2019 ANNUAL REPORT

Farm Credit

SOUTHEAST MISSOURI

TABLE OF CONTENTS

Farm Credit Southeast Missouri, ACA

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear Farm Credit Customer-Owners,

Enclosed you will find the report of our financial results for 2019. In short, we had another excellent year. We grew our average owned and managed earning assets by 6.4%, our pretax income totaled nearly $17 million, we had a very strong 2.3% pretax rate of return on assets, and our credit quality remains very high at over 99% rated fully acceptable and other assets especially mentioned.

Due to these strong financial results, the Board was pleased to announce a $7.3 million patronage refund of 2019 earnings. This distribution of earnings to our loan customers last month is the largest ever, and it brings the total amount paid in patronage since 1994 up over $86 million. This represents a significant contribution to our owners' financial well-being and to our local community economies.

In terms of important business initiatives, we've increased our association-wide staffing in recent years to increase backup strength in critical positions, facilitate more specialization and provide for smooth succession when needed. Just this past November we promoted six employees to be Credit Specialists – trained in financial statement processing – to provide a greater level of assistance to our loan officers. Also, in 2019 we redesigned and strengthened our AgSunrise program to provide greater benefits to Young and Beginning Farmers.

As of this letter, construction of our new Poplar Bluff branch office building is nearly complete. We will relocate very soon to the more safely accessible and visible location at the intersection of U.S. Highway 67 and State Route M highway in southwest Poplar Bluff.

We continue to adopt more advanced technology to meet your expectations for remote access and control of your accounts, better mobility for our loan officers to meet you away from the office and more convenient, safe, and accessible methods to exchange documentation with you.

I want to convey in the strongest possible terms our utmost gratitude for the opportunity to work for you. As employees we are all helping each other do the best we can to bring you value based on our agricultural lending expertise and dedication to helping you be successful. It is challenging and rewarding work, and we love doing it.

Your help telling our story to neighbors and farm property owners who are not already Farm Credit Southeast Missouri customer-owners goes a long way in helping us build this cooperative, so we appreciate any and all referrals you can make on our behalf. Thank you!

Best wishes for a healthy and prosperous 2020.

Bob Smith

Bob Smith
President / Chief Executive Officer
Farm Credit Southeast Missouri, ACA

March 10, 2020

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Farm Credit Southeast Missouri, ACA

(dollars in thousands)

As of December 31	**2019**	2018	2017	2016	2015
Statement of Condition Data					
Loans	**$ 670,541**	$ 670,743	$ 629,942	$ 614,216	$ 582,111
Allowance for loan losses	**668**	526	534	482	452
Net loans	**669,873**	670,217	629,408	613,734	581,659
Investment in AgriBank, FCB	**15,867**	13,106	12,865	11,709	11,090
Investment securities	**24,239**	801	1,509	2,483	3,326
Other property owned	**--**	--	--	--	--
Other assets	**22,655**	21,349	16,666	14,767	13,384
Total assets	**$ 732,634**	$ 705,473	$ 660,448	$ 642,693	$ 609,459
Obligations with maturities of one year or less	**$ 13,650**	$ 13,071	$ 12,195	$ 507,112	$ 481,791
Obligations with maturities greater than one year	**557,241**	540,118	504,826	--	--
Total liabilities	**570,891**	553,189	517,021	507,112	481,791
Capital stock and participation certificates	**1,631**	1,733	1,713	1,715	1,742
Unallocated surplus	**160,112**	150,551	141,714	133,866	125,926
Total members' equity	**161,743**	152,284	143,427	135,581	127,668
Total liabilities and members' equity	**$ 732,634**	$ 705,473	$ 660,448	$ 642,693	$ 609,459

For the year ended December 31	**2019**	2018	2017	2016	2015
Statement of Income Data					
Net interest income	**$ 21,403**	$ 20,744	$ 20,055	$ 18,583	$ 18,224
Provision for (reversal of) credit losses	**193**	10	434	24	(9)
Other expenses, net	**4,399**	4,800	4,772	5,119	5,449
Net income	**$ 16,811**	$ 15,934	$ 14,849	$ 13,440	$ 12,784
Key Financial Ratios					
For the Year					
Return on average assets	**2.3%**	2.3%	2.2%	2.1%	2.1%
Return on average members' equity	**10.7%**	10.8%	10.6%	10.2%	10.3%
Net interest income as a percentage of average earning assets	**3.1%**	3.2%	3.1%	3.0%	3.2%
Net charge-offs (recoveries) as a percentage of average loans	**0.0%**	(0.0%)	0.1%	(0.0%)	0.0%
At Year End					
Members' equity as a percentage of total assets	**22.1%**	21.6%	21.7%	21.1%	20.9%
Allowance for loan losses as a percentage of loans	**0.1%**	0.1%	0.1%	0.1%	0.1%
Capital ratios effective beginning January 1, 2017:					
Common equity tier 1 ratio	**20.8%**	20.1%	20.2%	N/A	N/A
Tier 1 capital ratio	**20.8%**	20.1%	20.2%	N/A	N/A
Total capital ratio	**20.9%**	20.1%	20.3%	N/A	N/A
Permanent capital ratio	**20.8%**	20.1%	20.2%	N/A	N/A
Tier 1 leverage ratio	**20.2%**	19.7%	19.6%	N/A	N/A
Capital ratios effective prior to 2017:					
Permanent capital ratio	**N/A**	N/A	N/A	19.6%	19.5%
Total surplus ratio	**N/A**	N/A	N/A	19.4%	19.2%
Core surplus ratio	**N/A**	N/A	N/A	19.4%	19.2%
Net Income Distributed					
For the Year					
Patronage distributions:					
Cash	**$ 7,100**	$ 6,997	$ 5,501	$ 5,250	$ 5,100

MANAGEMENT'S DISCUSSION AND ANALYSIS

Farm Credit Southeast Missouri, ACA

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

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

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

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

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

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

FORWARD-LOOKING INFORMATION

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

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

AGRICULTURAL AND ECONOMIC CONDITIONS

Land Values: The average benchmark farm land value change in 2019 was 0.37%, compared to 1.55% and 0.22% in 2018 and 2017, respectively. The more moderate land value changes the past three years are indicative of lower commodity prices.

Commodity Prices: Global trade issues continue to impact agricultural commodity prices as we stay within the new "norm" of a lower price environment. Another round of producer support through the United States Department of Agriculture's (USDA) Market Facilitation Program was distributed in the fourth quarter of 2019 which has helped ease some of the burden of suppressed commodity prices.

Crop Conditions: Following the trend throughout 2019, continual rainfall during the fourth quarter delayed harvest up to 2 to 3 weeks in much of the area. The wet conditions provided less of an opportunity for fall field work and fewer wheat acres were planted than intended. Although harvest was delayed, yields were not materially impacted and came in at average to above average overall.

LOAN PORTFOLIO

Loan Portfolio

Total accrual loans were $670.3 million at December 31, 2019, a decrease of $35 thousand from December 31, 2018.

Components of Loans

(in thousands) As of December 31	**2019**	2018	2017
Accrual loans:			
Real estate mortgage	**$ 377,808**	$ 376,267	$ 351,197
Production and intermediate-term	**241,696**	239,861	217,861
Agribusiness	**11,393**	7,136	7,444
Other	**39,425**	47,093	50,452
Nonaccrual loans	**219**	386	2,988
Total loans	**$ 670,541**	$ 670,743	$ 629,942

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

The decrease in total loans from December 31, 2018, was primarily due to strong repayments with minimal reinvestment in the mission related investment portfolio as well as the sale of a $12.6 million participation interest in real estate loans under the AgriBank Asset Pool program, which was offset by stronger new money. The decrease in total loans was also partially offset by an increase in agribusiness due to the purchase of a large participation, and a net $7.1 million increase in our commercial loan portfolio due to strong intermediate-term loan growth, which was offset by fewer production loan disbursements in 2019.

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

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

Portfolio Distribution

We are chartered to serve certain counties in Missouri and purchase the remainder of our portfolio outside of Missouri to support rural America and to diversify our portfolio risk. Approximately 82.9% of our total loan portfolio was in Butler, Stoddard, Dunklin, Scott, New Madrid, Cape Girardeau, and Mississippi counties, in the state of Missouri, at December 31, 2019.

Agricultural Concentrations

As of December 31	**2019**	2018	2017
Cotton	**21.0%**	20.3%	20.1%
Corn	**19.7%**	17.9%	17.9%
Soybeans	**17.2%**	18.0%	18.4%
Rice	**15.8%**	17.2%	17.1%
Landlords	**6.6%**	4.5%	4.7%
Livestock	**5.0%**	7.1%	6.4%
Processing and marketing	**1.9%**	1.8%	2.3%
Other	**12.8%**	13.2%	13.1%
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 non-adverse credit quality of our portfolio increased by 0.3% from December 31, 2018 to 99.6% at December 31, 2019. Adversely classified loans decreased marginally to 0.4% of the portfolio at December 31, 2019, from 0.7% 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) and other government agency guarantee programs are used to reduce the risk of loss. At December 31, 2019, $60.4 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	**$**	**219**	$	386	$	2,988
Accruing restructured		**357**		415		482
Accruing loans 90 days or more past due		**--**		1,358		1,368
Total risk loans		**576**		2,159		4,838
Other property owned		**--**		--		--
Total risk assets	**$**	**576**	$	2,159	$	4,838
Total risk loans as a percentage of total loans		**0.1%**		0.3%		0.8%
Nonaccrual loans as a percentage of total loans		**0.0%**		0.1%		0.5%
Current nonaccrual loans as a percentage of total nonaccrual loans		**3.7%**		96.9%		69.5%
Total delinquencies as a percentage of total loans		**0.4%**		0.6%		0.9%

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.

The decrease in nonaccrual loans was primarily due to the payoff of four nonaccrual local credits to two customers which was partially offset by the transfer of local credit to nonaccrual status. Nonaccrual loans remained at an acceptable level at December 31, 2019, 2018, and 2017.

The decrease in accruing restructured loans was primarily due to continued performance for our single restructured loan.

We have $0 in accrual loans that were 90 days or more past due as of December 31, 2019. During 2019, one of three loans outstanding at December 31, 2018, was paid off. The other two loans, which were guaranteed, were fully repurchased by the USDA. 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.

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	**0.1%**	0.1%	0.1%
Nonaccrual loans	**305.0%**	136.3%	17.9%
Total risk loans	**116.0%**	24.4%	11.0%
Net charge-offs (recoveries) as a percentage of average loans	**0.0%**	(0.0%)	0.1%
Adverse assets to total regulatory capital	**1.8%**	3.3%	5.0%

Allowance for loan losses totaled $668 thousand as of December 31, 2019, a $142 thousand increase from December 31, 2018. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2019.

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

INVESTMENT SECURITIES

In addition to loans, we held investment securities. Investment securities totaled $24.2 million, $801 thousand, and $1.5 million at December 31, 2019, 2018, and 2017, respectively. Our investment securities consisted of securities containing loans fully guaranteed by the Small Business Administration (SBA). With the new FCA investment regulations that went into effect January 1, 2019, we began to purchase SBA Pools to grow our previously declining investment portfolio.

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

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

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands)

For the year ended December 31	**2019**	2018	2017
Net income	**$ 16,811**	$ 15,934	$ 14,849
Return on average assets	**2.3%**	2.3%	2.2%
Return on average members' equity	**10.7%**	10.8%	10.6%

Changes in the chart above relate directly to:

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

Changes in Significant Components of Net Income

	For the year ended December 31			Increase (decrease) in net income	
(in thousands)	**2019**	2018	2017	**2019 vs 2018**	2018 vs 2017
Net interest income	**$ 21,403**	$ 20,744	$ 20,055	**$ 659**	$ 689
Provision for credit losses	**193**	10	434	**(183)**	424
Non-interest income	**4,665**	4,593	3,871	**72**	722
Non-interest expense	**8,936**	9,348	8,509	**412**	(839)
Provision for income taxes	**128**	45	134	**(83)**	89
Net income	**$ 16,811**	$ 15,934	$ 14,849	**$ 877**	$ 1,085

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	**$ 1,067**	$ 531
Changes in interest rates	**(248)**	(25)
Changes in nonaccrual income and other	**(160)**	183
Provision for income taxes	**$ 659**	$ 689

Net interest income included income on nonaccrual loans that totaled $147 thousand, $307 thousand, and $123 thousand in 2019, 2018, and 2017, respectively. Nonaccrual income is recognized when received in cash, collection of the recorded investment is fully expected, and prior charge-offs have been recovered.

Net interest margin (net interest income as a percentage of average earning assets) was 3.1%, 3.2%, and 3.1% in 2019, 2018, and 2017, respectively. The decrease of 7 basis points (bps) is due to an increase in the AgriBank cost of funds of 7 bps over prior year, a portion of which is returned to the Association through non-interest patronage. Our net interest margin is sensitive to interest rate changes and competition.

Provision for Credit Losses

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

Non-Interest Income

The $72 thousand increase in Non-interest income was primarily due to a $378 thousand increase in patronage income (including wholesale add-on and asset pool patronage) from AgriBank and a $47 thousand increase in financially related services income (crop insurance), partially offset by the Allocated Insurance Reserve Accounts (AIRA).

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	**$**	**3,132**	$	2,849	$	2,711
Pool program patronage		**93**		--		--
Other Farm Credit Institution patronage		**9**		7		8
Total patronage income	**$**	**3,234**	$	2,856	$	2,719
Form of patronage distributions:						
Cash	**$**	**1,786**	$	2,856	$	2,719
Stock		**1,448**		--		--
Total patronage income	**$**	**3,234**	$	2,856	$	2,719

Wholesale patronage income is based on the average balance of our note payable to AgriBank. The patronage rates were 55.9 bps, 54.1 bps, and 52.1 bps 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.

In addition, the wholesale patronage balance includes equalization. Equalization is determined based on the quarterly average balance of stock in excess of our AgriBank required investment. The equalization rate is targeted at the average cost of funds for all District associations as a group.

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.

Non-Interest Expense

Components of Non-interest Expense

(dollars in thousands)

For the year ended December 31		2019		2018		2017
Salaries and employee benefits	**$**	**5,180**	$	5,571	$	5,284
Other operating expense:						
Purchased and vendor services		**1,428**		1,456		984
Communications		**67**		70		72
Occupancy and equipment		**541**		494		436
Advertising and promotion		**386**		341		244
Examination		**259**		241		232
Farm Credit System insurance		**475**		448		735
Other		**566**		546		470
Other non-interest expense		**34**		181		52
Total non-interest expense	**$**	**8,936**	$	9,348	$	8,509
Operating rate		**1.3%**		1.4%		1.3%

Total non-interest expense decreased $412 thousand from 2018 to 2019, primarily due to a $391 thousand decrease in employee salaries and benefits which is partially offset by increases in advertising expense, furniture and equipment expense, and Farm Credit System Insurance expense.

Provision for Income Taxes

Provision for income taxes increased $83 thousand from 2018, primarily due to an increase in pre-tax book income and a decrease in our estimate of the tax savings from our patronage program, resulting in an increase in tax expense.

Additional discussion is included in Note 8 to the accompanying Consolidated Financial Statements.

FUNDING AND LIQUIDITY

We borrow from AgriBank, under a note payable, in the form of a line of credit, as described in Note 6 to the accompanying Consolidated Financial Statements. This line of credit is our primary source of liquidity and is used to fund operations and meet current obligations. At December 31, 2019, we had $139.4 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	**$ 557,159**	$ 526,851	$ 521,614
Average interest rate	**2.8%**	2.6%	2.0%

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, a System institution, 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 $13.6 million, $15.0 million, and $16.0 million at December 31, 2019, 2018, and 2017, respectively. We paid Farmer Mac commitment fees totaling $66 thousand, $71 thousand, and $74 thousand in 2019, 2018, and 2017, respectively. These amounts are included in "Fee income (expense), net" in the Consolidated Statements of Income. As of December 31, 2019, no loans have been sold to Farmer Mac under this agreement.

CAPITAL ADEQUACY

Total members' equity was $161.7 million, $152.3 million, and $143.4 million at December 31, 2019, 2018, and 2017, respectively. Total members' equity increased $9.5 million from December 31, 2018, primarily due to net income for the year and partially offset by patronage distribution accruals.

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	**20.8%**	20.1%	20.2%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**20.8%**	20.1%	20.2%	6.0%	2.5%*	8.5%
Total capital ratio	**20.9%**	20.1%	20.3%	8.0%	2.5%*	10.5%
Permanent capital ratio	**20.8%**	20.1%	20.2%	7.0%	N/A	7.0%
Non-risk-adjusted:						
Tier 1 leverage ratio	**20.2%**	19.7%	19.6%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**20.5%**	19.7%	19.6%	1.5%	N/A	1.5%

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

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

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

In addition to these regulatory requirements, we establish an optimum common equity tier 1 (CET1) and total capital target. These targets allow us to maintain a capital base adequate for future growth and investment in new products and services. The targets are subject to revision as circumstances change. Our optimum CET1 target is 12.0% and total capital target is 15.5%, as defined in our 2020 capital plan.

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. We do not foresee any events that would result in this prohibition in 2020.

RELATIONSHIP WITH AGRIBANK

Borrowing

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

The components of cost of funds under the GFA include:

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

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

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

Investment

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

We are also required to hold additional investment in AgriBank based on a contractual agreement under a pool program. The required investment amount varies by pool program and is generally a percentage of the loan balance in the pool.

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 $666 thousand, $673 thousand, and $526 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

Federal Agricultural Mortgage Corporation: We have entered into a Standby Commitment to Purchase Agreement with Farmer Mac. This agreement allows us to sell loans identified under the agreement to Farmer Mac. Refer to the Funding and Liquidity section for further discussion of this agreement.

CentRic Technology Collaboration: We participate in CentRic Technology Collaboration (CTC) with certain other AgriBank District associations. The CTC facilitates the development and maintenance of certain retail technology systems essential to providing credit and other services to our members. The

CTC operations are governed by representatives of each participating association. The expenses of CTC are allocated to each of the participating associations based on an agreed upon formula. The systems developed are owned by each of the participating associations.

Farm Credit 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 $11 thousand. The total cost of services we purchased from Foundations was $123 thousand, $111 thousand, and $89 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.

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

REGULATORY MATTERS

Investment Securities Eligibility

On September 19, 2019, the FCA issued a proposed regulation regarding investment eligibility. The proposed regulation amends the regulations that became effective January 1, 2019, and would allow associations to purchase and hold portions of certain loans that non-Farm Credit System institutions originate and sell in the secondary market, and that the 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 Southeast Missouri, ACA

We prepare the Consolidated Financial Statements of Farm Credit Southeast Missouri, 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.

Markel D. Yarbro
Chairperson of the Board
Farm Credit Southeast Missouri, ACA

Robert E. Smith
President / Chief Executive Officer
Farm Credit Southeast Missouri, ACA

Michelle M. Beacham
Executive Vice President / Chief Financial Officer
Farm Credit Southeast Missouri, ACA

March 10, 2020

REPORT OF AUDIT COMMITTEE

Farm Credit Southeast Missouri, 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 Southeast Missouri, 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.

Philip M. Showmaker
Chairperson of the Audit Committee
Farm Credit Southeast Missouri, ACA

<u>Audit Committee Members:</u>
Ed C. Marshall III
Markel D. Yarbro

March 10, 2020

pwc

Report of Independent Auditors

To the Board of Directors of Farm Credit Southeast Missouri, ACA,

We have audited the accompanying Consolidated Financial Statements of Farm Credit Southeast Missouri, 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 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 Southeast Missouri, 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 10, 2020

PricewaterhouseCoopers LLP, 45 South Seventh Street, Suite 3400, Minneapolis, MN 55402
T: (612) 596 6000, www.pwc.com/us

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Southeast Missouri, ACA

(in thousands)

As of December 31		**2019**		2018		2017
ASSETS						
Loans	**$**	**670,541**	$	670,743	$	629,942
Allowance for loan losses		**668**		526		534
Net loans		**669,873**		670,217		629,408
Investment in AgriBank, FCB		**15,867**		13,106		12,865
Investment securities		**24,239**		801		1,509
Accrued interest receivable		**14,822**		14,438		11,142
Deferred tax assets, net		**--**		54		100
Other assets		**7,833**		6,857		5,424
Total assets	**$**	**732,634**	$	705,473	$	660,448
LIABILITIES						
Note payable to AgriBank, FCB	**$**	**557,241**	$	540,118	$	504,826
Accrued interest payable		**3,901**		3,957		2,890
Deferred tax liabilities, net		**72**		--		--
Patronage distribution payable		**7,250**		7,100		7,000
Other liabilities		**2,427**		2,014		2,305
Total liabilities		**570,891**		553,189		517,021
Contingencies and commitments (Note 11)						
MEMBERS' EQUITY						
Capital stock and participation certificates		**1,631**		1,733		1,713
Unallocated surplus		**160,112**		150,551		141,714
Total members' equity		**161,743**		152,284		143,427
Total liabilities and members' equity	**$**	**732,634**	$	705,473	$	660,448

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

CONSOLIDATED STATEMENTS OF INCOME

Farm Credit Southeast Missouri, ACA

(in thousands)

For the year ended December 31	**2019**	2018	2017
Interest income	**$ 37,045**	$ 34,226	$ 30,618
Interest expense	**15,642**	13,482	10,563
Net interest income	**21,403**	20,744	20,055
Provision for credit losses	**193**	10	434
Net interest income after provision for credit losses	**21,210**	20,734	19,621
Non-interest income			
Patronage income	**3,234**	2,856	2,719
Financially related services income	**1,189**	1,142	1,115
Fee income (expense), net	**71**	(62)	(67)
Allocated Insurance Reserve Accounts distribution	**141**	352	--
Other non-interest income	**30**	305	104
Total non-interest income	**4,665**	4,593	3,871
Non-interest expense			
Salaries and employee benefits	**5,180**	5,571	5,284
Other operating expense	**3,722**	3,596	3,173
Other non-interest expense	**34**	181	52
Total non-interest expense	**8,936**	9,348	8,509
Income before income taxes	**16,939**	15,979	14,983
Provision for income taxes	**128**	45	134
Net income	**$ 16,811**	$ 15,934	$ 14,849

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Southeast Missouri, ACA

(in thousands)

	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance as of December 31, 2016	$ 1,715	$ 133,866	$ 135,581
Net income	--	14,849	14,849
Unallocated surplus designated for patronage distributions	--	(7,001)	(7,001)
Capital stock and participation certificates issued	105	--	105
Capital stock and participation certificates retired	(107)	--	(107)
Balance as of December 31, 2017	1,713	141,714	143,427
Net income	--	15,934	15,934
Unallocated surplus designated for patronage distributions	--	(7,097)	(7,097)
Capital stock and participation certificates issued	121	--	121
Capital stock and participation certificates retired	(101)	--	(101)
Balance as of December 31, 2018	1,733	150,551	152,284
Net income	**--**	**16,811**	**16,811**
Unallocated surplus designated for patronage distributions	**--**	**(7,250)**	**(7,250)**
Capital stock and participation certificates issued	**102**	**--**	**102**
Capital stock and participation certificates retired	**(204)**	**--**	**(204)**
Balance as of December 31, 2019	**$ 1,631**	**$ 160,112**	**$ 161,743**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Farm Credit Southeast Missouri, ACA

(in thousands)

For the year ended December 31		**2019**		2018		2017
Cash flows from operating activities						
Net income	**$**	**16,811**	$	15,934	$	14,849
Depreciation on premises and equipment		**203**		171		148
Loss gain on sale of premises and equipment, net		**3**		1		6
Amortization of premiums on loans and investment securities		**1,025**		1,193		1,514
Provision for credit losses		**193**		10		434
Stock patronage received from AgriBank, FCB		**(1,448)**		--		--
Increase in accrued interest receivable		**(459)**		(3,328)		(1,135)
Increase in other assets		**(102)**		(840)		(837)
(Decrease) increase in accrued interest payable		**(56)**		1,067		601
Increase (decrease) in other liabilities		**485**		(291)		(368)
Net cash provided by operating activities		**16,655**		13,917		15,212
Cash flows from investing activities						
Increase in loans, net		**(481)**		(41,924)		(17,495)
Purchases of investment in AgriBank, FCB, net		**(1,313)**		(242)		(1,156)
Purchases of investment securities		**(26,200)**		--		--
Proceeds from maturing investment securities		**2,473**		708		974
Purchases of premises and equipment, net		**(1,026)**		(718)		(157)
Net cash used in investing activities		**(26,547)**		(42,176)		(17,834)
Cash flows from financing activities						
Increase in note payable to AgriBank, FCB, net		**17,123**		35,292		8,176
Patronage distributions paid		**(7,100)**		(6,997)		(5,501)
Captial stock and participation certificates retired, net		**(131)**		(36)		(53)
Net cash provided by financing activities		**9,892**		28,259		2,622
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	**$**	**66**	$	88	$	81
Stock applied against loan principal		**37**		32		30
Interest transferred to loans		**75**		32		76
Patronage distributions payable to members		**7,250**		7,100		7,000
Supplemental information						
Interest paid	**$**	**15,698**	$	12,415	$	9,962
Taxes paid, net		**2**		2		5

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Farm Credit Southeast Missouri, 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 Southeast Missouri, ACA (the Association) and its subsidiaries, Farm Credit Southeast Missouri, FLCA and Farm Credit Southeast Missouri, 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 Bollinger, Butler, Cape Girardeau, Carter, Dunklin, Mississippi, New Madrid, Pemiscot, Ripley, Scott, Stoddard, and Wayne in the state of Missouri.

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, crop hail, and multi-peril crop insurance to borrowers and those eligible to borrow.

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 Southeast Missouri, ACA and its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

Loans: Loans are carried at their principal amount outstanding net of any unearned income, cumulative charge-offs, unamortized deferred fees and costs on originated loans, and unamortized premiums on purchased loans. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Origination fees, net of related costs, are deferred and recognized over the life of the loan as an adjustment to net interest income.

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. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior charge-offs. In these circumstances interest is credited to income when cash is received. Loans are charged-off at the time they are determined to be uncollectible. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, the borrower has demonstrated payment performance, and the loan is not classified as doubtful or loss.

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

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

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

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

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

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

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

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

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

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

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

The ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. Our lease terms may include options to extend or terminate the lease. The length of the lease term is modified to include the option when it is reasonably certain that we will exercise that option. Operating lease expense for lease payments is recognized on a straight-line basis over the lease term. As of December 31, 2019, we had no ROU asset or lease liability.

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

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 is recorded in “Other liabilities” in the Consolidated Statements of Condition and a corresponding loss is recorded in “Provision for credit losses” in the Consolidated Statements of Income.

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

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

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

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

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

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

Recently Issued or Adopted Accounting Pronouncements

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

Standard and effective date	Description	Adoption status and financial statement impact
In February 2016, the FASB issued Accounting Standards Updated (ASU) 2016-02 "Leases." In July 2018, the FASB issued ASU 2018-11 "Leases (Topic 842): Targeted Improvements." The guidance was effective for public business entities in its first quarter of 2019 and early adoption was permitted.	The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases. Upon adoption, a liability for lease obligations and a corresponding right-of-use asset is recognized on the Consolidated Statements of Condition for all lease arrangements spanning more than 12 months. The guidance includes an optional transition method where an entity is permitted to apply the guidance as of the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings.	We adopted this guidance on January 1, 2019. 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	**$ 378,027**	**56.4%**	$ 376,639	56.1%	$ 353,371	56.1%
Production and intermediate-term	**241,696**	**36.0%**	239,875	35.8%	218,676	34.7%
Agribusiness	**11,393**	**1.7%**	7,136	1.1%	7,444	1.2%
Other	**39,425**	**5.9%**	47,093	7.0%	50,451	8.0%
Total	**$ 670,541**	**100.0%**	$ 670,743	100.0%	$ 629,942	100.0%

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

Portfolio Concentrations

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

As of December 31, 2019, volume plus commitments to our ten largest borrowers totaled an amount equal to 9.6% 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, reduce large loan concentration risk, manage loan volume, or comply with the limitations of the FCA Regulations or General Financing Agreement (GFA) with AgriBank.

Participations Purchased and Sold

(in thousands)	AgriBank Participations		Other Farm Credit Institutions Participations		Total Participations	
As of December 31, 2019	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	**$ --**	**$ (12,454)**	**$ 4,261**	**$ (5,244)**	**$ 4,261**	**$ (17,698)**
Production and intermediate-term	**--**	**--**	**2,717**	**(1,226)**	**2,717**	**(1,226)**
Agribusiness	**--**	**--**	**7,749**	**--**	**7,749**	**--**
Other	**--**	**--**	**--**	**(63)**	**--**	**(63)**
Total	**$ --**	**$ (12,454)**	**$ 14,727**	**$ (6,533)**	**$ 14,727**	**$ (18,987)**

	AgriBank Participations		Other Farm Credit Institutions Participations		Total Participations	
As of December 31, 2018	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ --	$ 4,411	$ (5,533)	$ 4,411	$ (5,533)
Production and intermediate-term	--	--	2,997	(1,337)	2,997	(1,337)
Agribusiness	--	--	2,829	--	2,829	--
Other	--	--	--	(68)	--	(68)
Total	$ --	$ --	$ 10,237	$ (6,938)	$ 10,237	$ (6,938)

	AgriBank Participations		Other Farm Credit Institutions Participations		Total Participations	
As of December 31, 2017	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ --	$ 4,621	$ (4,141)	$ 4,621	$ (4,141)
Production and intermediate-term	--	--	2,648	(1,953)	2,648	(1,953)
Agribusiness	--	--	3,407	--	3,407	--
Other	--	--	--	--	--	--
Total	$ --	$ --	$ 10,676	$ (6,094)	$ 10,676	$ (6,094)

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	**$ 363,714**	**94.3%**	**$ 21,247**	**5.5%**	**$ 935**	**0.2%**	**$ 385,896**	**100.0%**
Production and intermediate-term	**230,597**	**92.9%**	**15,884**	**6.4%**	**1,639**	**0.7%**	**248,120**	**100.0%**
Agribusiness	**11,106**	**96.9%**	**361**	**3.1%**	**--**	**--**	**11,467**	**100.0%**
Other	**39,163**	**98.7%**	**445**	**1.1%**	**98**	**0.2%**	**39,706**	**100.0%**
Total	**$ 644,580**	**94.1%**	**$ 37,937**	**5.5%**	**$ 2,672**	**0.4%**	**$ 685,189**	**100.0%**

As of December 31, 2018	Acceptable Amount	%	Special Mention Amount	%	Substandard/ Doubtful Amount	%	Total Amount	%
Real estate mortgage	$ 363,500	94.6%	$ 18,252	4.7%	$ 2,536	0.7%	$ 384,288	100.0%
Production and intermediate-term	232,390	94.4%	11,851	4.8%	2,030	0.8%	246,271	100.0%
Agribusiness	4,405	61.1%	2,801	38.9%	--	--	7,206	100.0%
Other	47,106	99.4%	199	0.4%	105	0.2%	47,410	100.0%
Total	$ 647,401	94.5%	$ 33,103	4.8%	$ 4,671	0.7%	$ 685,175	100.0%

As of December 31, 2017	Acceptable Amount	%	Special Mention Amount	%	Substandard/ Doubtful Amount	%	Total Amount	%
Real estate mortgage	$ 338,086	94.1%	$ 16,995	4.7%	$ 4,349	1.2%	$ 359,430	100.0%
Production and intermediate-term	209,791	93.9%	11,402	5.1%	2,132	1.0%	223,325	100.0%
Agribusiness	5,894	78.4%	1,626	21.6%	--	--	7,520	100.0%
Other	50,656	99.7%	31	0.1%	111	0.2%	50,798	100.0%
Total	$ 604,427	94.3%	$ 30,054	4.7%	$ 6,592	1.0%	$ 641,073	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	**$ 211**	**$ --**	**$ 211**	**$ 385,685**	**$ 385,896**	**$ --**
Production and intermediate-term	**28**	**--**	**28**	**248,092**	**248,120**	**--**
Agribusiness	**--**	**--**	**--**	**11,467**	**11,467**	**--**
Other	**2,798**	**--**	**2,798**	**36,908**	**39,706**	**--**
Total	**$ 3,037**	**$ --**	**$ 3,037**	**$ 682,152**	**$ 685,189**	**$ --**

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	$ 499	$ 12	$ 511	$ 383,777	$ 384,288	$ --
Production and intermediate-term	128	--	128	246,143	246,271	--
Agribusiness	--	--	--	7,206	7,206	--
Other	2,097	1,358	3,455	43,955	47,410	1,358
Total	$ 2,724	$ 1,370	$ 4,094	$ 681,081	$ 685,175	$ 1,358

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	$ 183	$ 499	$ 682	$ 358,748	$ 359,430	$ --
Production and intermediate-term	59	396	455	222,870	223,325	--
Agribusiness	--	--	--	7,520	7,520	--
Other	2,988	1,369	4,357	46,441	50,798	1,368
Total	$ 3,230	$ 2,264	$ 5,494	$ 635,579	$ 641,073	$ 1,368

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	$ 8	$ 374	$ 2,078
Past due	211	12	910
Total nonaccrual loans	219	386	2,988
Accruing restructured loans	357	415	482
Accruing loans 90 days or more past due	--	1,358	1,368
Total risk loans	$ 576	$ 2,159	$ 4,838
Volume with specific allowance	$ 147	$ --	$ 391
Volume without specific allowance	429	2,159	4,447
Total risk loans	$ 576	$ 2,159	$ 4,838
Total specific allowance	$ 37	$ --	$ 42

For the year ended December 31	2019	2018	2017
Income on accrual risk loans	$ 115	$ 186	$ 60
Income on nonaccrual loans	147	307	123
Total income on risk loans	$ 262	$ 493	$ 183
Average risk loans	$ 2,250	$ 4,060	$ 4,912

Note: Accruing loans include accrued interest receivable.

Nonaccrual Loans by Loan Type

(in thousands)

As of December 31	2019	2018	2017
Real estate mortgage	$ 219	$ 372	$ 2,173
Production and intermediate-term	--	14	815
Total	$ 219	$ 386	$ 2,988

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
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 147	$ 144	$ 37	$ 241	$ --
Production and intermediate-term	--	--	--	--	--
Other	--	--	--	--	--
Total	$ 147	$ 144	$ 37	$ 241	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 429	$ 515	$ --	$ 706	$ 129
Production and intermediate-term	--	587	--	107	53
Other	--	--	--	1,196	80
Total	$ 429	$ 1,102	$ --	$ 2,009	$ 262
Total impaired loans:					
Real estate mortgage	$ 576	$ 659	$ 37	$ 947	$ 129
Production and intermediate-term	--	587	--	107	53
Other	--	--	--	1,196	80
Total	$ 576	$ 1,246	$ 37	$ 2,250	$ 262

	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	--	--	--	--	--
Other	--	--	--	--	--
Total	$ --	$ --	$ --	$ --	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 787	$ 896	$ --	$ 1,277	$ 224
Production and intermediate-term	14	911	--	140	103
Other	1,358	1,314	--	2,643	166
Total	$ 2,159	$ 3,121	$ --	$ 4,060	$ 493
Total impaired loans:					
Real estate mortgage	$ 787	$ 896	$ --	$ 1,277	$ 224
Production and intermediate-term	14	911	--	140	103
Other	1,358	1,314	--	2,643	166
Total	$ 2,159	$ 3,121	$ --	$ 4,060	$ 493

	As of December 31, 2017			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	391	775	42	756	--
Other	--	--	--	--	--
Total	$ 391	$ 775	$ 42	$ 756	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 2,655	$ 2,743	$ --	$ 2,664	$ 65
Production and intermediate-term	424	1,000	--	817	81
Other	1,368	1,331	--	675	37
Total	$ 4,447	$ 5,074	$ --	$ 4,156	$ 183
Total impaired loans:					
Real estate mortgage	$ 2,655	$ 2,743	$ --	$ 2,664	$ 65
Production and intermediate-term	815	1,775	42	1,573	81
Other	1,368	1,331	--	675	37
Total	$ 4,838	$ 5,849	$ 42	$ 4,912	$ 183

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, or 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 totaled $357 thousand, $415 thousand, and $482 thousand, all of which were in accrual status at December 31, 2019, 2018, and 2017, respectively. There were no TDRs outstanding at December 31, 2017.

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	**$ 526**	$ 534	$ 482
Provision for (reversal of) loan losses	**193**	(80)	434
Loan recoveries	**4**	97	5
Loan charge-offs	**(55)**	(25)	(387)
Balance at end of year	**$ 668**	$ 526	$ 534

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

Credit Loss Information on Unfunded Commitments

(in thousands) For the year ended December 31	**2019**	2018	2017
Provision for credit losses	**$ --**	$ 90	$ --
As of December 31	**2019**	2018	2017
Accrued credit loss reserve	**$ 90**	$ 90	$ --

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	**$ 171**	**$ 345**	**$ 8**	**$ 2**	**$ 526**
Provision for loan losses	**42**	**138**	**13**	**--**	**193**
Loan recoveries	**1**	**3**	**--**	**--**	**4**
Loan charge-offs	**--**	**(55)**	**--**	**--**	**(55)**
Balance as of December 31, 2019	**$ 214**	**$ 431**	**$ 21**	**$ 2**	**$ 668**
Ending balance: individually evaluated for impairment	**$ 37**	**$ --**	**$ --**	**$ --**	**$ 37**
Ending balance: collectively evaluated for impairment	**$ 177**	**$ 431**	**$ 21**	**$ 2**	**$ 631**
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2019	**$ 385,896**	**$ 248,120**	**$ 11,467**	**$ 39,706**	**$ 685,189**
Ending balance: individually evaluated for impairment	**$ 576**	**$ --**	**$ --**	**$ --**	**$ 576**
Ending balance: collectively evaluated for impairment	**$ 385,320**	**$ 248,120**	**$ 11,467**	**$ 39,706**	**$ 684,613**

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2017	$ 132	$ 389	$ 10	$ 3	$ 534
Provision for (reversal of) loan losses	34	(111)	(2)	(1)	(80)
Loan recoveries	5	92	--	--	97
Loan charge-offs	--	(25)	--	--	(25)
Balance as of December 31, 2018	$ 171	$ 345	$ 8	$ 2	$ 526
Ending balance: individually evaluated for impairment	$ --	$ --	$ --	$ --	$ --
Ending balance: collectively evaluated for impairment	$ 171	$ 345	$ 8	$ 2	$ 526
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2018	$ 384,288	$ 246,271	$ 7,206	$ 47,410	$ 685,175
Ending balance: individually evaluated for impairment	$ 787	$ 14	$ --	$ 1,358	$ 2,159
Ending balance: collectively evaluated for impairment	$ 383,501	$ 246,257	$ 7,206	$ 46,052	$ 683,016

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2016	$ 120	$ 356	$ 6	$ --	$ 482
Provision for loan losses	7	420	4	3	434
Loan recoveries	5	--	--	--	5
Loan charge-offs	--	(387)	--	--	(387)
Balance as of December 31, 2017	$ 132	$ 389	$ 10	$ 3	$ 534
Ending balance: individually evaluated for impairment	$ --	$ 42	$ --	$ --	$ 42
Ending balance: collectively evaluated for impairment	$ 132	$ 347	$ 10	$ 3	$ 492
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2017	$ 359,430	$ 223,325	$ 7,520	$ 50,798	$ 641,073
Ending balance: individually evaluated for impairment	$ 2,655	$ 815	$ --	$ 1,368	$ 4,838
Ending balance: collectively evaluated for impairment	$ 356,775	$ 222,510	$ 7,520	$ 49,430	$ 636,235

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

NOTE 4: INVESTMENT IN AGRIBANK

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

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

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

NOTE 5: INVESTMENT SECURITIES

We held investment securities of $24.2 million, $801 thousand, and $1.5 million at December 31, 2019, 2018, and 2017, respectively. Our investment securities consisted of securities containing loans fully guaranteed by the Small Business Administration.

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

Additional Investment Securities Information

(dollars in thousands)

As of December 31	**2019**	2018	2017
Amortized cost	**$ 24,239**	$ 801	$ 1,509
Unrealized gains	**119**	21	48
Unrealized losses	**(82)**	--	--
Fair value	**$ 24,276**	$ 822	$ 1,557
Weighted average yield	**2.5%**	4.3%	3.8%

Investment income is recorded in "Interest income" in the Consolidated Statements of Income and totaled $376 thousand, $47 thousand, and $77 thousand in 2019, 2018, and 2017, respectively.

Contractual Maturities of Investment Securities

(in thousands)

As of December 31, 2019	Amortized Cost
Less than one year	**$ 11**
One to five years	**92**
Five to ten years	**4,324**
More than ten years	**19,812**
Total	**$ 24,239**

NOTE 6: NOTE PAYABLE TO AGRIBANK

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

Note Payable Information

(dollars in thousands) As of December 31	**2019**	2018	2017
Line of credit	**$ 700,000**	$ 700,000	$ 700,000
Outstanding principal under the line of credit	**557,241**	540,118	504,826
Interest rate	**2.6%**	2.8%	2.2%

Our note payable was scheduled to mature on June 30, 2022. However, it was renewed effective January 1, 2020, for $850.0 million with a maturity date of December 31, 2022. The note payable will be renegotiated no later than the maturity date.

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

NOTE 7: MEMBERS' EQUITY

Capitalization Requirements

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

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	**20.8%**	20.1%	20.2%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**20.8%**	20.1%	20.2%	6.0%	2.5%*	8.5%
Total capital ratio	**20.9%**	20.1%	20.3%	8.0%	2.5%*	10.5%
Permanent capital ratio	**20.8%**	20.1%	20.2%	7.0%	N/A	7.0%
Non-risk-adjusted:						
Tier 1 leverage ratio	**20.2%**	19.7%	19.6%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**20.5%**	19.7%	19.6%	1.5%	N/A	1.5%

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

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

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the inclusion of the allowance for loan losses as a deduction to risk-adjusted assets for the permanent capital ratio. These ratios are based on a three-month average daily balance in accordance with FCA Regulations and are calculated as follows (not all items below may be applicable to our Association):

- Common equity tier 1 ratio is statutory minimum purchased member stock, other required member stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to retirement, unallocated retained earnings as regulatorily prescribed, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required member stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt, and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for credit losses subject to certain limitations, less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

- Permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings as regulatorily prescribed, paid-in capital, subordinated debt, and preferred stock subject to certain limitations, less certain allocated and purchased investments in other System institutions divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- Unallocated retained earnings and equivalents leverage ratio is unallocated retained earnings as regulatorily prescribed, paid-in capital, allocated surplus not subject to retirement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

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

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

Description of Equities

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

	Number of Shares		
As of December 31	**2019**	2018	2017
Class B common stock (at-risk)	**1,600**	8,852	8,306
Class C common stock (at-risk)	**320,875**	334,666	330,917
Series 2 participation certificates	**3,714**	3,114	3,314

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 first, to holders of preferred stock, and second, pro rata to holders of all classes of common stock and participation certificates.

In the event of impairment, losses will be absorbed first by concurrent impairment of all classes of common stock and participation certificates, then by holders of preferred stock.

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 $7.3 million, $7.1 million, and $7.0 million at December 31, 2019, 2018, and 2017, respectively. Generally, the patronage distributions are paid in cash during the first quarter after year end. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements.

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

NOTE 8: INCOME TAXES

The Tax Cuts and Jobs Act (the Act) was enacted in December of 2017. This Act contained various tax law changes, including a federal statutory tax rate change to 21% from 34%, effective January 1, 2018. Because deferred tax assets and liabilities are expected to be recognized in the Association’s tax return in a future year, when the new statutory tax rate would be applicable, the deferred tax assets and liabilities as of December 31, 2017, were valued using a blended federal/state effective tax rate based on the new federal statutory tax rate. The effect of this revaluation was recognized in our provision for (benefit from) 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	**$**	**2**	$	(1)	$	1
Total current	**$**	**2**	$	(1)	$	1
Deferred:						
Federal	**$**	**126**	$	46	$	133
Total deferred		**126**		46		133
Provision for income taxes	**$**	**128**	$	45	$	134
Effective tax rate		**0.8%**		0.3%		0.9%

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	**$**	**3,557**	$	3,356	$	5,094
Patronage distributions		**(1,070)**		(1,099)		(1,729)
Effect of non-taxable entity		**(2,390)**		(2,211)		(3,293)
Change in statutory tax rates due to the Tax Cuts and Jobs Act		**--**		--		62
Other		**31**		(1)		--
Provision for income taxes	**$**	**128**	$	45	$	134

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 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	**$**	**114**	$	99	$	88
Postretirement benefit accrual		**67**		139		144
Accrued incentive		**90**		64		72
Accrued pension asset		**(344)**		(278)		(234)
Other assets		**2**		31		31
Other liabilities		**(1)**		(1)		(1)
Deferred tax (liabilities) assets, net	**$**	**(72)**	$	54	$	100
Gross deferred tax assets	**$**	**273**	$	333	$	335
Gross deferred tax liabilities	**$**	**(345)**	$	(279)	$	(235)

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 approximately $10 million. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $114.7 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

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

NOTE 9: EMPLOYEE BENEFIT PLANS

Pension and Post-Employment Benefit Plans

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

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

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

AgriBank District Retirement Plan Information

(in thousands)

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

For the year ended December 31	**2019**	2018	2017
Total plan expense	**$ 36,636**	$ 51,900	$ 44,730
Our allocated share of plan expenses	**509**	607	526
Contributions by participating employers	**90,000**	90,000	90,000
Our allocated share of contributions	**1,182**	1,045	1,102

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 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 $1.2 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.

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	**$**	**(9)**	$	(15)	$	6
Our cash contributions		**38**		38		36

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 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 Income, were $237 thousand, $196 thousand, and $156 thousand in 2019, 2018, and 2017, respectively. These expenses were equal to our cash contributions for each year.

NOTE 10: RELATED PARTY TRANSACTIONS

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

Related Party Loans Information

(in thousands) As of December 31		**2019**		2018		2017
Total related party loans	**$**	**15,311**	$	6,952	$	5,396
For the year ended December 31		**2019**		2018		2017
Advances to related parties	**$**	**11,347**	$	11,007	$	4,846
Repayments by related parties		**12,447**		7,569		5,740

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

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

Total patronage received from AgriBank was $3.2 million, $2.8 million, and $2.7 million in 2019, 2018, and 2017, respectively. Patronage income for 2019 was paid in cash and AgriBank stock. Patronage income for 2018 and 2017 was paid in cash. In addition, we received compensation from AgriBank for servicing loans of $8 thousand in 2019. We did not receive compensation from AgriBank for servicing loans in 2018 or 2017.

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 $666 thousand, $673 thousand, and $526 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 $11 thousand. The total cost of services purchased from Foundations was $123 thousand, $111 thousand, and $89 thousand in 2019, 2018, and 2017, respectively.

NOTE 11: CONTINGENCIES AND COMMITMENTS

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

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

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 $175.9 million. Additionally, we had $17 thousand of issued standby letters of credit as of December 31, 2019.

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

NOTE 12: FAIR VALUE MEASUREMENTS

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

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

Non-Recurring

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

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)

As of December 31, 2019	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	**$ --**	**$ --**	**$ 115**	**$ 115**

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

As of December 31, 2017	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ --	$ 367	$ 367

Valuation Techniques

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

NOTE 13: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 10, 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 Southeast Missouri, 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
Sikeston	Owned	Headquarters
Sikeston	Owned	Branch
Mississippi County	Owned	Branch
Dexter	Owned	Branch
Jackson	Owned	Branch
Kennett	Owned	Branch
Piedmont	Leased	Satellite Office
Portageville	Owned	Branch
Poplar Bluff	Owned	Branch

Real estate was purchased in 2018 to build a new branch office in Poplar Bluff. Construction was still in progress as of December 31, 2019. After completion of the new branch, estimated within the first quarter of 2020, staff will be relocated and the current building will be sold.

Legal Proceedings

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

Additional Regulatory Capital Disclosure

Regulatory Capital Ratios Pursuant to FCA Regulation 620.5

As of December 31	2014	2013	2012
Permanent capital ratio	17.8%	17.2%	16.3%
Total surplus ratio	17.5%	16.9%	16.0%
Core surplus ratio	17.5%	16.9%	16.0%

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

Description of Capital Structure

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

Description of Liabilities

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

Selected Financial Data

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

Management’s Discussion and Analysis

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

Board of Directors

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

Name	Term	Principal occupation and other business affiliations
Markel D. Yarbro Chairperson Service Began: 1998	2019 - 2022	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Board Member (Secretary): Ozark Border Electric Coop, a rural electric cooperative Board Chairman: M&A Electric Coop Board, a rural electric cooperative
James Priggel Vice-Chairperson Service Began: 2010	2019 - 2022	**Principal Occupation:** Self-employed grain and cotton farmer
Michael Aufdenberg Service Began: 2012	2018 - 2021	**Principal Occupation:** Self-employed grain and livestock farmer
Ed C. Marshall III Service Began: 2005	2017 - 2020	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** President: Levee District #3, a special levee maintenance taxing entity located in Mississippi county
Darrell Nichols Service Began: 1996	2017 - 2020	**Principal Occupation:** Self-employed grain farmer
John Robinson Service Began: 1998	2017 - 2020	**Principal Occupation:** Self-employed grain and cotton farmer **Other Affiliations:** Board member (Treasurer): Drainage District Ditch #37, a special drainage ditch taxing entity located in Dexter, Missouri
Tracy Robison Outside Director Service Began: 2019	2019 - 2021	**Principal Occupation:** Owner of Robison Associates, LLC, a kitchen and bath design consulting company **Other Affiliations:** Board Secretary: General Baptist Healthcare, a nursing home and assisted living facility Board Member: Bloomfield Improvement Corporation, a board supported by a block grant to support small business
Philip M. Showmaker Outside Director Audit Committee Chairperson Service Began: 2011	2017 - 2020	**Principal Occupation:** Partner of Clay, Showmaker & Clay, LLP, a CPA firm located in Sikeston, Missouri
Marty Vancil Service Began: 2012	2018 - 2021	**Principal Occupation:** Self-employed grain and cotton farmer

Pursuant to our bylaws, directors are paid a reasonable amount for attendance at board meetings, committee meetings, or other special assignments. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or assignments. Our Board of Directors has adopted a rate of $500 per day and a rate of $175 per conference call. In addition, the Chairperson and Audit Committee Chairperson receive a $500 monthly stipend.

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

Name	Number of Days Served: Board Meetings	Number of Days Served: Other Official Activities	Compensation Paid for Service on a Board Committee	Name of Committee	Total Compensation Paid in 2019
Michael Aufdenberg	11	12	$ --		$ 10,148
Jennifer Hendrickson*	7	13	1,000	Audit Committee	9,363
Ed C. Marshall III	11	19	2,000	Audit Committee	13,648
Darrell Nichols	9	4	--		5,148
James Priggel	11	12	2,000	Outside Director Search Committee	10,148
John Robinson	11	4	--		6,148
Tracy Robison**	2	2	--		1,604
Philip M. Showmaker, Audit Chairperson	10	22	2,000	Audit Committee	20,323
			1,000	Outside Director Search Committee	
Marty Vancil	10	4	--		5,648
Markel D. Yarbro, Board Chairperson	11	13	2,000	Audit Committee	16,323
			--	Outside Director Search Committee	
					$ 98,501

*Jennifer Hendrickson (Outside Director) resigned from the Board of Directors on July 11, 2019, resulting in lower attendance and compensation.

**Tracy Robison was appointed to the Board of Directors (Outside Director) on October 24, 2019, resulting in lower attendance and compensation.

Senior Officers

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

Name and Position	Business experience and other business affiliations
Robert E. Smith President / Chief Executive Officer	**Business experience:** President/Chief Executive Officer since January 2016. Prior to that, Smith served as SVP/Chief Credit Officer for 33 years.
Michelle M. Beacham Executive Vice President / Chief Financial Officer	**Business experience:** Executive Vice President/Chief Financial Officer since October 2019. Prior to that, Beacham served as a SVP/Finance of Farm Credit Southeast Missouri since November 2018. She previously served as Chief Financial Officer of North Metro Medical Center from June 2018 - November 2018 and Chief Financial Officer of Twin Rivers Regional Medical Center from May 2011 - May 2018.
Michael Alan Hicks Executive Vice President / Chief Credit Officer	**Business experience:** Executive Vice President/Chief Credit Officer since September 2017. Prior to that, Hicks served as SVP/Senior Relationship Officer since January 2017 and VP/Branch Manager for the previous 23 years.

Robert Smith, President/Chief Executive Officer, has announced his anticipated retirement to be effective October 31, 2020.

Effective February 2020, Chad Crow became Executive Vice President/Chief Business Officer.

Information related to compensation paid to senior officers is provided in our Annual Meeting Information Statement (AMIS). The AMIS is available for public inspection at our office.

Transactions with Senior Officers and Directors

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

Travel, Subsistence, and Other Related Expenses

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

1116 N. Main Street
Sikeston, MO 63801
(573) 471-0342
www.farmcreditsemo.com
info@FarmCreditSemo.com

The total directors' travel, subsistence, and other related expenses were $30 thousand, $38 thousand, and $27 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 Southeast Missouri, ACA

(Unaudited)

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

- Young: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.
- Beginning: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the loan transaction date.
    - A loan to a "young" or "beginning" borrower qualifies if the young or beginning borrower is obligated on the note or is an owner of the closely held entity financed. A loan to a publicly held entity or other entity that is not closely held does not qualify.
- Small: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than $250 thousand in annual gross sales of agricultural or aquatic products.

Demographics

Based on the United States Department of Agriculture (USDA) 2017 Census of Agriculture, 10.2% of the farmers in our 12 county territory are young farmers (up to age 34); 25.1% of the farmers in the territory are beginning farmers (up to 9 years 'on the present farm'); and 80.2% of the farms are small farms ($1,000 to $249,000 gross farm income).

The USDA Census definitions are in parentheses above. Please note that the USDA Census definitions do not exactly match the accepted YBS definitions widely used in the Farm Credit System as listed in the previous section and therefore the Census percentages are not necessarily comparable to the Associations' percentages.

Mission Statement YBS

Young, beginning, and small farmers, and ranchers or producers or harvesters of aquatic products are valued customers of our Association. It is our mission to provide sound and constructive credit and services to young, beginning, and small farmers, and ranchers or producers or harvesters of aquatic products to the maximum extent possible consistent with safe and sound business practices and within our risk-bearing capacity.

We have protected the name AgSunrise which is the program we have established to serve the young, beginning, and small farmers and ranchers in our territory.

We have and continue to network with other Farm Credit Service associations to share information about what programs have worked in their areas.

We attended a nationwide workshop that brought together several association representatives to discuss options and ways we can continue to promote our YBS programs and maintain the credit standards recommended by AgriBank as well as FCA.

Mission Statement AgSunrise

Farm Credit Southeast Missouri will be the premier financial provider of financing for young and beginning farmers and ranchers. AgSunrise by Farm Credit Southeast Missouri will provide flexible financing opportunities and education for young or beginning farmers and ranchers, equipping the next generation with the foundational tools for long-term success.

Quantitative Goals and Results

Below are the 2019 targets and actual results for our young, beginning, and small farmers and ranchers program:

2019 Target	2019 Actual Results
15% by Number	19.1% Young Farmers (all existing)
15% by Number	21.1% Young Farmers (new loans in 2019)
10% by Volume	15.3% Young Farmers (all existing)
10% by Volume	16.2% Young Farmers (new loans in 2019)
15% by Number	22.6% Beginning Farmers (all existing)
15% by Number	24.4% Beginning Farmers (new loans in 2019)
10% by Volume	19.1% Beginning Farmers (all existing)
10% by Volume	20.6% Beginning Farmers (new loans in 2019)
15% by Number	38.8% Small Farmers (all existing)
15% by Number	37.8% Small Farmers (new loans in 2019)
10% by Volume	14.4% Small Farmers (all existing)
10% by Volume	11.3% Small Farmers (new loans in 2019)

The following tables detail the level of new business generated in 2019 plus the level of business outstanding as of December 31, 2019, both by number of loans and by volume for young and beginning farmers and ranchers:

Young and Beginning Farmers and Ranchers – Gross New Business During The Year				
Category	Number Of Loans	Percent of Total	Volume Outstanding ($000's)	Percent of Total
Total gross new loans and commitments made during the year	1,151	100.0%	$362,601	100.0%
Total loans and commitments made to young farmers and ranchers	243	21.1%	$58,606	16.2%
Total loans and commitments made to beginning farmers and ranchers	281	24.4%	$74,747	20.6%

Young and Beginning Farmers and Ranchers – Number/Volume of Loans Outstanding at December 31				
Category	Number Of Loans	Percent of Total	Volume Outstanding	Percent of Total
Total loans and commitments outstanding at year end	3,856	100.0%	$875,493	100.0%
Young farmers and ranchers	738	19.1%	$133,505	15.3%
Beginning farmers and ranchers	870	22.6%	$166,471	19.0%

The following tables detail the level of new business generated in 2019 plus the level of business outstanding as of December 31, 2019, both by number of loans and by volume for small farmers and ranchers:

Small Farmers and Ranchers - Gross New Business by Loan Size				
Number/Volume	$0 - $50,000	$50,001 - $100,000	$100,001 - $250,000	$250,001 and greater
Total number of new loans and commitments made during the year	369	171	226	385
Total number of loans made to small farmers and ranchers during the year	265	81	61	28
Number of loans to small farmers and ranchers as a % of total number of loans	71.8%	47.4%	26.9%	7.3%
Total gross loan volume of all new loans and commitments made during the year (in thousands)	$8,834	$13,276	$38,985	$301,506
Total gross loan volume to small farmers and ranchers (in thousands)	$5,739	$6,104	$9,431	$19,657
Loan volume to small farmers and ranchers as a % of total gross new loan volume	64.9%	45.9%	24.2%	6.5%

Small Farmers and Ranchers - Number/Volume of Loans Outstanding by Loan Size				
Number/Volume Outstanding	$0 - $50,000	$50,001 - $100,000	$100,001 - $250,000	$250,001 and greater
Total loans and commitments outstanding at year end	1,470	644	834	908
Total number of loans to small farmers and ranchers	875	278	248	98
Number of loans to small farmers and ranchers as a % of total number of loans	59.5%	43.2%	29.7%	10.8%
Total loan volume outstanding at year end (in thousands)	$31,725	$47,370	$134,918	$661,480
Total loan volume to small farmers and ranchers (in thousands)	$17,089	$19,920	$38,420	$50,689
Loan volume to small farmers and ranchers as a % of total loan volume	53.9%	42.1%	28.5%	7.7%

Qualitative Goals and Outreach Programs

We set the following qualitative goals for 2019:

- Offer credit and related services in coordination with Farm Service Agency (FSA) and state programs
- Offer differential loan underwriting standards
- Make use of loan guarantees, subordinations, and co-signers
- Offer business and financial skills training
- Offer insurance products
- Promote use of Missouri Linked Deposit Program funding with lower customer interest rates
- Continue to promote our initiative, AgSunrise, which is a subset of YBS, but with special focus on young and beginning farmers and ranchers

Based on our goals for the young, beginning, and small farmers and ranchers program, the results were as follows:

- Sponsored meetings to educate YBS farmers on crop marketing techniques including futures and options
- Sponsored meetings to educate YBS farmers on crop insurance services
- Sponsored meetings tailored to educate YBS farmers on how to join marketing techniques with crop insurance services
- Offered crop protection insurance and life insurance to YBS farmers and discussed the benefits with them individually, in meetings and via radio advertising
- Met with YBS farmers to show them the support that could be made by using FSA 90/10 guarantees
- Shared Farm Financial Checkup results with borrowers
- Met with FSA to obtain information to provide to young farmers on programs that would benefit them, including guarantee and subordination programs
- Counseled YBS farmers in the office on good financial practices
- Ran ads on radio stations pertaining to YBS programs
- Attended semi-annual meetings on the Three Rivers Junior College Ag Committee to discuss educational needs of Ag students
- Offered a streamlined scorecard approval service for small farmers to significantly reduce paperwork
- Encouraged YBS farmers to use marketing consultants, scouting services, and financial guidance counselors
- Encouraged YBS farmers to keep adequate financial records and for their accountant to prepare full disclosure year-end financial statements including a Statement of Cash Flows to better analyze and manage their finances
- Member of Kennett Chamber of Commerce Agriculture committee
- Met with FSA officials to identify YBS farmers that may be able to graduate from FSA and qualify for loans from the Association
- Made FSA guaranteed loans with YBS farmers
- Made FSA subordinated loans to YBS farmers and continued to work with the FSA loan officer on possible new loans for them
- Invited and recognized local Future Farmers of America (FFA) chapter sponsor and officers at annual dinner
- Met goal of developing and launching the AgSunrise program within the Association which:
    - AgSunrise meeting held in Sikeston in January 2019 with 47 young and beginning farmers and ranchers attending
    - Supports and builds relationships with FFA program directors
    - Builds relationship with FSA
    - Adapted credit presentation model to address the target segment
    - Provided interest rate discounts, fee waivers, and financial support for the target segment
    - Provided financial support for educational programs for target segment

Participated in Various Sponsorships:

- Missouri Rice Research Field Day
- Missouri Delta Center Field Day
- Missouri Farm Bureau Foundation for YBS farmers
- Farmers Recognition Banquet for the Charleston and Kelly High School Districts
- Meal for Southeast Missouri District Ag Teachers meeting
- Missouri Farm Bureau Foundation golf tournament
- Several high school athletic teams and events
- Southeast Missouri District Fair 4H & FFA livestock show
- Local FFA Chapters for awards
- Hurley Women's Ag Tour
- University of MO corn production meeting
- Stoddard County 4H livestock auction
- Butler County 4H auction
- Missouri Young Farmer/Young Farmer Wives Tour
- Farmers Recognition Banquet at Sikeston
- Farmers Recognition Luncheon at Poplar Bluff
- Sponsored Multi County Women's Health Fair

Participated in Various FFA Sponsorships:

- Southeast Missouri Ag Dept. Ag Honors Banquet Sponsor
- New Madrid FFA – Greenhouse Upgrades
- New Madrid FFA – T Shirt Sponsorship
- Portageville FFA – Banquet Sponsorship
- East Prairie FFA – Sponsor State FFA Camp
- Bloomfield FFA – Camp Sponsor
- Dexter FFA – Sponsor Parade Float
- Ellsinore FFA
- Poplar Bluff FFA
- Woodland FFA
- Meadow Heights FFA
- Saxony Lutheran FFA
- Delta FFA
- Campbell FFA
- Malden FFA
- Southland FFA
- Holcomb FFA
- Senath Hornersville FFA
- 4H / FFA – District Fair Livestock Auctions
- FFA Tractor Driving Contest Sponsor
- National FFA Week in Dexter – Sponsored a booth with Farm Credit employees giving a speech about Farm Credit Southeast Missouri and agriculture
- Area FFA Teacher's Meeting Sponsors
- Southeast Missouri Collegiate Cattlemen's Association
- Increasing our numbers of program participants
- Continue to educate our existing customer base and trade area prospects of this opportunity
- Develop an advisory committee for this market segment

Safety and Soundness of the Program

In order to provide for extension of sound and constructive credit to young, beginning, and small farmers and ranchers, consistent with our mission statement and business objectives, we set standards and guidelines related to character, capacity, capital, and collateral.

AgSunrise Underwriting and Guidelines

Flexible loan limits are established which effectively reflect the unique financial characteristics of young and beginning farmers and ranchers, as follows:

- 20% Owner's equity minimum
- No minimum net worth
- 100% Capital debt repayment capacity minimum
- 85% Loan to appraised value (LN/AV) FLCA maximum
- 100% LN/AV PCA maximum – Crop value will be counted as 100% of the Operating Loan Amount with a first lien on crops
- 0% Adjusted working capital to average gross income

Senior Loan Committee concurrence will be required when limits are not met as we do not want to miss an opportunity to do business with a potential or current customer who has solid character and a reasonable chance of a good farming career.

As indicated by these standards, primary emphasis will be on the character and capacity standards. Exceptions may be granted if there are offsetting strengths. All terms of repayment or advances will be consistent with our existing lending standards and policy. Obtaining co-signers or guarantors will be encouraged where applicable in order to maintain credit standards, but is not necessarily a requirement. Whenever possible, maximum coordination will occur between the Association and with governmental and other private sources of credit to provide the best credit package for the customer. Applicants are expected to have the capability to manage and perform at or above average enterprise standards of earnings.

To minimize credit and profit risk exposure when less restrictive minimum credit criteria are required than for other customers, supplemental services or incentives not offered to other customers are available, or qualifying farmers receive preferred interest rates, we have set a maximum portfolio concentration not to exceed 200% of our risk funds. This maximum portfolio concentration is the total outstanding principal balances of loans to young, beginning and small farmers and ranchers which have one or more exceptions to the core underwriting standards for regular loans (i.e. 50% owners' equity, 15% working capital divided by average gross income, 115% capital debt repayment capacity, and 75% loan to appraised value for the PCA or 65% loan to appraised value for the FLCA – as traditionally analyzed, or loans scoring less than 200 if scorecard processed).

Management will ensure that loans made under these programs are identified and reported to the Board quarterly and to AgriBank, FCB annually, or more frequently as required. Such reports will provide a summary of actual results compared to the quantitative and qualitative program targets and goals as set forth in our operational and strategic business plan. Reports on these programs will also be provided to regulatory agencies, as required.

Heather Couch (Vice President/Branch Manager) is the coordinator for our AgSunrise programs. She will be reaching out to the branches to help coordinate events and programs.

We have also recently contracted with Smart Marketing to assist in promoting all our programs. We feel they will be very effective in giving us additional contact with the young and beginning farmers and ranchers in our trade area especially using social media.

FUNDS HELD PROGRAM

Farm Credit Southeast Missouri, ACA

(Unaudited)

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

Payment Application

Loan payments received by the Association before the loan has been billed will normally be placed into Funds Held and applied against the next installment due. Loan payments received after the loan has been billed will be directly applied to the installment due on the loan and related charges, if any. Funds received in excess of the billed amount will be placed into Funds Held unless the customer has specified the funds to be applied as a special or early prepayment of principal.

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

Account Maximum

The amount in Funds Held may not exceed 50% of the unpaid principal balance of the loan.

Interest Rate

Interest will accrue on Funds Held at a simple rate of interest determined by the Association, but may never exceed the interest rate charged on the related loan. The Association may change the interest rate from time to time, and may provide for different rates for different categories of loans.

Interest rates are currently reported on each customer's year end loan statement.

Withdrawals

The Association may permit borrowers to withdraw funds from a voluntary Funds Held account, on an exception basis, up to four times per year. The minimum amount that may be withdrawn at any one time is limited to the lesser of $500 or the balance remaining in the Funds Held account.

All requests for withdrawal of funds are subject to Association approval.

Association Options

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

Uninsured Account

Funds Held is not a depository account and is not insured. In the event of Association liquidation, customers having balances in Funds Held shall be notified according to FCA Regulations.

Questions

Please direct any questions regarding Funds Held to your local branch representative.

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