the years to come.

With thanks,

James McJunkins

President & Chief Executive Officer
Farm Credit Midsouth

In This Report

Cover Photo:
Ryan Sullivan, Mississippi County

2019 Annual Report

is produced for members and friends of Farm Credit Midsouth.

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Article quotes have been edited for content and appropriateness.

Follow us on social media!

Board of Directors

DANE COOMER, Chair
Clay County | *Piggott, Arkansas* | *2013*
Executive Committee, Vice Chair

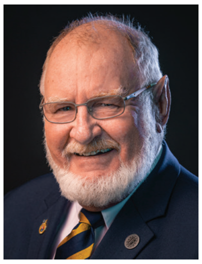
Dane graduated from the University of Arkansas with a bachelor's degree in agricultural engineering and has been a licensed professional engineer since 1994. Dane is a self-employed grain and cotton farmer. He is a partner of Coomer Farms, an officer of Wildflower Properties, LLC, and a member of the Piggott Volunteer Fire Department. Dane was elected to his current term on the Board in February 2017 which expires February 2021. He recently was elected Chair of the Board. Dane represents Clay County and also serves on the Executive Committee. He has been a board member since 2013.

RAMEY STILES, Vice Chair
Lee County | *Marianna, Arkansas* | *2014*
Executive Committee
Compensation Committee, Chair

Ramey is a self-employed cotton and peanut farmer who is also engaged in custom cotton harvesting. He graduated from Arkansas State University with a degree in ag business and economics. He serves on the Board of Directors of Cotton Incorporated, the Lee County Farm Bureau Board, and the Board of the Agricultural Council of Arkansas. Ramey joined the Board in 2014 and represents Lee County. Ramey serves as the chair of the Board's Compensation Committee. He recently was elected as Vice Chair of the Board. He was elected to his current term on the Board in February 2018 which expires in February 2022.

FRED CATHCART (retiring)
Craighead County | *Jonesboro, Arkansas* | *2003*
Compensation Committee
Executive Committee

Fred is a Northeast Arkansas land owner with interests in rice and soybeans. He is also the president of Cathcart Holdings, LLC, a rental property and farm management company. Fred joined the Board in 2003 and represents Craighead County. He was elected to his current term on the Board in February 2016 which expires in February 2020. In addition to being on the Farm Credit Midsouth Board, Fred is also a member of the Board of the Big Creek Watershed District. Fred is a volunteer and fund-raiser for St. Jude Children's Research Hospital and is actively involved in his church, First United Methodist Church of Jonesboro.



MARION FLETCHER, Outside Director
Hot Springs, Arkansas | *1993*
Compensation Committee

Marion graduated from Arkansas State University with a Bachelor of Science in agriculture education. He also has a Master of Education from Henderson State University. He joined the Board as an Outside Director for the Association in 1993. Marion is a retired educator. He taught agricultural education for 53 years. He also serves as a Director of the Garland County Farm Bureau in Hot Springs. In October 2014 he was honored with the Golden Owl Award at the National FFA Convention. He was appointed to his current term on the Board in November 2016 which expires in March 2020. In addition, Marion serves on the Board's Compensation Committee.

BOARD OF DIRECTORS • Continued on page 4

Board of Directors

FRANKLIN FOGLEMAN, JR.

Crittenden County | *Marion, Arkansas* | *2018*
Audit Committee

Franklin joined the Board in February 2018 as the representative for Crittenden County. Franklin is a self-employed grain farmer and owns a real estate brokerage firm specializing in agriculture investments. Franklin's family partnership operates a large-scale corn, rice, soybeans and wheat business. He also serves on the Board of Directors of the Agricultural Council of Arkansas. He is the Arkansas State University Midsouth Foundation Chair and the Crittenden Regional Hospital Foundation Chair. He was elected to his current term on the Board in February 2018 which expires in February 2022. Franklin also serves on the Audit Committee.

DUSTIN HENSON

Greene County | *Paragould, Arkansas* | *2019*
YBS / Scholarship Committees

Dustin was elected to the Board in February 2019. A farmer, Dustin owns 350 acres and rents 3,250 acres. His operations consist of rice and soybeans. He has an agriculture business degree from Arkansas State University. He and his wife, Tiffany, have one daughter, Molly. The family attends First United Methodist Church in Paragould. He was elected to his current term on the Board in February 2019 which expires in February 2023.

MATT KNIGHT, Outside Director

Jonesboro, Arkansas | *2008*
Audit Committee

Matt is a graduate of Arkansas State University and holds a bachelor's degree in accounting. He is a CPA and a partner of Osborn & Osborn CPAs, PLLC. Matt joined the Board in 2008 as an Outside Director and the Board's Financial Expert. He was appointed to his current term on the Board in July 2018 which expires March 2022. In addition, Matt serves on the Board's Audit Committee.

BOARD OF DIRECTORS • Continued on page 5

THOMAS RETIRES FROM BOARD

Keith Thomas, Director 2001-2020

Keith Thomas will retire from the Farm Credit Midsouth Board of Directors after spending nearly two decades in service to the Association. Keith began his tenure in 2001 and was last elected in February of 2016. We have enjoyed considerable growth under his guidance as an At-Large Director.

Keith is especially invested in mentoring young Arkansas farmers as a member of the Board's Young, Beginning and Small Farmers Committee (also known as the YBS Committee). His expertise will be missed by his fellow directors on that committee and the board as a whole. Though we can't imagine retirement will give him much opportunity to slow down, it may give him more time spent on his own interests, personal and professional—as a landlord and president of Keith Thomas Farms of Cherry Valley, Inc. Thank you for your many years of service and friendship, Keith!

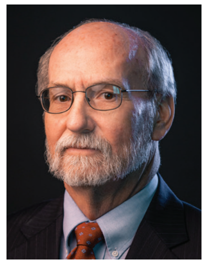
Knight Completes Governance Training

Matt Knight, Board Director, recently attended and completed the Premier Governance Series training program specifically developed to help the Directors better fulfill their roles in governance. The training series includes classes on the following topics: Excellence in Board Leadership, Strategy Alignment and Execution, Financial Direction of the Enterprise and Managing Risk, Human Capital as a Resource, Financial Markets Overview, Gettysburg Leadership Experience and Technology Disruption and Cyber Risk: The Board's Role.

We congratulate, Matt, on his certification and appreciate the time and dedication he commits to serving on our Farm Credit Midsouth Board of Directors.

Board of Directors

CARL LOEWER



Cross County | *Wynne, Arkansas* | *1992*
Executive Committee
Audit Committee, Chair

Carl joined the Board in 1992 and represents Cross County. He is a self-employed grain farmer. Carl is the president of Loewer Brothers, Inc. and the vice president of Loewer Oaks Farms, Inc. He is a Director of the Cross County Farm Bureau Board. He is a Justice of the Peace for the Cross County Quorum Court and serves as a Commissioner of the Wynne Water Utilities. Carl is a member of the Board's Executive Committee as well as serving as the Audit Committee Chair. Carl was elected to his current term on the Board in February 2017 which expires February 2021.

CHRIS ROBERTS

St. Francis County | *Heth, Arkansas* | *2011*
Executive Committee, Chair

Chris graduated from Mississippi State University with a degree in agricultural engineering. He is a self-employed grain farmer primarily farming corn, rice, and soybeans. He serves as the representative for St. Francis County. Chris served as Chair of the Board from February 2017-2020. Chris has been a Board member since 2011 and was the Vice Chair from February 2013-2017. He also serves on the Executive Committee of the Board. Chris was elected to his current term on the Board in February 2019 which expires in February 2023. In addition to his role on the Midsouth Board, Chris serves on Congressman Crawford's Arkansas Rivers Maritime Advisory Council Board and is the Vice-Chair of the AgriBank District Farm Credit Council Board.

GARY SITZER

Poinsett County | *Weiner, Arkansas* | *1985*
Executive Committee
Audit Committee

Gary is a self-employed rice and soybean farmer. He is president of Sitzer Farms, Inc. He serves on the Poinsett County Farm Bureau Board in Harrisburg, the Arkansas Soybean Association Board, the Arkansas Soybean Promotion Board, St. Bernards Medical Center Advisory Board, the Poinsett County Emergency Food and Shelter Board, and is a member of Congressman Crawford's Ag Advisory Committee. Gary joined the Board in 1985 and represents Poinsett County. He was elected to his current term on the Board in February 2016 which expires in February 2020. Gary was re-elected to the Board to a term that will end February 2024. He is a member of the Board's Executive Committee and serves on the Board's Audit Committee.

BOARD OF DIRECTORS • Continued on page 6

Board of Directors

MIKE SULLIVAN

Mississippi County | *Burdette, Arkansas* | *2013*
YBS / Scholarship Committee

Mike joined the Board in 2013 and represents Mississippi County. He serves as a member of the Board's Young, Beginning and Small Farmer Committee (YBS Committee). He graduated from the University of Arkansas with a Bachelor's degree in agronomy. He is a self-employed grain farmer, farming 18,000 acres with his son, nephew and brother. Mike also serves on the Board of Arkansas Rice Farmers and the Arkansas State Ag Advisory Board. Mike was elected to his current term on the Board in February 2017 which expires February 2021.

MICHAEL S. TAYLOR, JR.

Phillips County | *Helena, Arkansas* | *2018*
YBS / Scholarship Committee

Michael owns a farm partnership with his father farming corn, peanuts and soybeans on 4,300 acres. He also grazes cattle in the winter on cover crops. Michael has been a Board member since 2018. His term on the Board expires in February 2022. He serves on the Board's YBS/ Scholarship Committee. Michael also serves on the Phillips County Conservation District, and DeSoto School Board. He attended Arkansas State University. He and his wife, Laura, have two children – a son, Wells, and a daughter, Merrie Leigh.

KEITH THOMAS, At Large Director (retiring)

Cherry Valley, Arkansas | *2001*
YBS / Scholarship Committee, Chair

Keith joined the Board in 2001. He is the At Large Director and serves as Chairman of the Board's Young, Beginning and Small Farmer Committee — also known as the YBS Committee. He is a landlord and serves as the president of Keith Thomas Farms of Cherry Valley, Inc. He was elected to his current term on the Board in February 2016 to a term which expires in February 2020.

CATHCART RETIRES FROM BOARD

Fred Cathcart, Director 2003-2020

At the end of February, 2020 Fred Cathcart will wrap up 17 years of service to the FCM Board of Directors. He retires from the Board he joined in 2003 having overseen the Association as it has exploded in growth through his tenure.

As a farmer, landowner and agri-businessman himself, Fred has endured the farm economy's challenges alongside his friends and colleagues as he has represented Craighead County on the Board. Fred's expertise will be missed by his fellow directors on the board and in the executive Committee and Compensation Committee, where he served as Chair. Though we're certain his docket will remain full, we're hoping he is able to enjoy the time retirement frees with his wife, Susan, and working on some of the projects he is passionate about like St. Jude's Children's Research Hospital and the couple's church, First United Methodist of Jonesboro. Thank you for your many years of service and friendship, Fred!

Board Committees

Farm Credit Midsouth has four committees in which board members participate — the Executive Committee, the Audit Committee, the Compensation Committee and the YBS/Scholarship Committee. In addition to attending seven regularly scheduled board meetings, the board members also provide their expertise and guidance for the organization by serving on these committees. Each board member is responsible for participating on at least one committee. The information that follows provides a narrative of the members and responsibilities assigned to each committee.

Executive Committee

Left to right: Carl Loewer, Dane Coomer - Vice Chair, Chris Roberts - Chair, Ramey Stiles, Gary Sitzer

The Executive Committee met six times during 2019. Their responsibility is to execute the orders of the Board including evaluation of the CEO and to serve as members of the Credit Review Committee.

Audit Committee

Back (l to r): Carl Loewer - Chair, Matt Knight
Front (l to r): Franklin Fogleman, Gary Sitzer

The Audit Committee met 12 times during 2019. Their responsibilities include ensuring the financial statements are reliable; evaluating and communicating with external auditors; and ensuring effective internal controls of the organization are implemented.

Compensation Committee

Back: Fred Cathcart,
Front (l to r): Marion Fletcher, Ramey Stiles - Chair

The Compensation Committee met five times during 2019. Their primary responsibility is to ensure the compensation policies and plans are fair and adequately administered by the Association.

YBS / Scholarship Committee

Back (l to r): Michael Taylor, Mike Sullivan
Front (l to r): Keith Thomas - Chair, Dustin Henson

The YBS/Scholarship Committee met three times during 2019. Their primary responsibility is to select scholarship recipients and to guide the Association in offerings for young, beginning and small farmers.

Who is Farm Credit Midsouth?

Farm Credit Midsouth began in 1916. As a locally owned and managed financial cooperative that is a part of the national Farm Credit System, we are dedicated to making a significant and positive impact on agriculture and supporting growth of rural America. Farm Credit Midsouth is a part of the AgriBank district which obtains necessary financial funding through the Federal Farm Credit Banks Funding Corporation.

OUR MISSION

Enhance our diverse agricultural and rural economy.

OUR VISION

We will be a highly competitive, effectively managed, sufficiently capitalized, locally controlled Cooperative and will provide the most dependable source of capital.

We will serve all eligible individuals having a basis for credit with specialized expertise and value added service.

OUR CORE VALUES

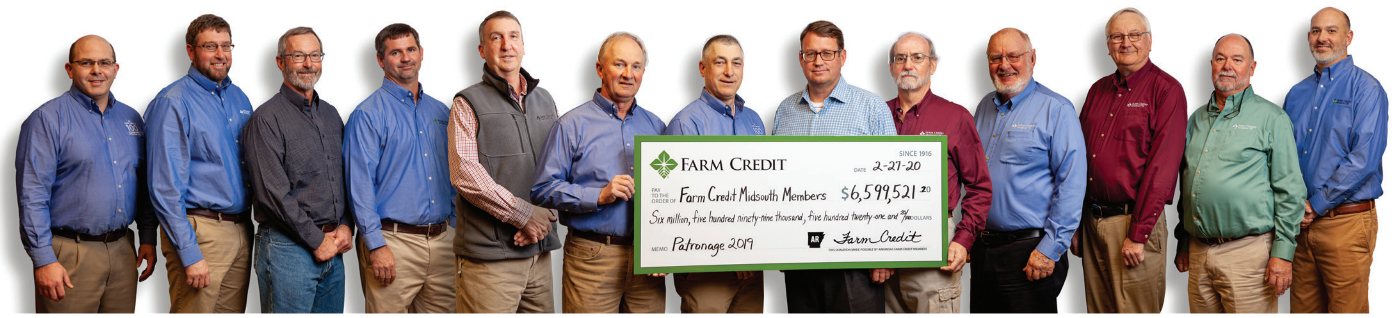
- Place the customer first.
- Provide visionary leadership.
- Achieve operational excellence.
- Instill a high level of loyalty.
- Acknowledge and reward quality employee performance.

WHO WE SERVE

Our members are also our owners.

We provide credit and financial services to those who meet regulatory eligibility requirements. If you own or wish to buy agriculture land, or are involved in agriculture or rural activities, give us a call to determine if you're eligible to be a member.

$6.6 Million in Patronage will be Paid to Eligible Members



Left to right: Matt Knight, Dustin Henson, Keith Thomas, Michael Taylor, Mike Sullivan, Ramey Stiles, Dane Coomer - Vice Chair, Chris Roberts - Chair, Carl Loewer, Marion Fletcher, Gary Sitzer, Fred Cathcart, Franklin Fogleman, Jr.

Farm Credit Midsouth has announced its board of directors unanimously approved an all-cash patronage distribution for eligible members. The distribution, totaling approximately $6.6 million, will be made this February.

"Our Cooperative continues to maintain a strong financial position to help our borrowers through both good times and bad," said Board Chairman Chris Roberts. "We appreciate their continued trust and look forward to this winter's distribution."

"Farm Credit Midsouth has a strong history of positive patronage for our members," adds President and CEO James McJunkins. "In 2005 we paid out about $3.7 million. Today we are pleased to have increased that amount to our current level, which stands at $6.6 million. Over those 14 years, we have distributed more than $68 million to our members."

Patronage Payout
Only from Farm Credit Midsouth

ABOUT FARM CREDIT MIDSOUTH

Farm Credit Midsouth (a part of the Farm Credit system) is a federally-chartered cooperative providing over $1 billion in credit and related services to more than 3,500 agriculture producers and rural home owners in the State of Arkansas, the Counties of Clay, Craighead, Crittenden, Cross, Greene, Lee, Mississippi, Phillips, Poinsett, and St. Francis, and that part of Desha County lying north of the Arkansas River. In the State of Missouri, the Counties of Carter, Ripley, and Wayne. In the State of Tennessee, that portion of the Counties of Shelby, Tipton, and Lauderdale west of the channel of the Mississippi River as it now flows.

Congratulations!

2019 FCM Scholarship Recipients

One of the highlights at Farm Credit Midsouth is the annual presentation of 14 scholarships worth $1,000 each to outstanding undergraduates. Each student was chosen based on a combination of academic, extracurricular, agricultural, and leadership achievement. We congratulate this year's honorees on a job well done and wish them the best of luck in college and beyond. Students may apply online for 2020 scholarships at FCMidsouth.com/scholarships.

Casey Arnold
Phillips Community College, UofA

Alex Bramucci
West Memphis Christian High School

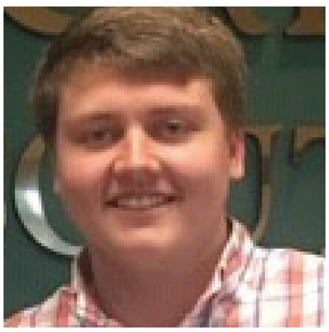
Matthew Brown
Arkansas State University

Gabriona Clark
Rector High School

Addison Ephlin
Rivercrest High School

Tyson Finch
Buffalo Island Central High School

Jessica Griffin
Greene County Tech High School

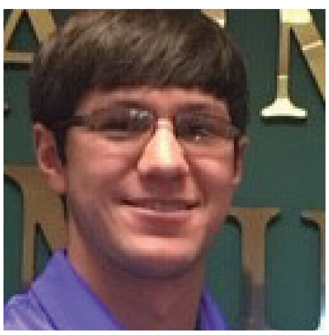


Jett Jackson
Harrisburg High School

Katelyn Jackson
Piggott High School

Lee Pouncey
The Academies of West Memphis

Sarah Robinson
Rector High School



Andrew Schwarz
Westside High School

Lukas Vaughan
The Education Alliance

Dillon Wilson
Wynne High School

FCM's Daniel Pieroni helps present a check for $20,000 to Mollie Potgieter with Make-A-Wish Mid-South. The money was raised at the recent Annual Make-A-Wish and Ag For Autism Auction. Also pictured are event organizers and volunteers Cliff Carter and Danny Graham.

RETIREMENTS

TONY STUBBLEFIELD

37 Years of Service

In late May, Tony Stubblefield completed an outstanding 37 years committed to Farm Credit Midsouth's customers. An impressive turnout of customers, co-workers, family and friends celebrated Tony's career at the Osceola branch. We thank Tony for his service and wish him the very best the future has to offer.

FCM Cares

INVOLVEMENT IN AG FOR AUTISM CONTINUES

Ag for Autism is an allegiance of agricultural businesses dedicated to helping local children and families affected by autism. Employees of the Farm Credit Midsouth team have proudly been serving this organization in various ways since its inception in 2012. Senior Lending Officer Daniel Pieroni currently sits on the Ag for Autism Board of Directors; and Senior Vice President and Chief Human Resources Officer Melissa Coles and Staff Appraiser Bessie Richmond have been heavily involved in planning and event organization. We also regularly serve as an event sponsor. This year, Farm Credit Midsouth helped distribute more than 400 blue Ag for Autism bags to Northeast Arkansas schools for distribution to help folks identify trick-or-treaters on the autism spectrum.

Ag for Autism was established as a charitable, non-profit organization, section 501(c)(3), in 2012 to bring together local agriculture-related businesses and other local companies to collect donations and hold fundraisers on an ongoing basis — the proceeds of which are channeled to area autism education and therapy programs.

The organization's volunteers have raised more than $600,000 since its inception in 2012. This year, the Ag for Autism Board of Directors awarded 14 grants totaling nearly $75,000 to deserving individuals and groups exhibiting a need for assistance in autism related therapies and endeavors. It also approved three future grants for individuals requiring reimbursement for education or travel related expenses.

HOW YOU CAN HELP?

Ag for Autism accepts donations year-round by credit card and PayPal through its website at AgForAutism.org. Its main source of funding comes from community fundraisers, the highlights of which are: the now annual Ag for Autism/Make-a-Wish Silent Auction event (which this year netted $20,000 for Ag for Autism); and the AgBash, at which guests enjoy a fun-filled evening featuring a delicious catered dinner, silent auction, raffles and entertainment. Ag for Autism's 9th Annual AgBash is scheduled for March 5, 2020 and planning has already begun! Contact info@agforautism.org for more information or to get involved.

Executive Management

JAMES MCJUNKINS, President, CEO

James McJunkins is President and Chief Executive Officer of Farm Credit Midsouth. He has management responsibility for all aspects of Farm Credit Midsouth and reports to the Board of Directors. James began his career with Farm Credit in 1984 as a loan officer in Helena. He has held other positions with the Association such as Branch Manager, Vice President of Internal Review, Vice President of Credit Supervision, and Senior Vice President of Field Operations. In 2012 James was named President, CEO.

James earned his Bachelors of Science in Agriculture Economics from the University of Arkansas and is a graduate of the Graduate School of Banking at Louisiana State University. He currently serves on the Board of Farm Credit Foundations and with the Farm Credit Services CEO Group. James previously was a member of the University of Arkansas LeadAR program and a Paul Harris Fellow of the University Heights Rotary Club.

SHARI WILSON, Executive Vice President, CFO

Shari Wilson is the Executive Vice President, Chief Financial Officer for Farm Credit Midsouth. She is responsible for ensuring the Association's financial information is accurately reported to all stakeholders. She began her career with Farm Credit at the Sixth District Farm Credit Bank in 1987. Since then she has served as the CFO of Farm Credit Services of Western Arkansas and now fills that role at Farm Credit Midsouth.

Shari holds a Bachelor's of Business Administration degree with concentration in accounting and her MBA with concentration in leadership and organizational management both from Harding University. She has been a licensed CPA in the state of Arkansas since 1993.

DAVY CROCKETT, Executive Vice President, (retiring)

Davy Crockett began his career with Farm Credit in 1983 as a loan officer in Jonesboro. In 1986 Davy accepted a position with the Farm Credit Bank of St. Louis and worked with high risk accounts for District Bank until 1999. In that same year, he accepted the position of Vice President of Credit Review Special Assets at Farm Credit Midsouth. Davy was the Chief Credit Officer from 2005 until October 1, 2019.

Davy holds a Bachelor's and Master's of Science in Agriculture from Arkansas State University. He is part owner of Crockett Family Farms, LLC and Crockett Investments, LLC. Davy is a past board member of Jonesboro Jaycees, a past alderman for the city of Jonesboro, and currently is the president/secretary of Crockett Consulting, Inc. Davy retired on February 28, 2020.

RALPH STEWART, Executive Vice President, CCO

Ralph Stewart is the Executive Vice President and Chief Credit Officer for Farm Credit Midsouth. He guides our team in directing, managing and monitoring risk within the laws and policies of regulatory authorities. Prior to joining Farm Credit Midsouth, he served for a decade in the same role with Alabama Farm Credit after holding positions of progressive responsibility within the Farm Credit system. He is also a member of the Farm Credit Council Services Learning Task Force.

Ralph is a graduate of the Nashville School of Law earning a Doctor of Jurisprudence in 2002. He completed his undergraduate education at the University of Tennessee at Martin with a Bachelor of Science in Natural Resources Management. Among the many ag/leadership awards he has earned, Stewart is most proud of his American FFA degree and two citations awarded him by the Governor of Tennessee for his work in agriculture.

Vice Presidents

MICHAEL CLAYMAN, Senior VP of Branch Operations, CMO | Central Office
Branch Manager/Marion Branch

Michael works closely with the branches to develop new business and helps with all aspects of the marketing and YBS programs for the Association.

Michael began his career with Farm Credit in 2002 as a loan officer with Farm Credit of Central Kansas. He has been a branch manager with Capital Farm Credit and a regional vice president with Agriland Farm Credit prior to joining Farm Credit Midsouth in September 2014 as branch manager in Marion. Michael was promoted to his position of Senior Vice President of Branch Operations, Chief Marketing Officer in 2018. Michael is a proud Oklahoma State University graduate. Michael and his wife, Cassey, have two children.

MELISSA COLES, Senior VP, Chief Human Resource Officer | Central Office

Melissa began her career with Farm Credit Midsouth in December of 2007. Melissa is responsible for overseeing all human resource functions for the Association: organizational development, compensation analysis, performance management, recruiting and retention, employee relations, job analysis, payroll and benefit administration, assists with marketing and public relations. She also serves as the Association's Standards of Conduct Officer.

Melissa holds a Bachelor's of Science in Business Management with an emphasis in human resources. She holds a PHR certification in human resources, a SHRM-CP certification and served in the Arkansas Army National Guard.

JAMES GARDNER, Senior VP, Chief Risk Officer | Central Office

James joined Farm Credit Midsouth in 1999 as a loan officer in the Osceola branch. He is the Senior Vice President of Risk Review for the Association. He graduated from Arkansas State University with a degree in ag business.

James is responsible for identifying, assessing and reviewing loans to provide executive management and the Board of Directors as assessment of risk to ensure Farm Credit Midsouth is meeting regulatory requirements as well as allowing management to address any current and future risks. In his spare time James enjoys hunting and spending time with his family.

RETIREMENTS

DEBBIE CHANDLER

40 Years of Service

At the end of February, Debbie Chandler completed a 40-year career at Farm Credit Midsouth. She became the friendly, familiar face of Farm Credit to her customers, Osceola and the surrounding communities. While no words can express our gratitude, we hope that Debbie's future is filled with an abundance of blessings during retirement.

FOLLOW US:

Farm Credit Midsouth Takes the Social Media Plunge

In the spring of 2019, with new Farm Credit Midsouth Marketing Director Melissa Powell on board, Farm Credit Midsouth launched its way onto five social media platforms: **Facebook, Twitter, Instagram, YouTube and LinkedIn.** This gives FCM a broad social media presence and new opportunities to reach, interact with, and communicate to our members, potential customers and the community, as well as an employee relations tool.

We are developing both short and long-term plans for growth and engagement using all the platforms and incorporating the live options where available. The positive feedback we've received has been encouraging, and we've been pleased with the ownership undertaken by the whole Farm Credit Midsouth team, the engagement with our followers, and the growth of our audiences in the short time we've had a presence.

SOCIAL MEDIA
Continued on page 14

Vice Presidents

CARY MATTHEWS, Senior VP, Chief Appraisal Officer | Central Office

Cary joined Farm Credit Midsouth in 2009 as a Senior Real Estate Appraiser. In 2012 he was promoted to Chief Appraiser, then in 2013 Cary was promoted to Senior Vice-President/Chief Appraisal Officer. Cary is responsible for overall management of the appraisal department that includes managing appraisal assignments for internal loans and supporting the lending staff. Additionally, he is a Senior Manager involved in the daily management of Farm Credit Midsouth.

Cary graduated from Arkansas State University with a degree in Management and from the Barret School of Banking in Memphis. He holds an Arkansas State Certified General Appraisal License, Accredited Rural Appraiser (ARA) Designation from the American Society of Farm Managers and Rural Appraisers, Real Estate Review Appraiser (RPRA) Designation from the American Society of Farm Mangers and Rural Appraisers, IFAS (Senior) Designation from the National Association of Independent Fee Appraisers now the American Society of Appraisers, IFAA (Agricultural) Designation from the National Association of Independent Fee Appraisers now the American Society of Appraisers. Cary was appointed by the Governor to the Arkansas Appraiser Licensing and Certification Board of Directors in 2015 where he serves as Board Chair. He serves on the Jonesboro Regional Chamber of Commerce Board of Directors.

Cary and his sons operate a 50 head cow/calf operation in Lawrence County. In his spare time, Cary enjoys spending time with family and friends. Cary is an avid Arkansas State University sports fan.

MARC MILES, Senior VP, Chief Information Officer | Central Office

Marc began his career with Farm Credit Midsouth in 2002 as the Information Systems Manager. In 2013 Marc was promoted to Vice President of Information Technology Operations. In January 2018, Marc's title became Senior Vice President, Chief Information Officer. Marc serves as the overall administrator and primary contact in all matters related to IT Operations including planning, coordinating, directing, and designing all operational activities of the IT department. He provides direction and support for IT solutions that enhance mission-critical business operations.

Marc holds a Bachelor's of Science in Computer Science from Arkansas State University. Marc was a founding committee member and integral in creating and coordinating an annual IT symposium with peers which has grown to become the Farm Credit IT Symposium attended by IT staffs from Farm Credit associations and Farm Credit district banks across the nation. In his spare time Marc enjoys photography.

Vice Presidents

DIANE STEILING, Senior VP, Controller | Central Office

Diane began her career at Farm Credit Midsouth in October 2016. As Controller she is primarily responsible for ensuring the accuracy of internal reporting, internal controls, and cash processes for the Association. Prior to joining the Farm Credit Midsouth team, Diane worked in the commercial banking industry, most recently serving as the CFO of Heritage Bank for 15 years.

Diane earned her Bachelor of Science in Business Administration with an emphasis in Accounting from the University of Arkansas and is a licensed Certified Public Accountant.

MIKE WILLIAMS, Senior VP of Branch Operations, Chief Services Officer | Central Office

Mike holds a Bachelor's of Science in Agriculture Business and Economics from Arkansas State University. He is also a graduate of the Barret School of Banking in Memphis. Mike began his career with Farm Credit of Eastern Arkansas in 1992 as a loan officer in Piggott. In 2006, he became the Branch Manager of the Corning Branch. In 2012, he became the Vice President, Branch Manager of the Jonesboro Branch. Mike was promoted in 2018 to his current position of Vice President of Branch Operations, Chief Services Officer.

Mike, a native of Kennett, was raised on a family farm near Holly Island in Clay County. He and his wife, Audra, have two children and they reside in Paragould. Mike enjoys spending his extra time with his kids in youth sports and is an avid hunter and fisherman.

SOCIAL MEDIA

Continued from page 13

Facebook @FCMidsouth
Followers as of 12-26-19: **3,223**

Of the five, Facebook has been Farm Credit's most active platform. We have featured employee anniversaries and accomplishments, FFA/4H members, new graduates, and FCM scholarship recipients. Posts have promoted the new Paragould location, as well as key deadlines and other important information for ag lending customers. In addition, we are spreading good will with giveaways that will help us build our following. We have access to Facebook analytics that give us insight into our audience, who they are and what they want to see.

Twitter @FCMidsouth
Followers as of 12-26-19: **161**

Twitter is best used for short messages and quick transmission of important bits of information or photos/graphics to users, most often on the go on a mobile device. We are finding this to be a useful tool, and we are exploring more ways we can expand our audience and make the best use out of this platform. As with Facebook, there is an abundance of data available.

Instagram @farm_credit_midsouth
Followers as of 12-26-19: **208**

Instagram is a very visual platform. Our intention moving forward will be to engage our core audience, as well as target a younger demographic. As with the other platforms, analytics are available to help us develop a strategy to maximize FCM exposure and reach. We really believe we have yet to even scratch the surface with Instagram.

LinkedIn
Followers as of 12-26-19: **240**

Up to this point, Farm Credit Midsouth's LinkedIn page has been used as a professional tool to communicate employee happenings, promote events and post open positions. The page will be a vehicle for FCM Human Resources to confidentially recruit qualified candidates and can be used to highlight professional accomplishments, conferences/events attended, or for the sharing of FCM-authored professional articles.

YouTube

To date, Farm Credit Midsouth's YouTube channel has featured only national Farm Credit Services informational videos.

If you have yet to do so, please take a minute to follow our social media.

A Grand Affair

New Paragould Facility Opens For Business

Current and former Farm Credit Midsouth leaders and employees welcomed customers and the public into the new Paragould Branch Building located at the intersection of US Highway 49 and Highway 135.

The Paragould facility houses the Paragould branch as well as offices for many of the Central Office employees who live in Greene County and Clay County. The state-of-the-art building features 15 offices, two small conference rooms, and a large meeting room to be used for training and meetings for employees, directors, agri customers, and the agri community.

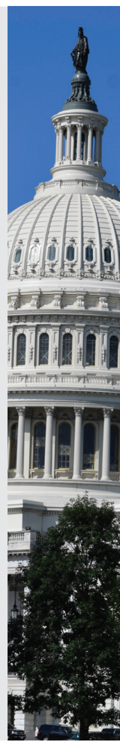
Arkansas Congressman Rick Crawford and Farm Credit Midsouth Appraiser Mark Martin

CONGRESSIONAL RELATIONSHIP

Congressman Rick Crawford

We are fortunate that our area's representatives to Congress open their office doors to Farm Credit Midsouth team members when we find ourselves in Washington, D.C. and visit our offices when back home in their own districts. These relationships are critical in enabling us to advocate for our members and help impact legislative decisions.

Since his election in 2011, Farm Credit Midsouth friend Representative Rick Crawford has actively supported the Arkansas agricultural and rural communities he serves. It is our privilege to host his regular informational visits to our Central Office and our pleasure to support events like Rick Crawford's Annual Chili Cookoff.



Branches

ERIC BRANSCUM, VP, Branch Manager | Jonesboro Branch

Eric holds a Bachelor of Science in Finance from Arkansas State University. He is also a graduate of the LSU Graduate School of Banking. After having served as Senior Vice President with a ten-year tenure at Heritage Bank, he began his career at Farm Credit Midsouth in 2006 as Senior Loan Officer in the Jonesboro Branch. In 2018, he became the Vice President, Branch Manager of the Jonesboro Branch.

Eric, a native of Caraway, grew up and worked on the family farm in Craighead County. Eric and his wife, Amy, have two sons, Braden and Bryson, and currently reside in Jonesboro. Eric enjoys spending time with his family and attending his sons' sports activities.

CHRISTY CASE, Assistant VP | Jonesboro Branch

Christy graduated from Arkansas State University with a bachelor's degree in ag business with an emphasis in finance. She has been employed with Farm Credit Midsouth since November 2001. Christy has held various titles in the association and most recently was promoted to Assistant Vice President at the Jonesboro Branch in April 2018. She lives in Jonesboro with her husband, Chris, and two daughters, Abby and Kara. She is a member of First Free Will Baptist Church in Jonesboro.

PATRICK H. LENDERMAN, VP, Branch Manager | Corning & Paragould Branches

Patrick joined Farm Credit Midsouth in 2006 as a Senior Loan Officer in the Jonesboro Branch. He became the Branch Manager for the Corning Branch in 2012. We combined the management of the Corning and Paragould offices in 2018. Patrick manages both offices. He graduated from Arkansas State University with a bachelor's degree in ag business with an emphasis in finance and the Barret School of Banking in Memphis. In his spare time Patrick enjoys hunting, fishing, and making duck calls.

FCM CONTINUES TO GROW

Team Building

NICK NICOLINI joined the Central Office in Jonesboro as an IT Analyst for the Association. He is a graduate of Arkansas State University, where he earned a Bachelor of Science in Computer and Information Technology while minoring in Homeland Security. Welcome aboard, Nick!

SARAH COWAN recently became part of the customer service team at our Wynne branch. Sarah brings 20 years of customer service experience to Farm Credit Midsouth. She is a first line of contact for customers providing a number of account service functions and branch support. We welcome Sarah's enthusiasm to our Wynne team.

RALPH STEWART joins Farm Credit Midsouth as Chief Credit Officer. Ralph has over 23 years experience in the Farm Credit system. He brings insight into professional development and leadership plus results-driven efforts to meet the needs of Farm Credit stockholders. We look forward to tapping into Ralph's unique abilities and welcome him to the Farm Credit Midsouth team.

Branches

STANLEY MITCHELL, VP, Branch Manager | Wynne Branch

After almost a decade in manufacturing, Stanley began his career in Northeast Arkansas agriculture as a manager of a grain dryer in Jonesboro. Stanley graduated with a bachelor's degree in agriculture with an emphasis in agricultural science from Arkansas State University. He joined the Farm Credit Midsouth team at the Jonesboro Branch and was promoted to Vice President, Branch Manager at our Wynne Branch. Stanley and his wife have two children, a daughter and son. In his spare time, he enjoys his kids' sports activities and hunting.

LEE PETTY, VP, Branch Manager | Barton Branch

Lee is a graduate of Arkansas State University with a bachelor's degree in agriculture and of the Barret School of Banking. He started his career with Farm Credit in 1987 in West Memphis as a loan officer and was promoted to Branch Manager in Helena. Lee currently is Vice President, Branch Manager of the Barton Branch. In his spare time Lee enjoys golf, yard work, and carpentry.

NATHAN SANDERS, VP, Branch Manager | Osceola Branch

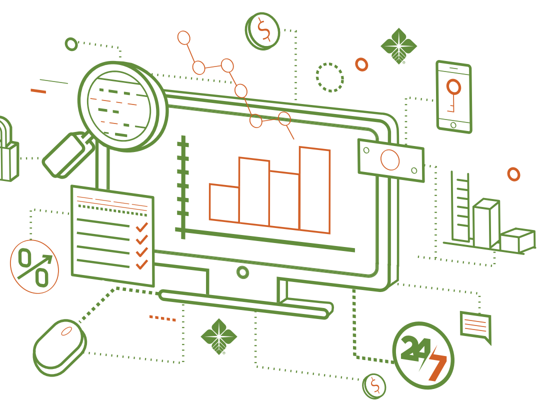
Nathan graduated from Arkansas State University with a degree in business administration. Nathan went to work for Farm Credit Midsouth in Osceola immediately after college. Apart from a brief one-year stint with Heritage Bank in Caraway, Nathan has been with Farm Credit Midsouth his entire professional career. Nathan became Vice President, Branch Manager of the Osceola Branch in 2019.

ALLYSON BAUGH

joins the Farm Credit Midsouth team as a Credit Analyst. A Jonesboro native raised on a family farm, Allyson has experience as a Grain Origination Specialist and has interned in agrifinance and in the legislative offices of both Representative Rick Crawford and Senator John Boozman. Allyson holds a Bachelor of Science in Agribusiness from Arkansas State University.

ANNALISA MEREDITH

joined Farm Credit Midsouth as a Customer Service Representative in the Jonesboro branch. A graduate of Arkansas State University with a bachelor's degree in agricultural business, AnnaLisa regularly volunteers at community events and was a recent speaker at the 2019 USA Rice Outlook Conference.



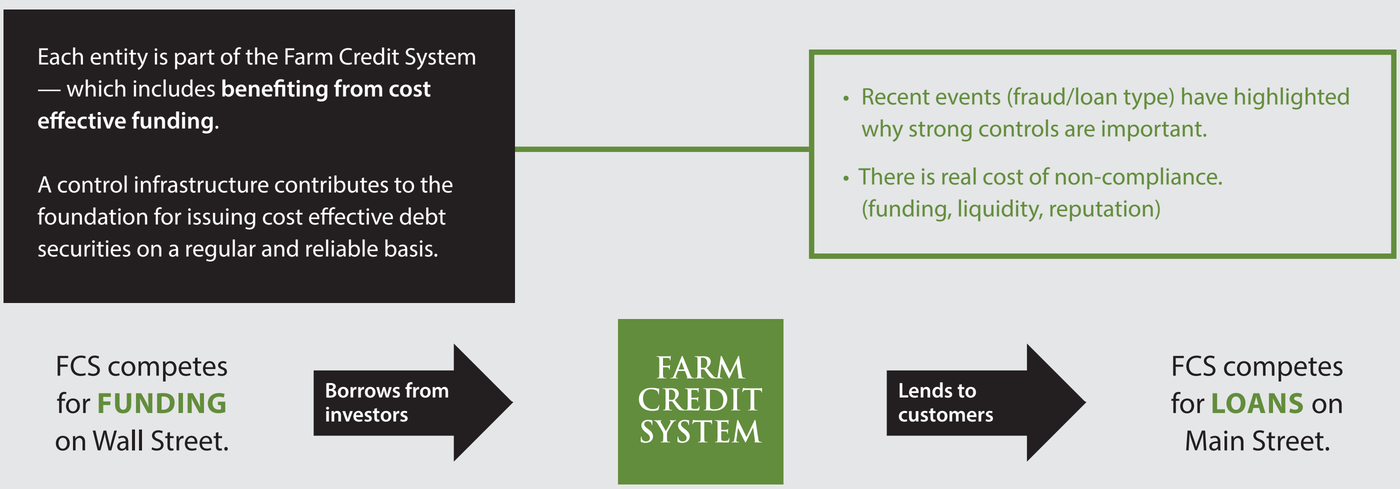
Internal Controls over Financial Reporting

Over the last few years there has been a heightened awareness of internal controls over our financial information which has lead to the Association investing a great amount of time and effort to create a robust *Internal Control over Financial Reporting* program.

So you may ask, what are Internal Controls over Financial Reporting (ICFRs) and what does it mean to me as a member of Farm Credit Midsouth?

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of our financial statements in accordance with Generally Accepted Accounting Principles (GAAP). Having an effective internal control program provides the customer with assurance that controls have been designed by the organization to limit exposure to fraud and material misstatement. These controls will not guarantee fraud or misstatement cannot happen, but they do provide a level of assurance your association board and management are monitoring activities they believe will limit the risk. Having the appropriate internal controls in place not only affects the reliability of the financial statements, but it also has an impact on the cost our customers have to pay for their loans. When investor confidence is high on the Farm Credit System, we are able to sell bonds fluidly at competitive rates.

Why is Internal Controls over Financial Reporting Important?



Farm Credit Midsouth continually evaluates the control system within the organization. Identifying control processes that are efficient and cost-effective is key to developing a sustainable control program. Control processes are identified as either "detective" or "preventative". A detective control process is one that occurs after a procedure has been completed. An example of a detective control would be the review of a report after the transactions have been processed. A preventative control process would be one that occurs during the process that prohibits an erroneous action to occur. An example of a preventative control would be one where one person could not complete an entire process such as creating and issuing a wire transfer. While preventative controls are the most desired type, Farm Credit Midsouth is reliant on our district technology infrastructure to help in developing these.

Our focus at Farm Credit Midsouth is to provide the most efficient method of loan financing and funds disbursement to our customers in a safe and sound manner. We have put an emphasis on providing our customers with same-day ACH transfers, ACH transactions and wire transfers. ACH/Wire processes have a preventative control built in through the segregation of duties in the process.

Farm Credit Midsouth also works to ensure that our customer data is kept secure. We provide an online banking platform which allows the customer to review their loan information and create cash transfers at their convenience. In 2020 Farm Credit Midsouth will be implementing a new online banking system delivering a consistent financial experience across all digital channels. Customers also have an opportunity to exchange documents securely through use of our MyFCM customer portal. A customer may authorize their CPA to provide tax returns or other sensitive financial data through this system. Contact your local branch office to learn more about these services.

Branch Locations

Corning Branch
870-857-3541
600 W Elm
Corning AR 72422

Paragould Branch
870-236-8525
1312 Hwy 135 N
Paragould AR 72450

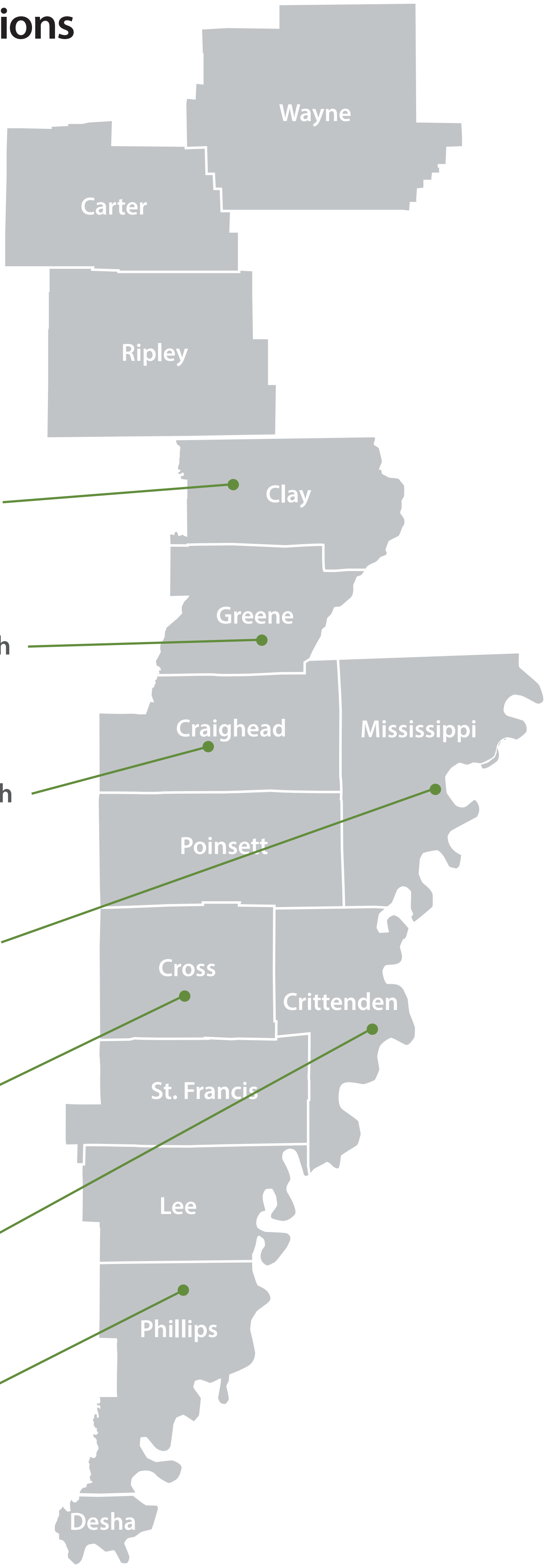
Jonesboro Branch
870-932-2817
3000 Prosperity Dr
Jonesboro AR 72404

Osceola Branch
870-563-2676
4389 W Keiser Ave
Osceola AR 72370

Wynne Branch
870-238-2211
1674 S Falls Blvd
Wynne AR 72396

Marion Branch
870-739-6275
151 Block St
Marion AR 72364

Barton Branch
870-572-9900
6216 Hwy 49
Poplar Grove AR 72374




Barton Branch


Corning Branch


Central Office / Jonesboro Branch


Marion Branch


Osceola Branch


Central Office / Paragould Branch


Wynne Branch

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Farm Credit Midsouth, ACA

(dollars in thousands)

As of December 31	**2019**	2018	2017	2016	2015
Statement of Condition Data					
Loans	**$ 936,733**	$ 901,382	$ 858,247	$ 849,609	$ 815,770
Allowance for loan losses	**2,682**	3,682	2,593	1,634	1,832
Net loans	**934,051**	897,700	855,654	847,975	813,938
Investment in AgriBank, FCB	**20,696**	18,794	18,794	17,669	17,747
Other property owned	**--**	534	40	--	--
Other assets	**36,142**	33,764	26,279	25,771	24,136
Total assets	**$ 990,889**	$ 950,792	$ 900,767	$ 891,415	$ 855,821
Obligations with maturities of one year or less	**$ 15,533**	$ 15,781	$ 15,210	$ 693,478	$ 668,666
Obligations with maturities greater than one year	**742,342**	714,589	677,222	--	--
Total liabilities	**757,875**	730,370	692,432	693,478	668,666
Protected members' equity	**--**	--	2	2	3
Capital stock and participation certificates	**1,896**	1,895	1,904	1,994	2,033
Unallocated surplus	**231,240**	218,714	206,715	195,941	185,119
Accumulated other comprehensive loss	**(122)**	(187)	(286)	--	--
Total members' equity	**233,014**	220,422	208,335	197,937	187,155
Total liabilities and members' equity	**$ 990,889**	$ 950,792	$ 900,767	$ 891,415	$ 855,821

For the year ended December 31	**2019**	2018	2017	2016	2015
Statement of Income Data					
Net interest income	**$ 27,689**	$ 25,857	$ 25,983	$ 25,155	$ 24,205
(Reversal of) provision for loan losses	**(913)**	977	1,672	601	519
Other expenses, net	**9,476**	6,382	8,137	9,532	9,761
Net income	**$ 19,126**	$ 18,498	$ 16,174	$ 15,022	$ 13,925
Key Financial Ratios					
For the Year					
Return on average assets	**2.0%**	2.0%	1.8%	1.7%	1.7%
Return on average members' equity	**8.5%**	8.6%	8.0%	7.8%	7.6%
Net interest income as a percentage of average earning assets	**3.0%**	2.9%	3.0%	3.0%	3.0%
Net charge-offs (recoveries) as a percentage of average loans	**0.0%**	(0.0%)	0.1%	0.1%	0.0%
At Year End					
Members' equity as a percentage of total assets	**23.5%**	23.2%	23.1%	22.2%	21.9%
Allowance for loan losses as a percentage of loans	**0.3%**	0.4%	0.3%	0.2%	0.2%
Capital ratios effective beginning January 1, 2017:					
Common equity tier 1 ratio	**19.9%**	19.8%	19.6%	N/A	N/A
Tier 1 capital ratio	**19.9%**	19.8%	19.6%	N/A	N/A
Total capital ratio	**20.2%**	20.1%	19.9%	N/A	N/A
Permanent capital ratio	**20.0%**	19.8%	19.7%	N/A	N/A
Tier 1 leverage ratio	**21.5%**	21.0%	21.0%	N/A	N/A
Capital ratios effective prior to 2017:					
Permanent capital ratio	**N/A**	N/A	N/A	18.7%	18.2%
Total surplus ratio	**N/A**	N/A	N/A	18.5%	18.0%
Core surplus ratio	**N/A**	N/A	N/A	18.5%	18.0%
Net Income Distributed					
For the Year					
Patronage distributions:					
Cash	**$ 6,500**	$ 5,399	$ 4,200	$ 4,200	$ 4,199

MANAGEMENT'S DISCUSSION AND ANALYSIS
Farm Credit Midsouth, ACA

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Midsouth, ACA (the Association) and its subsidiaries, Farm Credit Midsouth, FLCA and Farm Credit Midsouth, 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:

Farm Credit Midsouth, ACA
3000 Prosperity Drive
Jonesboro, AR 72404
(870) 932-2288
www.FCMidsouth.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 and fair value measurements
- Industry outlooks for agricultural conditions

AGRICULTURAL AND ECONOMIC CONDITIONS

Crop Production and Yields

According to the United States Department of Agriculture (USDA) Arkansas Crop Production Report released January 10, 2020, cotton acres harvested for 2019 increased 27% from 2018 levels. It is projected that the yields for 2019 (1,102 pounds per acre) will be down 31 pounds from the 2018 yields. Production is forecasted at 1.4 million bales, up 24% from 2018.

The corn area harvested in Arkansas increased 12% from 2018. The average yield for 2019 is estimated at 175 bushels per acre, down 6 bushels from 2018. Production totaled 127.0 million bushels, up 9% from 2018.

Rice acres harvested are expected to be 1.1 million acres, down 21% from 2018. The average yield is estimated at 7,480 pounds per acre, down 40 pounds from last year. Production totaled 84 million hundredweight (cwt), down 21% from 2018.

Soybean acres harvested is 2.6 million acres, down 19% from 2018. The average yield is estimated at 49 bushels per acre, down 2 bushels from last year. Production totaled 128 million bushels, down 21% from 2018.

Peanuts harvested is 33,000 acres, up 43% from 2018. The average yield is estimated at 5,200 pounds per acre, up 300 pounds per acre from 2018. Production totaled 172 million pounds, up 52% from 2018.

Crop Production and Weather

The weather during the fourth quarter of 2019 was around the 5 year average according to the USDA Crop Progress and Condition Reports for November 24 and December 8, 2019. So far we have had a very mild winter. According to the same USDA reports, rainfall was about 2 inches greater during the 4 weeks evaluated in November 2019 compared to the 5 year average. The December 2019 rainfall was close to the 5 year average. According to our branch offices, some rainfall occurred during harvest which delayed the harvest of peanuts and cotton. According to the November 24, 2019, USDA Crop Progress and Condition Reports, 98% of the cotton had been harvested, 88% of the Peanuts had been harvested, and 96% of the soybeans had been harvested.

Crop Prices

According to the December 10, 2019, World Agricultural Supply and Demand Estimates report, the 2019/2020 all rice season-average farm price is unchanged at $13 per cwt, compared to $12.30 for 2018/2019. The 2019/2020 U.S. corn projected season-average farm price is $3.85 per bushel. The U.S. season-average soybean price for 2019/2020 is forecast at $8.85 per bushel, unchanged at the midpoint. Soybean meal price forecast is reduced $15.00 to $310.00 per short ton. The soybean oil price forecast is unchanged at $0.31 per pound. Upland cotton's season-average farm price is unchanged at $0.61 per pound.

Land Values

Analysis by Farm Credit Midsouth Senior Vice President and Chief Appraisal Officer, Cary C. Matthews, found that after two consecutive years of a small decrease, there has been a slight increase in demand for good-quality land used for production of all typical agricultural commodities, but primarily for rice, corn, soybeans, and cotton. Land values across east-central and eastern Arkansas indicated a change from -0.64% to +4.69% during the period July 1, 2018, to June 30, 2019. The rate of increase over the past twelve months for the cropland benchmark properties has begun to gradually rise when comparing the past two years but is still far below the upward trend the past ten years has shown. Of the eleven cropland benchmark properties in the east-central and eastern Arkansas markets, four properties indicated no change over the past year, one property indicated a decrease of 0.64%, one property indicated a 0.29% increase, while five properties showed increases of 1.19%, 2.27%, 4.06%, 4.39%, and 4.69%. The average change over the eleven cropland benchmark properties is a 1.48% increase (last year it was a 0.50% decrease). Since 2010, the cropland benchmark properties have shown an average annual increase of 6.78% (2010 through 2014 were very strong years with the average increase over those five years being 12.28%); over the past five years, the same properties have shown an average annual increase of 1.29%. In this market area, demand remains resilient – particularly for cropland tracts which are irrigated, developed, and comprised of versatile soil types. Compared to recent years, sales volume over the past twelve months has increased in the east-central and eastern Arkansas cropland area with the exception of a couple of multi-tract, well advertised auctions. Although many areas in the market are still dominated by the traditional buyer, the local landowner/farmer, strong demand is still being exhibited by out-of-area investment-minded buyers. These investment buyers seem particularly interested in the larger tracts of agricultural acreage (500+ acres).

Economy

As of November 2019, the unemployment within our territory did not show much change from the prior year. Three of the Association's counties had no change, four increased in unemployment from Greene County's increase of 0.2% to Clay County's increase of 0.9%. Three counties showed a decline in unemployment ranging from -0.1% to -0.2% year over year according to the Arkansas Labor Market Report for November, 2019. The state unemployment rate year-over-year was flat while the national unemployment rate saw a decline of 0.2%. From the November 2019 Arkansas Labor Market Report:

> Compared to November 2018, nonfarm payroll jobs in Arkansas are up 15,600. Seven major industry sectors posted growth, with four adding 2,400 or more jobs, each. The largest increase was in **educational and health services**, up 3,500. Most of the expansion occurred in health care and social assistance (+3,300). Employment in **construction** rose 3,300, related in part to ongoing large projects. **Professional and business services** added 3,000 jobs. Gains were reported in management of companies (+1,700) and administrative-support services (+1,700). Jobs in **manufacturing** increased 2,400, largely in nondurable goods manufacturing (+2,300). Other notable expansions include **leisure and hospitality** (+1,800), **trade-transportation-utilities** (+1,500), and **financial activities** (+1,400).

According to the Bureau of Economic Analysis, Arkansas had positive 3.7% growth in personal income for the period September 2018 – September 2019. Down slightly from the prior year rate of 3.9%.

Arkansas Real Gross Domestic Product, which is a measure of changes in the output of goods and services produced by labor and property located in the U.S., increased 2.9% in the first 3 quarters of 2019 according to the Bureau of Economic Analysis (BEA) published November 27, 2019. As reported by the BEA and Census Bureau in their September 2019 release, U.S. International trade in goods and services for September 2019 goods and services deficit increased year-to-date by $24.8 billion or 5.4% from 2018. September exports were $1.8 billion less than August exports. September imports were $4.4 billion less than August imports. There was an increase in exports of soybeans over the 2018 levels by $2.6 million. Exports of corn declined from 2018 by $3.5 million. Rice saw a slight increase of $181 million while cotton (raw) saw a decrease of $321 million.

The December 2019 Conference Board report indicated that the Leading Economic Index (LEI) was unchanged in November following a 0.2% decline in both October and September. “The U.S. LEI was unchanged in November after three consecutive monthly declines. Strength in residential construction, financial markets, and consumers’ outlook offset weakness in manufacturing and labor markets,” said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. “While the six-month growth rate of the LEI remains slightly negative, the Index suggests that economic growth is likely to stabilize around 2 percent in 2020.”

The Consumer Price Index as reported by the U.S. Bureau of Labor Statistics for December 2019 measures changes in the cost of items over time and is a prime indicator of inflation. Over the past 12 months the index has increased 1.2% before seasonal adjustment. The food index rose 0.8% over the past year while the index for energy decreased 0.4%.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $936.7 million at December 31, 2019, an increase of $35.4 million from December 31, 2018.

Components of Loans

(in thousands)

As of December 31	**2019**	2018	2017
Accrual loans:			
Real estate mortgage	**$ 508,445**	$ 500,243	$ 474,489
Production and intermediate-term	**367,285**	336,911	317,714
Agribusiness	**58,107**	52,321	55,197
Other	**2,296**	1,313	1,170
Nonaccrual loans	**600**	10,594	9,677
Total loans	**$ 936,733**	$ 901,382	$ 858,247

The other category is primarily composed of rural residential real estate loans and certain assets originated under the mission related investment authority.

In 2019, the Association generated $179 million in new money of which $69 million came from real estate mortgage loans and $110 million came from commercial operating and term debt. The majority of the commercial growth was from term debt. Equipment purchases accounted for $60 million of the new money with $25 million being generated during our intermediate-term (IT) Special. The IT Special ran from August 1 – September 30, 2019, with equipment financed during this time receiving a pricing discount. The new Delta Peanut Plant under construction and Buying Points in Marianna and Jonesboro increased our new money by approximately $7.6 from financing the stock investment in the plant.

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 $9.3 million, $14.9 million, and $17.1 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. On average over the past seven years, operating volume has made up approximately 30% of our outstanding loan volume. Most operating loans have a line of credit which at times has unfunded commitments. These unfunded commitments ensure that the borrower can operate successfully having the funds they need as they go through the planting season. Over the past five years on average, 65% of customers with operating lines also had other debt with Midsouth. This allows Midsouth to be able to evaluate the risk in our portfolio in a timely manner as the operating loans renew.

We offer variable, fixed, indexed, and adjustable interest rate loan programs to our borrowers. We also offer fixed rate lease programs through Western Equipment Finance, Inc. 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, Missouri, and Tennessee. Approximately 98.2% of our total loan portfolio was in the state of Arkansas as of December 31, 2019. Craighead and Mississippi counties in Arkansas made up 32.1% of the outstanding loan balance.

Agricultural Concentrations

As of December 31	**2019**	2018	2017
Cash grains	**59.5%**	62.6%	61.0%
Landlords	**21.2%**	21.4%	21.9%
Cotton	**9.0%**	6.7%	7.6%
Other	**10.3%**	9.3%	9.5%
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 from December 31, 2018, as borrower farming conditions improved, assisted by the second government tariff payment.

Adversely classified loans decreased to 0.6% of the portfolio at December 31, 2019, from 4.4% 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, Federal Agricultural Mortgage Corporation (Farmer Mac), a System institution, and other government agency guarantee programs are used to reduce the risk of loss. At December 31, 2019, $6.7 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	**$ 600**	$ 10,594	$ 9,677
Accruing restructured	**24**	510	12
Accruing loans 90 days or more past due	**395**	--	--
Total risk loans	**1,019**	11,104	9,689
Other property owned	**--**	534	40
Total risk assets	**$ 1,019**	$ 11,638	$ 9,729
Total risk loans as a percentage of total loans	**0.1%**	1.2%	1.1%
Nonaccrual loans as a percentage of total loans	**0.1%**	1.1%	1.1%
Current nonaccrual loans as a percentage of total nonaccrual loans	**16.8%**	55.7%	82.1%
Total delinquencies as a percentage of total loans	**0.1%**	1.2%	0.3%

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 loan volume declined $10.0 million during the year as borrowers worked out of distressed situations. Approximately $3.8 million was moved back to accrual status due to borrower improvements, while a reduction of approximately $6.2 million came from repayments through sale of property and normal repayments. Nonaccrual loans remained at an acceptable level at December 31, 2019, 2018, and 2017.

The decrease in accruing restructured loans was primarily due to no restructures occurring during 2019 while existing loans continued to repay.

The increase in accruing loans 90 days or more past due was primarily due to one customer loan that is in the process of collection. Our accounting policy requires loans past due 90 days or more to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, accruing loans 90 days or more past due were eligible to remain in accruing status.

Delinquencies as a percentage of outstanding loans went from 1.2% at December 31, 2018 to 0.1% at December 31, 2019. Improvement in farm production conditions along with the additional tariff payment helped most borrowers' break-even for 2019.

The properties included in other property owned at December 31, 2018, were sold during the first quarter of 2019. No properties were transferred to other property owned during 2019.

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	**0.3%**	0.4%	0.3%
Nonaccrual loans	**447.0%**	34.8%	26.8%
Total risk loans	**263.2%**	33.2%	26.8%
Net charge-offs (recoveries) as a percentage of average loans	**0.0%**	(0.0%)	0.1%
Adverse assets to total regulatory capital	**2.6%**	19.9%	12.6%

Due to borrower improvements the Association was able to reverse approximately $913 thousand of allowance to stay within established guidelines and evaluated risk. 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, 9, 10, and 11 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	**$ 19,126**	$ 18,498	$ 16,174
Return on average assets	**2.0%**	2.0%	1.8%
Return on average members' equity	**8.5%**	8.6%	8.0%

Changes in the chart above relate directly to:

- Changes in income discussed below
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Capital Adequacy section

Changes in Significant Components of Net Income

	For the year ended December 31			Increase in net income	
(in thousands)	**2019**	2018	2017	**2019 vs 2018**	2018 vs 2017
Net interest income	**$ 27,689**	$ 25,857	$ 25,983	**$ 1,832**	$ (126)
(Reversal of) provision for loan losses	**(913)**	977	1,672	**1,890**	695
Non-interest income	**5,883**	7,976	5,221	**(2,093)**	2,755
Non-interest expense	**14,875**	14,156	13,136	**(719)**	(1,020)
Provision for income taxes	**484**	202	222	**(282)**	20
Net income	**$ 19,126**	$ 18,498	$ 16,174	**$ 628**	$ 2,324

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	**$ 754**	$ 688
Changes in interest rates	**(29)**	(493)
Changes in nonaccrual income and other	**1,107**	(321)
Net change	**$ 1,832**	$ (126)

Net interest income included income on nonaccrual loans that totaled $1.0 million and $244 thousand in 2019 and 2017, respectively. In 2018, net interest income included net reversals of previously accrued interest on loans which were transferred into nonaccrual that totaled $77 thousand. 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 3.0%, 2.9%, and 3.0% in 2019, 2018, and 2017, respectively. Net interest margin improved by 13 basis points since December 31, 2018, primarily through the reduction of nonaccrual loan volume. When this volume is reduced, any interest that had not been recognized in the Consolidated Statement of Comprehensive Income may be recognized. Our net interest margin is sensitive to interest rate changes and competition.

(Reversal of) Provision for Loan Losses

The fluctuation in the (reversal of) provision for loan losses was related to our estimate of losses in our portfolio for the applicable years. Provision expense declined approximately $1.9 million from 2018 expense as we were able to record a reversal of provision for loan losses in 2019 of $913 thousand due to improved borrower performance. Additional discussion is included in Note 3 to the accompanying Consolidated Financial Statements.

Non-Interest Income

The decrease in non-interest income from 2018 was due to a decrease in our Allocated Insurance Reserve Accounts (AIRA) distribution from $519 thousand in 2018 to $210 thousand in 2019, a decrease of $2.1 million in other non-interest income, and a loss on the sale of acquired property. This was offset by an increase in patronage income from AgriBank and an increase in fee 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	**$ 4,094**	$ 3,846	$ 3,611
Pool program patronage	**319**	402	501
Other Farm Credit Institution patronage	**9**	6	9
Total patronage income	**$ 4,422**	$ 4,254	$ 4,121
Form of patronage distributions:			
Cash	**$ 2,520**	$ 4,254	$ 4,121
Stock	**1,902**	--	--
Total patronage income	**$ 4,422**	$ 4,254	$ 4,121

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. The patronage recorded in 2019 and 2018 included $5 thousand and $14 thousand, respectively, of our share of distributions from the AIRA related to the participations sold to AgriBank. 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.

The decrease in other non-interest income from 2018 to 2019 was primarily due to an approximate $2.0 million recovery from a lawsuit that was appealed and ruled in favor of the association on part of the claim in 2018.

Fee income increased by $199 thousand from the prior year due to increased conversion fees. The association staff were proactive to identify when a customer could benefit from a conversion while interest rates declined in 2019.

The fluctuation in AIRA was due to our share of distributions from AIRA of $210 thousand and $519 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.

Non-Interest Expense

Components of Non-interest Expense

(dollars in thousands) For the year ended December 31	2019	2018	2017
Salaries and employee benefits	**$ 9,425**	$ 9,079	$ 8,356
Other operating expense:			
Purchased and vendor services	**1,579**	1,614	1,097
Communications	**107**	104	115
Occupancy and equipment	**1,019**	823	712
Advertising and promotion	**483**	426	370
Examination	**365**	344	336
Farm Credit System insurance	**686**	667	1,083
Other	**1,211**	1,099	874
Other non-interest expense	**--**	--	193
Total non-interest expense	**$ 14,875**	$ 14,156	$ 13,136
Operating rate	**1.6%**	1.6%	1.5%

The increase in non-interest expense was primarily due to an increase in salaries and employee benefits related to succession/transitioning and added bench strength. The Association added four new positions during 2019. In addition, the opening of a new Paragould branch office also contributed to higher expenses as furniture and decorating purchases were made. Additional depreciation expense also occurred due to this new building.

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 7 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 5 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 $252.9 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	**$ 725,401**	$ 708,221	$ 693,307
Average interest rate	**2.8%**	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. 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.

We have entered into a Standby Commitment to Purchase Agreement with Farmer Mac to help manage credit risk. If a loan covered by the agreement goes into default, subject to certain conditions, we have the right to sell the loan to Farmer Mac. This agreement remains in place until the loan is paid in full. The guaranteed volume of loans subject to the purchase agreement was $1.3 million, $1.4 million, and $1.5 million at December 31, 2019, 2018, and 2017, respectively. We paid Farmer Mac commitment fees totaling $6 thousand, $7 thousand, and $7 thousand in 2019, 2018, and 2017, respectively. These amounts are included in “Other operating expense” in the Consolidated Statements of Comprehensive Income. Sales of loans to Farmer Mac under this agreement were $1.3 million as of December 31, 2019.

CAPITAL ADEQUACY

Total members’ equity was $233.0 million, $220.4 million, and $208.3 million at December 31, 2019, 2018, and 2017, respectively. Total members’ equity increased $12.6 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 8 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	**19.9%**	19.8%	19.6%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**19.9%**	19.8%	19.6%	6.0%	2.5%*	8.5%
Total capital ratio	**20.2%**	20.1%	19.9%	8.0%	2.5%*	10.5%
Permanent capital ratio	**20.0%**	19.8%	19.7%	7.0%	N/A	7.0%
Non-risk-adjusted:						
Tier 1 leverage ratio	**21.5%**	21.0%	21.0%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**21.7%**	21.2%	21.2%	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 section for further discussion of the changes in assets. Additional discussion of regulatory ratios and members’ equity information is included in Note 6 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 was 15% to 19% as defined in our 2019 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 5 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 $750 thousand, $761 thousand, and $568 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

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.

CoBank, ACB: We have a relationship with CoBank, ACB (CoBank), a System bank, which involves purchasing and selling participation interests in loans. As part of this relationship, our equity investment in CoBank was $3 thousand, $2 thousand, and $2 thousand at December 31, 2019, 2018, and 2017, respectively.

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 $14 thousand. The total cost of services we purchased from Foundations was $95 thousand, $86 thousand, and $90 thousand in 2019, 2018, and 2017, respectively.

Programs

We are involved in a number of programs designed to improve our credit delivery, related services, and marketplace presence.

AgFirst Farm Credit Bank: We have a relationship with AgFirst Farm Credit Bank, a System bank, which involves selling rural home loans through the secondary market.

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.

Western Equipment Finance, Inc.: We offer a program with Western Equipment Finance, Inc., a subsidiary of Western State Bank, to provide equipment financing and leasing solutions. Leases are originated and serviced by Western Equipment Finance, Inc. and we purchase a participation interest in the cash flows of the transaction. This arrangement provides our members with a broader selection of product offerings and enhanced lease expertise.

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 USDA 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

Farm Credit Midsouth, ACA

We prepare the Consolidated Financial Statements of Farm Credit Midsouth, 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.

Dane Coomer
Chairman of the Board
Farm Credit Midsouth, ACA

James McJunkins
President and Chief Executive Officer
Farm Credit Midsouth, ACA

Shari J. Wilson
Executive Vice President of Finance, Chief Financial Officer
Farm Credit Midsouth, ACA

March 12, 2020

REPORT OF AUDIT COMMITTEE

Farm Credit Midsouth, 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 Farm Credit Midsouth, 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.

Carl Loewer
Chairman of the Audit Committee
Farm Credit Midsouth, ACA

Members of the Audit Committee:
Franklin Fogleman. Jr.
Matt Knight
Gary Sitzer

March 12, 2020

Report of Independent Auditors

To the Board of Directors of Farm Credit Midsouth, ACA,

We have audited the accompanying Consolidated Financial Statements of Farm Credit Midsouth, 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 Farm Credit Midsouth, 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

Farm Credit Midsouth, ACA

(in thousands)

As of December 31	2019	2018	2017
ASSETS			
Loans	**$ 936,733**	$ 901,382	$ 858,247
Allowance for loan losses	**2,682**	3,682	2,593
Net loans	**934,051**	897,700	855,654
Investment in AgriBank, FCB	**20,696**	18,794	18,794
Accrued interest receivable	**22,412**	21,209	16,975
Other property owned	**--**	534	40
Deferred tax assets, net	**--**	520	620
Other assets	**13,730**	12,035	8,684
Total assets	**$ 990,889**	$ 950,792	$ 900,767
LIABILITIES			
Note payable to AgriBank, FCB	**$ 742,342**	$ 714,589	$ 677,222
Accrued interest payable	**5,365**	5,178	3,883
Deferred tax liabilities, net	**46**	--	--
Patronage distribution payable	**6,600**	6,500	5,400
Other liabilities	**3,522**	4,103	5,927
Total liabilities	**757,875**	730,370	692,432
Contingencies and commitments (Note10)			
MEMBERS' EQUITY			
Protected members' equity	**--**	--	2
Capital stock and participation certificates	**1,896**	1,895	1,904
Unallocated surplus	**231,240**	218,714	206,715
Accumulated other comprehensive loss	**(122)**	(187)	(286)
Total members' equity	**233,014**	220,422	208,335
Total liabilities and members' equity	**$ 990,889**	$ 950,792	$ 900,767

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Farm Credit Midsouth, ACA

(in thousands)

For the year ended December 31		2019		2018		2017
Interest income	**$**	**48,353**	$	44,003	$	40,563
Interest expense		**20,664**		18,146		14,580
Net interest income		**27,689**		25,857		25,983
(Reversal of) provision for loan losses		**(913)**		977		1,672
Net interest income after (reversal of) provision for loan losses		**28,602**		24,880		24,311
Non-interest income						
Patronage income		**4,422**		4,254		4,121
Financially related services income		**602**		570		516
Fee income		**731**		532		459
Allocated Insurance Reserve Accounts distribution		**210**		519		--
Other non-interest (loss) income, net		**(82)**		2,101		125
Total non-interest income		**5,883**		7,976		5,221
Non-interest expense						
Salaries and employee benefits		**9,425**		9,079		8,356
Other operating expense		**5,450**		5,077		4,587
Other non-interest expense		**--**		--		193
Total non-interest expense		**14,875**		14,156		13,136
Income before income taxes		**19,610**		18,700		16,396
Provision for income taxes		**484**		202		222
Net income	**$**	**19,126**	$	18,498	$	16,174
Other comprehensive income						
Employee benefit plans activity	**$**	**65**	$	99	$	--
Total other comprehensive income		**65**		99		--
Comprehensive income	**$**	**19,191**	$	18,597	$	16,174

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Midsouth, 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	$ 2	$ 1,994	$ 195,941	$ --	$ 197,937
Net income	--	--	16,174	--	16,174
Other comprehensive loss and other	--	--	--	(286)	(286)
Unallocated surplus designated for patronage distributions	--	--	(5,400)	--	(5,400)
Capital stock and participation certificates issued	--	110	--	--	110
Capital stock and participation certificates retired	--	(200)	--	--	(200)
Balance as of December 31, 2017	2	1,904	206,715	(286)	208,335
Net income	--	--	18,498	--	18,498
Other comprehensive income	--	--	--	99	99
Unallocated surplus designated for patronage distributions	--	--	(6,499)	--	(6,499)
Capital stock and participation certificates issued	--	129	--	--	129
Capital stock and participation certificates retired	(2)	(138)	--	--	(140)
Balance as of December 31, 2018	--	1,895	218,714	(187)	220,422
Net income	**--**	**--**	**19,126**	**--**	**19,126**
Other comprehensive income	**--**	**--**	**--**	**65**	**65**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(6,600)**	**--**	**(6,600)**
Capital stock and participation certificates issued	**--**	**137**	**--**	**--**	**137**
Capital stock and participation certificates retired	**--**	**(136)**	**--**	**--**	**(136)**
Balance as of December 31, 2019	**$ --**	**$ 1,896**	**$ 231,240**	**$ (122)**	**$ 233,014**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Farm Credit Midsouth, ACA

(in thousands)

For the year ended December 31		**2019**		2018		2017
Cash flows from operating activities						
Net income	**$**	**19,126**	$	18,498	$	16,174
Depreciation on premises and equipment		**344**		279		241
(Gain) loss on sale of premises and equipment, net		**--**		(6)		2
(Reversal of) provision for loan losses		**(913)**		977		1,672
Stock patronage received from Farm Credit Institutions		**(1,902)**		--		--
Loss on other property owned, net		**190**		--		--
Changes in operating assets and liabilities:						
(Increase) decrease in accrued interest receivable		**(1,268)**		(4,414)		348
Decrease (increase) in other assets		**780**		(1,285)		(890)
Increase in accrued interest payable		**187**		1,295		575
(Decrease) increase in other liabilities		**(470)**		(1,725)		173
Net cash provided by operating activities		**16,074**		13,619		18,295
Cash flows from investing activities						
Increase in loans, net		**(35,093)**		(43,314)		(9,296)
Purchases of investment in AgriBank, FCB, net		**(1)**		--		(1,125)
Proceeds from sales of other property owned		**149**		--		--
Purchases of premises and equipment, net		**(2,298)**		(2,199)		(284)
Net cash used in investing activities		**(37,243)**		(45,513)		(10,705)
Cash flows from financing activities						
Increase (decrease) in note payable to AgriBank, FCB, net		**27,753**		37,367		(3,280)
Patronage distributions paid		**(6,500)**		(5,399)		(4,200)
Capital stock and participation certificates retired, net		**(84)**		(74)		(110)
Net cash provided by (used in) financing activities		**21,169**		31,894		(7,590)
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	**$**	**125**	$	120	$	103
Stock applied against loan principal		**40**		57		82
Stock applied against loan interest		**--**		--		1
Interest transferred to loans		**65**		180		74
Loans transferred to other property owned		**--**		534		40
Patronage distributions payable to members		**6,600**		6,500		5,400
Financed sales of other property owned		**195**		--		--
Increase (decrease) in members' equity from employee benefits		**65**		99		(286)
Supplemental information						
Interest paid	**$**	**20,477**	$	16,851	$	14,005
Taxes paid, net		**40**		4		10

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Farm Credit Midsouth, 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

Farm Credit Midsouth, ACA (the Association) and its subsidiaries, Farm Credit Midsouth, FLCA and Farm Credit Midsouth, 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 Clay, Craighead, Crittenden, Cross, Desha (northeast of the White River), Greene, Lee, Mississippi, Phillips, Poinsett, and St. Francis in the state of Arkansas; Carter, Ripley, and Wayne in the state of Missouri; and Shelby, Tipton, and Lauderdale (west of the channel of the Mississippi River) in the state of Tennessee.

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 Farm Credit Midsouth, 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. 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 extent principal plus accrued interest before the transfer exceeds 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. If the ultimate collectability of principal, wholly or partially, is in doubt, any payment received on a nonaccrual loan is applied to reduce principal. When doubt no longer exists as to the full collectability of the debt, then payments received for interest are recognized as income. 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 "(Reversal of) provision for loan 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.

Other Property Owned: Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at the fair value less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less costs to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Related income, expenses, and gains or losses from operations and carrying value adjustments are included in "Other non-interest (loss) income, net" in the Consolidated Statements of Comprehensive Income.

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 (loss) income, net" or "Other non-interest expense" in the Consolidated Statements of Comprehensive Income. Depreciation and maintenance and repair expenses are included in "Other operating expense" in the Consolidated Statements of Comprehensive Income and improvements are generally capitalized.

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 expense” 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.

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 would be recorded in “Other liabilities” in the Consolidated Statements of Condition and a corresponding loss would be recorded in “Provision for credit losses” in the Consolidated Statements of Comprehensive Income. However, no such reserve was necessary as of December 31, 2019, 2018, or 2017.

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. 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.
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 inform 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	**$**	**508,522**	**54.3%**	$	502,091	55.7%	$	476,739	55.5%
Production and intermediate-term		**367,809**	**39.3%**		341,894	37.9%		323,535	37.7%
Agribusiness		**58,107**	**6.2%**		56,084	6.2%		56,803	6.6%
Other		**2,295**	**0.2%**		1,313	0.2%		1,170	0.2%
Total	**$**	**936,733**	**100.0%**	$	901,382	100.0%	$	858,247	100.0%

The other category is primarily composed of rural residential real estate loans and certain assets originated under the mission related investment authority.

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 10.9% 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		Non-Farm Credit Institutions Participations		Total Participations	
As of December 31, 2019	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	**$ --**	**$ (8,720)**	**$ 26,609**	**$ (34,809)**	**$ --**	**$ --**	**$ 26,609**	**$ (43,529)**
Production and intermediate-term	**--**	**--**	**21,109**	**(23,974)**	**1,237**	**--**	**22,346**	**(23,974)**
Agribusiness	**--**	**(21,710)**	**10,031**	**(12,515)**	**202**	**--**	**10,233**	**(34,225)**
Other	**--**	**--**	**63**	**--**	**--**	**--**	**63**	**--**
Total	**$ --**	**$ (30,430)**	**$ 57,812**	**$ (71,298)**	**$ 1,439**	**$ --**	**$ 59,251**	**$ (101,728)**

	AgriBank Participations		Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations		Total Participations	
As of December 31, 2018	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (14,080)	$ 28,946	$ (36,199)	$ --	$ --	$ 28,946	$ (50,279)
Production and intermediate-term	--	--	9,882	(21,281)	1,804	--	11,686	(21,281)
Agribusiness	--	(11,446)	9,876	(4,690)	1,215	--	11,091	(16,136)
Other	--	--	--	--	--	--	--	--
Total	$ --	$ (25,526)	$ 48,704	$ (62,170)	$ 3,019	$ --	$ 51,723	$ (87,696)

	AgriBank Participations		Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations		Total Participations	
As of December 31, 2017	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (16,048)	$ 32,480	$ (35,255)	$ --	$ --	$ 32,480	$ (51,303)
Production and intermediate-term	--	--	13,958	(21,213)	2,162	--	16,120	(21,213)
Agribusiness	--	(14,370)	12,983	(6,267)	1,792	--	14,775	(20,637)
Other	--	--	--	--	--	--	--	--
Total	$ --	$ (30,418)	$ 59,421	$ (62,735)	$ 3,954	$ --	$ 63,375	$ (93,153)

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	**$ 502,643**	**96.7%**	**$ 14,470**	**2.8%**	**$ 2,621**	**0.5%**	**$ 519,734**	**100.0%**
Production and intermediate-term	**369,616**	**97.8%**	**5,450**	**1.4%**	**2,936**	**0.8%**	**378,002**	**100.0%**
Agribusiness	**59,107**	**100.0%**	**--**	**--**	**--**	**--**	**59,107**	**100.0%**
Other	**2,207**	**95.9%**	**95**	**4.1%**	**--**	**--**	**2,302**	**100.0%**
Total	**$ 933,573**	**97.3%**	**$ 20,015**	**2.1%**	**$ 5,557**	**0.6%**	**$ 959,145**	**100.0%**

As of December 31, 2018		Acceptable Amount	%		Special Mention Amount	%		Substandard/ Doubtful Amount	%		Total Amount	%
Real estate mortgage	$	486,200	94.7%	$	12,297	2.4%	$	14,920	2.9%	$	513,417	100.0%
Production and intermediate-term		324,153	92.4%		5,017	1.4%		21,588	6.2%		350,758	100.0%
Agribusiness		53,336	93.4%		--	--		3,763	6.6%		57,099	100.0%
Other		1,166	88.6%		103	7.8%		48	3.6%		1,317	100.0%
Total	$	864,855	93.7%	$	17,417	1.9%	$	40,319	4.4%	$	922,591	100.0%

As of December 31, 2017		Acceptable Amount	%		Special Mention Amount	%		Substandard/ Doubtful Amount	%		Total Amount	%
Real estate mortgage	$	463,452	95.2%	$	14,376	3.0%	$	8,611	1.8%	$	486,439	100.0%
Production and intermediate-term		304,236	92.2%		12,005	3.6%		13,734	4.2%		329,975	100.0%
Agribusiness		55,717	96.7%		--	--		1,917	3.3%		57,634	100.0%
Other		1,064	90.6%		110	9.4%		--	--		1,174	100.0%
Total	$	824,469	94.2%	$	26,491	3.0%	$	24,262	2.8%	$	875,222	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	**$**	**--**	**$**	**--**	**$**	**--**	**$**	**519,734**	**$**	**519,734**	**$**	**--**
Production and intermediate-term		**52**		**447**		**499**		**377,503**		**378,002**		**--**
Agribusiness		**--**		**395**		**395**		**58,712**		**59,107**		**395**
Other		**--**		**--**		**--**		**2,302**		**2,302**		**--**
Total	**$**	**52**	**$**	**842**	**$**	**894**	**$**	**958,251**	**$**	**959,145**	**$**	**395**

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	$	1,428	$	1,569	$	2,997	$	510,420	$	513,417	$	--
Production and intermediate-term		4,790		3,067		7,857		342,901		350,758		--
Agribusiness		--		--		--		57,099		57,099		--
Other		--		--		--		1,317		1,317		--
Total	$	6,218	$	4,636	$	10,854	$	911,737	$	922,591	$	--

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	$	--	$	--	$	--	$	486,439	$	486,439	$	--
Production and intermediate-term		1,250		129		1,379		328,596		329,975		--
Agribusiness		--		1,606		1,606		56,028		57,634		--
Other		--		--		--		1,174		1,174		--
Total	$	1,250	$	1,735	$	2,985	$	872,237	$	875,222	$	--

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	$ 101	$ 5,903	$ 7,942
Past due	499	4,691	1,735
Total nonaccrual loans	600	10,594	9,677
Accruing restructured loans	24	510	12
Accruing loans 90 days or more past due	395	--	--
Total risk loans	$ 1,019	$ 11,104	$ 9,689
Volume with specific allowance	$ 452	$ 3,172	$ 5,674
Volume without specific allowance	567	7,932	4,015
Total risk loans	$ 1,019	$ 11,104	$ 9,689
Total specific allowance	$ 210	$ 1,009	$ 786

For the year ended December 31	2019	2018	2017
Income on accrual risk loans	$ 55	$ 24	$ 4
Income (reversal) on nonaccrual loans	1,030	(77)	244
Total income (reversal) on risk loans	$ 1,085	$ (53)	$ 248
Average risk loans	$ 8,755	$ 8,976	$ 6,552

Note: Accruing loans include accrued interest receivable.

Nonaccrual Loans by Loan Type

(in thousands) As of December 31	2019	2018	2017
Real estate mortgage	$ 77	$ 1,848	$ 2,250
Production and intermediate-term	523	4,983	5,821
Agribusiness	--	3,763	1,606
Total	$ 600	$ 10,594	$ 9,677

Additional Impaired Loan Information by Loan Type

	As of December 31, 2019			For the year ended December 31, 2019	
(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized (Reversed)
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ --	$ --	$ --	$ --	$ --
Production and intermediate-term	452	1,276	210	3,293	--
Agribusiness	--	--	--	--	--
Total	$ 452	$ 1,276	$ 210	$ 3,293	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 77	$ 76	$ --	$ 1,733	$ 397
Production and intermediate-term	95	369	--	693	335
Agribusiness	395	1,721	--	3,036	353
Total	$ 567	$ 2,166	$ --	$ 5,462	$ 1,085
Total impaired loans:					
Real estate mortgage	$ 77	$ 76	$ --	$ 1,733	$ 397
Production and intermediate-term	547	1,645	210	3,986	335
Agribusiness	395	1,721	--	3,036	353
Total	$ 1,019	$ 3,442	$ 210	$ 8,755	$ 1,085

	As of December 31, 2018			For the year ended December 31, 2018	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ --	$ --	$ --	$ --	$ --
Production and intermediate-term	3,172	3,788	1,009	3,209	--
Agribusiness	--	--	--	--	--
Total	$ 3,172	$ 3,788	$ 1,009	$ 3,209	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 1,848	$ 2,059	$ --	$ 2,020	$ 33
Production and intermediate-term	2,321	2,521	--	2,347	102
Agribusiness	3,763	5,197	--	1,400	(188)
Total	$ 7,932	$ 9,777	$ --	$ 5,767	$ (53)
Total impaired loans:					
Real estate mortgage	$ 1,848	$ 2,059	$ --	$ 2,020	$ 33
Production and intermediate-term	5,493	6,309	1,009	5,556	102
Agribusiness	3,763	5,197	--	1,400	(188)
Total	$ 11,104	$ 13,565	$ 1,009	$ 8,976	$ (53)

	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	4,339	4,343	747	2,765	--
Agribusiness	1,335	2,583	39	1,072	--
Total	$ 5,674	$ 6,926	$ 786	$ 3,837	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 2,250	$ 2,261	$ --	$ 1,545	$ 126
Production and intermediate-term	1,494	1,824	--	953	122
Agribusiness	271	278	--	217	--
Total	$ 4,015	$ 4,363	$ --	$ 2,715	$ 248
Total impaired loans:					
Real estate mortgage	$ 2,250	$ 2,261	$ --	$ 1,545	$ 126
Production and intermediate-term	5,833	6,167	747	3,718	122
Agribusiness	1,606	2,861	39	1,289	--
Total	$ 9,689	$ 11,289	$ 786	$ 6,552	$ 248

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 did not have any material 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.

There were no TDRs completed during the years ended December 31, 2019, 2018, and 2017.

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 the Production and Intermediate-Term Loan Category

(in thousands) As of December 31	**2019**	2018	2017
TDRs in accrual status	**$ 24**	$ 510	$ 12
TDRs in nonaccrual status	**37**	400	1,296
Total TDRs	**$ 61**	$ 910	$ 1,308

The decline in outstanding TDRs from December 31, 2018, is primarily due to payments on two large TDR loans.

There were no commitments to lend to borrowers whose loans have been modified in a TDR 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	**$ 3,682**	$ 2,593	$ 1,634
(Reversal of) provision for loan losses	**(913)**	977	1,672
Loan recoveries	**109**	112	51
Loan charge-offs	**(196)**	--	(764)
Balance at end of year	**$ 2,682**	$ 3,682	$ 2,593

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	**$ 845**	**$ 2,759**	**$ 69**	**$ 9**	**$ 3,682**
Reversal of loan losses	**(323)**	**(569)**	**(16)**	**(5)**	**(913)**
Loan recoveries	**--**	**3**	**106**	**--**	**109**
Loan charge-offs	**--**	**(194)**	**(2)**	**--**	**(196)**
Balance as of December 31, 2019	**$ 522**	**$ 1,999**	**$ 157**	**$ 4**	**$ 2,682**
Ending balance: individually evaluated for impairment	**$ --**	**$ 210**	**$ --**	**$ --**	**$ 210**
Ending balance: collectively evaluated for impairment	**$ 522**	**$ 1,789**	**$ 157**	**$ 4**	**$ 2,472**
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2019	**$ 519,734**	**$ 378,002**	**$ 59,107**	**$ 2,302**	**$ 959,145**
Ending balance: individually evaluated for impairment	**$ 77**	**$ 547**	**$ 395**	**$ --**	**$ 1,019**
Ending balance: collectively evaluated for impairment	**$ 519,657**	**$ 377,455**	**$ 58,712**	**$ 2,302**	**$ 958,126**

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2017	$ 484	$ 1,976	$ 132	$ 1	$ 2,593
Provision for (reversal of) loan losses	361	758	(150)	8	977
Loan recoveries	--	25	87	--	112
Loan charge-offs	--	--	--	--	--
Balance as of December 31, 2018	$ 845	$ 2,759	$ 69	$ 9	$ 3,682
Ending balance: individually evaluated for impairment	$ --	$ 1,009	$ --	$ --	$ 1,009
Ending balance: collectively evaluated for impairment	$ 845	$ 1,750	$ 69	$ 9	$ 2,673
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2018	$ 513,417	$ 350,758	$ 57,099	$ 1,317	$ 922,591
Ending balance: individually evaluated for impairment	$ 1,848	$ 5,493	$ 3,763	$ --	$ 11,104
Ending balance: collectively evaluated for impairment	$ 511,569	$ 345,265	$ 53,336	$ 1,317	$ 911,487

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2016	$ 373	$ 1,231	$ 30	$ --	$ 1,634
Provision for loan losses	111	706	854	1	1,672
Loan recoveries	--	51	--	--	51
Loan charge-offs	--	(12)	(752)	--	(764)
Balance as of December 31, 2017	$ 484	$ 1,976	$ 132	$ 1	$ 2,593
Ending balance: individually evaluated for impairment	$ --	$ 747	$ 39	$ --	$ 786
Ending balance: collectively evaluated for impairment	$ 484	$ 1,229	$ 93	$ 1	$ 1,807
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2017	$ 486,439	$ 329,975	$ 57,634	$ 1,174	$ 875,222
Ending balance: individually evaluated for impairment	$ 2,250	$ 5,833	$ 1,606	$ --	$ 9,689
Ending balance: collectively evaluated for impairment	$ 484,189	$ 324,142	$ 56,028	$ 1,174	$ 865,533

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: 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	**$ 1,000,000**	$ 950,000	$ 950,000
Outstanding principal under the line of credit	**742,342**	714,589	677,222
Interest rate	**2.7%**	2.7%	2.2%

Our note payable is scheduled to mature on April 30, 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 6: 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 customers who purchase financial services and are not a stockholder. 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 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	**19.9%**	19.8%	19.6%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**19.9%**	19.8%	19.6%	6.0%	2.5%*	8.5%
Total capital ratio	**20.2%**	20.1%	19.9%	8.0%	2.5%*	10.5%
Permanent capital ratio	**20.0%**	19.8%	19.7%	7.0%	N/A	7.0%
Non-risk-adjusted:						
Tier 1 leverage ratio	**21.5%**	21.0%	21.0%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**21.7%**	21.2%	21.2%	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.

As of December 31	Number of Shares 2019	2018	2017
Class A common stock (protected)	**46**	46	447
Class B common stock (at-risk)	**1,295**	1,295	1,497
Class C common stock (at-risk)	**370,396**	371,147	372,315
Series 2 participation certificates (at-risk)	**7,518**	6,518	7,009

Under our bylaws, we are also authorized to issue Class D common stock, Class E common stock, and Class F preferred stock. Each of these classes of common stock is at-risk and nonvoting with a $5.00 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, to holders of preferred stock
- Second, pro rata to holders of all classes of common stock and participation certificates

In the event of impairment, losses will be absorbed by concurrent impairment of all classes of common stock and participation certificates, then by holders of preferred stock. 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 class as long as we meet the regulatory minimum capital requirements.

Patronage Distributions

We accrued patronage distributions of $6.6 million, $6.5 million, and $5.4 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. In December 2019 the Board adopted a Distribution Resolution to pay patronage based on 2019 earnings. The patronage will be paid in first quarter 2020.

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 7: 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	**$ (88)**	$ 75	$ --
State	**6**	27	2
Total current	**$ (82)**	$ 102	$ 2
Deferred:			
Federal	**$ 426**	$ 75	$ 232
State	**140**	25	(12)
Total deferred	**566**	100	220
Provision for income taxes	**$ 484**	$ 202	$ 222
Effective tax rate	**2.5%**	1.1%	1.4%

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	**$ 4,118**	$ 3,927	$ 5,574
State tax, net	**60**	40	(7)
Patronage distributions	**(1,218)**	(1,251)	(1,696)
Effect of non-taxable entity	**(2,655)**	(2,513)	(3,932)
Change in statutory tax rates due to the Tax Cuts and Jobs Act	**--**	--	289
Other	**179**	(1)	(6)
Provision for income taxes	**$ 484**	$ 202	$ 222

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	**$ 600**	$ 864	$ 607
Postretirement benefit accrual	**97**	103	109
Judgement reserve	**18**	74	625
Accrued incentive	**237**	224	172
Accrued patronage income not received	**(173)**	--	(212)
AgriBank 2002 allocated stock	**(223)**	(223)	(223)
Accrued pension asset	**(612)**	(499)	(427)
Other assets	**10**	5	2
Other liabilities	**--**	(28)	(33)
Deferred tax liabilities, net	**$ (46)**	$ 520	$ 620
Gross deferred tax assets	**$ 962**	$ 1,270	$ 1,515
Gross deferred tax liabilities	**$ (1,008)**	$ (750)	$ (895)

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 $11.3 million. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $196.9 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 8: 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	**681**	902	758
Contributions by participating employers	**90,000**	90,000	90,000
Our allocated share of contributions	**1,670**	1,582	1,548

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 $1.7 million. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than 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	**$ 367**	$ 320	$ 305

For the year ended December 31	2019	2018	2017
Our allocated share of plan expenses	**$ 111**	$ 114	$ 18
Our cash contributions	**--**	--	18

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 and we make annual contributions to fund benefits paid to our retirees covered by the plan. Our cash contributions are equal to the benefits paid. 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 (income) expense	**$ (5)**	$ (12)	$ 16
Our cash contributions	**35**	36	33

The 2019 and 2018 postretirement benefit income is due to an actuarial gain. Postretirement benefit (income) 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%.

Employer contribution expenses for the defined contribution plan, included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income, were $393 thousand, $373 thousand, and $321 thousand in 2019, 2018, and 2017, respectively. These expenses were equal to our cash contributions for each year.

NOTE 9: 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	**$ 23,953**	$ 23,766	$ 19,385
For the year ended December 31	**2019**	2018	2017
Advances to related parties	**$ 36,348**	$ 34,318	$ 29,448
Repayments by related parties	**49,838**	41,978	36,289

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 5, 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 $4.4 million, $4.2 million, and $4.1 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 $25 thousand, $31 thousand, and $38 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 $750 thousand, $761 thousand, and $568 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 $14 thousand. The total cost of services purchased from Foundations was $95 thousand, $86 thousand, and $90 thousand in 2019, 2018, and 2017, respectively.

NOTE 10: 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. In 2009, we were named as a counter-defendant based on various lender liability type of theories in an on-going foreclosure lawsuit. On October 26, 2015, the case was heard by a jury, and on November 3, 2015, a verdict was rendered against the Association. We appealed the verdict, and on April 4, 2018, the Arkansas Court of Appeals substantially reversed all of the verdict. The decision of the Arkansas Court of Appeals was subsequently upheld by the Arkansas Supreme Court on June 21, 2018, when the Court denied the defendants' Petition for Review. This decision effectively ends the lender liability portion of the litigation. We had previously recorded a $2.3 million liability for this lawsuit, of which $2.0 million has been overturned and therefore reversed. The difference is included in "Other liabilities" in the Consolidated Statements of Condition. 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.

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 $231.9 million. Additionally, we had $2.4 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 11: 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	**$ --**	**$ --**	**$ 255**	**$ 255**
Other property owned	**--**	**--**	**--**	**--**

As of December 31, 2018	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ --	$ 2,272	$ 2,272
Other property owned	--	--	555	555

As of December 31, 2017	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ --	$ 5,132	$ 5,132
Other property owned	--	--	42	42

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.

Other property owned: Represents the fair value of foreclosed assets measured based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. 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 property and other matters, they are classified as Level 3.

NOTE 12: 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

Farm Credit Midsouth, 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
Jonesboro	Owned	Headquarters/Branch
Barton	Owned	Branch
Corning	Owned	Branch
Osceola	Owned	Branch
Paragould*	Owned	Branch
Marion	Owned	Branch
Wynne	Owned	Branch

*We owned two buildings in Paragould at December 31, 2019. One was held for sale and subsequently sold on February 14, 2020 and the other is a new building that contains a branch and central office.

Legal Proceedings

Information regarding legal proceedings is discussed in Note 10 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	17.7%	17.2%	16.2%
Total surplus ratio	17.5%	17.0%	15.9%
Core surplus ratio	17.5%	17.0%	15.9%

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 6 to the Consolidated Financial Statements in this Annual Report.

Description of Liabilities

Information regarding liabilities is discussed in Notes 5, 6, 7, 8, and 10 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

Information regarding our board committees as well as directors who served as of December 31, 2019, including business experience in the last five years and any other business interest where a director serves on the board of directors or as a senior officer can be found in the Board of Directors section at the beginning of this report.

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. The Board of Directors has adopted a rate of $600 per day honorarium and a per diem rate of $150 per conference call. Board members will also receive a $6,000 annual retainer fee, except for the board chairperson who receives a $9,000 annual retainer fee, the board vice chairperson who receives a $7,500 annual retainer fee, and other executive committee members who receive a $7,000 annual retainer fee. The retainer fee is equally paid at the end of each quarter.

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

	Number of Days Served		Compensation Paid for		
Name	Board Meetings	Other Official Activities	Service on a Board Committee	Name of Committee	Total Compensation Paid in 2019
Fred Cathcart	7.0	3.0	$ 300	Executive	$ 12,250
			300	Compensation	
Dane Coomer	7.0	19.0	750	Executive	24,750
Marion Fletcher	7.0	25.5	750	Compensation	25,800
Franklin Fogleman, Jr.	7.0	12.5	900	Audit	18,300
Dustin Henson(1)	5.0	8.5	--	YBS/Scholarship	13,100
Matt Knight	7.0	15.5	750	Audit	19,950
Carl Loewer	6.0	13.0	750	Executive	19,450
			1,200	Audit	
Donald Norwood(2)	2.0	0.5	--	YBS/Scholarship	4,000
Chris Roberts	7.0	40.0	900	Executive	39,300
Gary Sitzer	7.0	21.0	600	Executive	24,250
			750	Audit	
Ramey Stiles	7.0	16.0	750	Compensation	20,700
Mike Sullivan	7.0	4.0	--	YBS/Scholarship	12,600
Michael S. Taylor, Jr.	7.0	4.0	--	YBS/Scholarship	12,600
Keith Thomas	6.0	4.0	--	YBS/Scholarship	12,000
					$ 259,050

(1)Elected in February 2019

(2)Term expired in February 2019

Senior Officers

The senior officers and the date each began his/her position include:

James McJunkins, President and Chief Executive Officer (March 2012)
Shari J. Wilson, Executive Vice President of Finance, Chief Financial Officer (September 2008)
Davy Crockett, Executive Officer (October 2019)
Ralph D. Stewart, Executive Vice President, Chief Credit Officer (October 2019)
Mike Williams, Senior Vice President of Branch Operations, Chief Services Officer (April 2018)
Michael Clayman, Senior Vice President of Branch Operations, Chief Marketing Officer (April 2018)

Prior to October 1, 2019, Davy Crockett served as the Executive Vice President, CCO of Farm Credit Midsouth from July 2005 to October 2019.

In July 2019 Ralph Stewart was hired as our new Chief Credit Officer (CCO) in preparation for our current CCO's, Davy Crockett, upcoming retirement. Mr. Stewart officially started as CCO on October 1, 2019, and Davy Crockett retired in February 2020. Prior to Mr. Stewart's hire, he served as Chief Credit Officer and Executive Vice President at Alabama Farm Credit from September 2009 to July 2019.

Mike Williams was promoted to Senior Vice President of Branch Operations, Chief Services Officer in April 2018. Prior to this, he served as the Vice President, Jonesboro Branch Manager from March 2012 to March 2018.

Michael Clayman was promoted to Senior Vice President of Branch Operations, Chief Marketing Officer in April 2018. Prior to this, he served as the Vice President, Marion Branch Manager from September 2014 to March 2018.

Other interests where a senior officer served as a director or senior officer include:

James McJunkins serves on the Farm Credit Foundations Board of Directors and Arkansas LEADAR, a rural leadership program under the University of Arkansas. Davy Crockett is President/Secretary of Crockett Consulting, Inc. and also part owner of Crockett Family Farms, LLC and Crockett Investments, LLC.

Senior Officer Compensation

Compensation Risk Management: We believe the design and governance of our Chief Executive Officer (CEO), senior officer, and highly compensated individuals compensation program is consistent with the highest standards of risk management and provides total compensation that promotes our mission to enhance our diverse agricultural and rural economy. 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 CEO, senior officer, and highly compensated individuals 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 mixture of salary, incentives, and retirement plans generally available to all employees within the organization.

Base Salary: The CEO, senior officers, and highly compensated individuals base salaries reflect their experience and level of responsibility. The compensation plan is subject to review and approval by the Compensation Committee of the Board of Directors.

Short-term Incentives: The incentive plan is designed to reward excellent performance for desired business results. The business plan sets the direction for the organization for the future. The Board believes that setting incentive goals relating to that plan will ensure the viability of the organization over time. The incentive plan establishes results based on the business plan objectives and increases rewards as the results exceed plan. The highly compensated individuals' incentive plan is based on the Association, branch, and individual business results. The senior officer incentive plan is based on the Association and individual business results. The CEO incentive plan is based upon a model designed by the AgriBank District for similar roles and adopted by the Board of Directors. This plan is based entirely on the operating results of the organization and the goals are established based on the business plan objectives. All individuals must meet their individual performance objectives before being able to participate in an incentive program. The Board believes utilizing this strategy aligns the organization to exceed shareholder expectations. The criteria related to the overall Association performance include return on assets, operating efficiency, and contractual interbank performance agreement (CIPA). The branch performance goals include loan growth, non-interest income growth, and CIPA. Additionally, performance criteria impacting senior officer and highly compensated individuals incentives, excluding the CEO, related to personal performance include attainment of personal objectives and performance ratings. We calculate the incentives after the end of the plan year (the plan year is the calendar year). The CEO, senior officer, and highly compensated individuals incentives are paid annually and within 90 days of year end.

Retirement Plans: We have various post-employment benefit plans which are generally available to all Association employees, including the CEO and senior officers, 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 8 to the Consolidated Financial Statements in this Annual Report.

Other Components of Compensation: Additionally, compensation associated with any company-paid vehicles, company-paid cellphones, wellness and healthy return incentives, group term life insurance premiums, disability insurance premiums, or other taxable reimbursements 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
James McJunkins, CEO	**2019**	**$ 310**	**$ 154**	**$ 3**	**$ 810**	**$ 1,277**
James McJunkins, CEO	2018	287	142	3	39	471
James McJunkins, CEO	2017	273	135	3	576	987
Aggregate Number of Senior Officers and Highly Compensated Individuals, excluding CEO						
Five[1]	**2019**	**$ 798**	**$ 165**	**$ 5**	**$ 981**	**$ 1,949**
Five[2]	2018	746	174	5	297	1,222
Four	2017	644	165	8	695	1,512

[1]Includes compensation for one senior officer hired in July 2019 to replace retiring CCO.

[2]Includes compensation for one senior officer who retired June 30, 2018. Also, includes compensation for the entire year for two individuals promoted to senior officers effective April 1, 2018.

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 8 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.
- Amounts paid in 2018 related to one senior officer’s retirement and one senior officer’s retention bonus.
- Amounts paid in 2019 related to senior officers’ sign-on and retention bonuses outside of the incentive plan.

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
James McJunkins, CEO	AgriBank District Retirement Plan	**38.6**	**$ 3,127**	**$ --**
	AgriBank District Pension Restoration Plan	**38.6**	**348**	**--**
Aggregate Number of Senior Officers and Highly Compensated Individuals, excluding CEO				
Two	AgriBank District Retirement Plan	**33.9**	**$ 2,754**	**$ --**

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 9 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:

3000 Prosperity Drive
Jonesboro, AR 72404
(870) 932-2288
www.FCMidsouth.com

The total directors’ travel, subsistence, and other related expenses were $133 thousand, $122 thousand, and $120 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 $73 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 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

Farm Credit Midsouth, ACA

(Unaudited)

We have specific programs in place to serve the credit and related services needs of young, beginning and small (YBS) farmers and ranchers (Farmers) in our Local Service Area (LSA).

Definitions

Farm Credit Administration (FCA) Regulations define young, beginning, and small farmers; ranchers or producer or harvester of aquatic products as those meeting any of the following criteria:

- **Young**: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the date the loan was originally made.
- **Beginning:** A farmer, rancher, or producer or harvester of aquatic products who had 10 years or less farming or ranching experience as of the date the loan was originally made.
- **Small**: A farmer, rancher, or producer or harvester of aquatic products who normally generated less than $250,000 in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

Demographics

Our LSA area includes 10 counties in eastern Arkansas and 3 counties in southern Missouri. We have used the 2012 USDA Ag-Census as our source of demographic data for the counties in our LSA. There are several differences in the methods by which the demographic and YBS Farmer data is resented. Young farmers are defined by the FCA as 35 years old or less. The USDA Ag-Census demographic stratification breaks at 34 years, which as used to compare to FCA's definition. Beginning farmers are defined by the FCA as having 10 years or less farming experience. There is no measurement matching this definition in the USDA Ag-Census; however, the census does identify farmers on their current farm less than 10 years. That statistic may include beginning farmers, but may also include experienced farmers who have recently changed farmsteads. As with the case with the young information the Beginning information in the USDA Ag-Census is not an exact comparison to the FCA definition, but will be utilized as the best comparison available. The FCA Small definition matches with the USDA Census delineation of farm entities with sales of less than $250,000. Other data differences:

- The farmers experience is as of the date of the USDA Ag-Census, while Midsouth's data is compiled as to the date the loan was made.
- Small farmers is by each individual farm entity from the USDA Ag-Census data, while Midsouth's data is compiled as of the date of the loan and the total value of sales of closely related entities rather than individual entities.
- The USDA Census data reflects all farms whether they use debt or not (the census reflects only 49% of farms have debt).

While the statistical results of the USDA Ag-Census do not match the FCA definitions exactly and there are timing issues, they do provide a consistent source of measurement with which to assess association targets and goals.

The following data compares Farm Credit Midsouth's YBS membership as of December 31, 2019 to the 2017 USDA Ag-Census data in our Loan Servicing Area:

Category	Number	Percent
2017 USDA Ag-Census Data:		
Farmers 34 and Younger	758	30.1%
Farmers on Current Farm Less than 10 Years	1,967	17.6%
Farmers with Less than $250,000 Farm Sales	4,721	76.4%
Total Farmers	6,178	
2019 Farm Credit Midsouth, ACA Data:		
Members that were ≤ 35 years of age when their loan was originally made	662	31.9%
Members that had been farming ≤ 10 years when their loan was originally made	662	31.9%
Members that had < $250,000 in gross sales of agricultural products when their loan was originally made	675	32.6%
Total Members in the LSA	2,073	

Mission Statement

Enhance our diverse economy through an Outreach Program that will focus on young, beginning, and small farmers with specific outreach toward diversity and inclusion.

We are accomplishing this mission by:

- Providing special loan programs and underwriting standard to meet the needs of YBS Farmers
- Offering either directly, or through external relationships, a number of financial services which will benefit the YBS Farmers in risk management
- Making full use of the Farm Service Agency guaranteed loan programs
- Establishing quantitative portfolio goals
- Continuing to participate in numerous outreach programs which benefit YBS Farmers

Quantitative Goals

Our Board of Directors desires to maintain a portfolio mix of young, beginning and small farmers and ranchers. This mix will help ensure our continued availability in future years and promote agriculture in our LSA. The Board of Directors, have decided to concentrate on new YBS business and have set five year goals to achieve the desired portfolio mix. The following are the goals and the 2019 results:

	% of Total Number of New Loans		% of Total Volume of New Loans	
Category	Goal	**2019 Results**	Goal	**2019 Results**
Young farmers	15%	**23.9%**	10%	**25.4%**
Beginning farmers	15%	**30.1%**	12%	**25.8%**
Small farmers	15%	**17.6%**	6%	**6.3%**

Qualitative Goals

Goal: Coordinate with governmental agencies and private parties to enhance credit services to YBS Farmers with use of guarantees or other risk reduction tools.

Status: Farm Credit Midsouth had 46 government guaranteed loans to YBS Farmers as of December 31, 2019, and made 5 new government guaranteed loans to YBS Farmers in 2019.

Goal: Provide educational and informational outreach programs for YBS or potential YBS Farmers.

Status: The following educational and informational outreach programs were supported that were available to YBS or potential YBS Farmers in 2019:

- Midsouth and the other Arkansas Farm Credit Associations sponsor, support, and participate in various Arkansas Grown activities which are an initiative of the Arkansas Department of Agriculture:
  - Arkansas Grown Magazine
  - Arkansas Homegrown by Heroes Scholarship
  - School Garden Contest
  - Farmers market Promotion Program
- Arkansas State University Agriculture Conference
- Women in Agriculture Conference
- Farm Management Meetings
- National Black Growers Council Annual Meeting
- Arkansas Future Farmers of America (FFA) Convention
- Arkansas Farm Family of the Year
- Farm Safety programs
- Arkansas 4-H
- Annie's Project
- Junior Livestock Auction-Buffalo Island Stock Show
- Arkansas Junior Cattlemen's Association
- Arkansas State Fair – Sale of Champions
- Sponsorship/Exhibit/Attendance
  - Mid-South Farm & Gin Show
  - Arkansas Agricultural Aviation Association
  - Arkansas Cattlemen's Conference
  - Arkansas Soybean Association Annual Meeting
  - Arkansas Rice Council/Producers Annual Meeting
  - Agricultural Council of Arkansas
  - Arkansas County Agricultural Agents Association Convention
  - Arkansas Rural Development Conference

Goal: To provide financial and in-kind support to programs that fosters the development of young farmers.

Status: Twelve one-thousand-dollar college scholarships was awarded to students majoring in agriculture or business. Donations totaling $23,019 were given to various youth organizations, including local FFA chapters and 4-H programs.

Safety and Soundness of the Program

Our YBS program has established specific lending standards and limits to ensure safety and soundness of this program.

FUNDS HELD PROGRAM

Farm Credit Midsouth, ACA

(Unaudited)

Farm Credit Midsouth, ACA (the Association) offers a Funds Held Program (Program) that provides Borrowers the ability to make uninsured advance payments on designated loans for the purpose of paying future maturities or other related charges.

Objective

The Association offers the Program for the benefit and convenience of Borrowers who desire to make advance payments.

The following terms and conditions apply to Program accounts in connection with loans from the Association, subject to any rights that the Association or Borrower may have as specified in loan documents governing designated loans.

Handling Advance Payments

- Advance payments received on a loan participating in the Program before the loan has been billed will normally be placed in the Program account (Account) as of the date received, to be applied against the next installment or other related charges on the installment due date. This is subject to any rights that the Association may have to apply such payments in a different manner as specified in the loan documents governing designated loans.
- Advance payments received on a loan participating in the Program after the loan has been billed will be directly applied to the installment due on the loan or other related charges and will not earn interest.
- Funds received in excess of the installment amount or other related charges will be placed in the Account.
- If a special prepayment of principal is desired, Borrowers must specify so at the time funds are paid in advance to the Association.
- When an installment becomes due, any accrued interest in the Account and other funds in the Account for the loan will be automatically applied toward payment of the installment or related charges on the due date. If the balance in the Account is not adequate to pay the installment or related charges in full, Borrowers are expected to pay the difference by the installment due date. Any excess funds will remain in the Account.

Even when no installment or related charges are due, the Association may, at its option, apply funds from the Account without notice to the Borrower as follows:

- **Protective Advances**. If the Borrower fails to pay when due other items as required pursuant to the mortgage, deed of trust, promissory note, or any other loan documents, the Association may apply funds in the Account to pay them.
- **Account Ceiling**. If the Account balance exceeds the unpaid balance of the loan, the Association may apply the funds in the Account to repay the entire unpaid balance and will return any excess funds. The Association allows up to two full annual installments (principal and interest) to be placed in the Account on each individual loan.
- **Transfer of Security**. If the Borrower sells, assigns, or transfers any interest in the underlying collateral, the Association may apply the funds in the Account against the remaining loan balance.
- **Deceased Borrowers**. If all Borrowers are deceased, the Association may apply the funds in the Account to the remaining loan balance.

The Association may pay interest on Account balances. Interest on Account balances (exclusive of funds applied directly to billed amounts) will normally accrue from the date of receipt of the funds until the date the funds are applied to the loan against an installment due or other related charges. The Association may change the interest rate from time to time, without written notification to the Borrower, and may provide different interest rates for different categories of loans. Subject to change as aforesaid, currently the rate paid on the Account by the Association is equal to the rate being charged to the Borrower on the individual loan less 2%.

Borrower Withdrawals from Accounts

The Association may permit Borrowers to withdraw funds from the Account one time a year according to the Association’s Program. In addition, the Association may permit withdrawals for medical emergencies, natural disasters, and other purposes with a written request stating the reason for the withdrawal. All requests must be approved by the Association CEO or designee prior to withdrawal.

Liquidation

Account balances are not insured. In the event of the Association liquidation, all Borrowers 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 earning interest when the receivership was instituted and will be applied against the outstanding indebtedness of any loans of the Borrower unless, within 15 days’ notice, the Borrower provides direction to the Association to apply the funds according to existing loan documents.

Termination

If the Association terminates the Program, Account balances will be applied to the loan balance, and any remaining excess funds will be refunded to the Borrower.

Barton Branch
870-572-9900
6216 Hwy 49
Poplar Grove AR 72374

Corning Branch
870-857-3541
600 W Elm
Corning AR 72422

Jonesboro Branch
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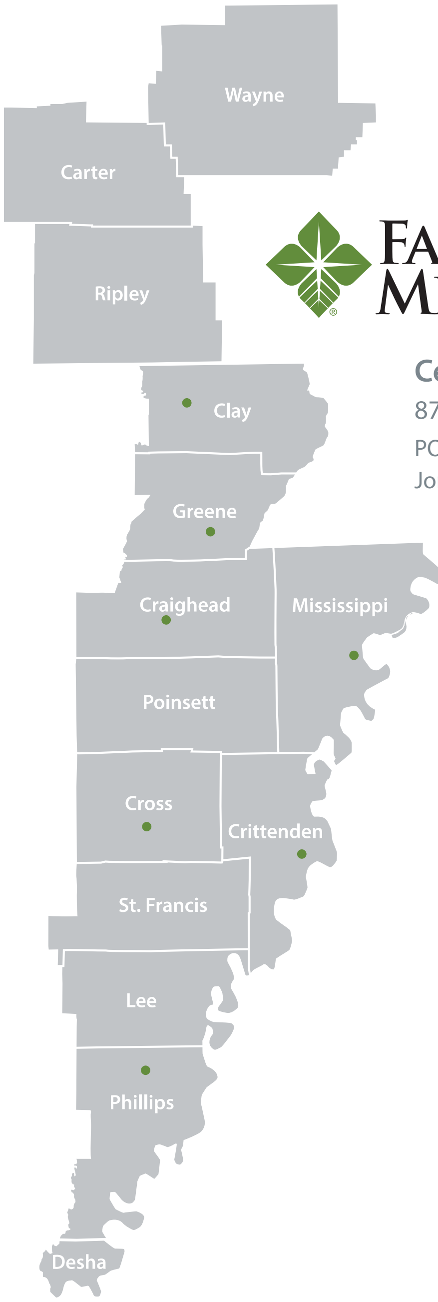
3000 Prosperity Dr
Jonesboro AR 72404

Marion Branch
870-739-6275
151 Block St
Marion AR 72364

Osceola Branch
870-563-2676
4389 W Keiser Ave
Osceola AR 72370

Paragould Branch
870-236-8525
1312 Hwy 135 N
Paragould AR 72450

Wynne Branch
870-238-2211
1674 S Falls Blvd
Wynne AR 72396



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FARM CREDIT MIDSOUTH

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THE COOPERATIVE ADVANTAGE

Discover the benefits of working with a customer-owned lender.

As a financial cooperative, Farm Credit Midsouth offers a patronage program that returns earnings to eligible members through cash-back dividends.

Along with having a voice in what we do, our members receive cash-back dividends. The more eligible business you have with us, the more you can benefit from our patronage program.

Each year, our member-elected Board of Directors determines the amount distributed. Earnings are either returned to members as cash-back dividends or retained on our balance sheet to support agriculture through economic cycles and to fund development of new products that help our customers succeed.

For more info about patronage, contact any Farm Credit Midsouth branch.

Patronage Payout
ONLY FROM FARM CREDIT MIDSOUTH