



# 2018 ANNUAL REPORT



AgCREDIT



- 
- 2** Message from the Chairman of the Board and the Chief Executive Officer
- 4** Report of Management
- 5** Report of Internal Control Over Financial Reporting
- 7** Consolidated Five-Year Summary of Selected Financial Data
- 9** Management's Discussion and Analysis of Financial Conditions and Results of Operations
- 26** Disclosure Required by Farm Credit Administration Regulations
- 33** Report of the Audit Committee
- 34** Report of Independent Auditors
- 36** Consolidated Balance Sheets
- 37** Consolidated Statements of Comprehensive Income
- 38** Consolidated Statements of Changes in Members' Equity
- 39** Consolidated Statements of Cash Flows
- 41** Notes to the Consolidated Financial Statements
- 64** Office Locations

# BOARD OF DIRECTORS



**Scott A. Schroeder**  
Chairman, Region 1



**Gary L. Baldosser**  
Vice Chairman, Region 5



**Dustin J. Sonnenberg**  
Region 2



**S. Jerry Layman**  
Region 3



**Deborah L. Johlin-Bach**  
Region 4



**Michael A. Thiel**  
Region 6



**Michael W. Stump**  
Region 7



**David J. Conrad**  
Region 8

1



**Daniel C. Rengert**  
Outside Director



**Dr. David M. Stott**  
Outside Director

# MANAGEMENT TEAM



**Brian J. Ricker**  
President & Chief  
Executive Officer



**Daniel E. Ebert**  
Chief Operating Officer  
& Secretary/Treasurer



**Jeffrey A.  
Rickenbacher**  
Chief Credit Officer



**John J. Hunter**  
General Counsel



**June M. O'Neill**  
Director of Human  
Resources



# MESSAGE FROM

## the Chairman of the Board and the Chief Executive Officer

As we reflect on 2018, it was a year when many members experienced an abundant harvest and an overall favorable year. Challenges with weather resulted in wet conditions and harvest delays. Trade and supply issues throughout the year lowered commodity prices. Understanding the tax reform legislation and changes with the farm bill were important to producers. Looking ahead, there will be continued challenges and uncertainty in agriculture, yet we remain optimistic about agriculture's long-term outlook as the need for a dependable, abundant and sustainable food, fiber and fuel system will only increase.

Your lending cooperative had a very successful year in 2018. Our success was due in large part to our members, who work diligently at managing their farm businesses. I am pleased to report the Association finished 2018 with record net income of \$60 million. We had net loan growth of 4.39 percent. Association equity increased to \$346.3 million. Additional details on our financial performance are located within this report.

Your Board of Directors recently approved a record \$27.6 million patronage return from our 2018 net income. This marks the 32nd consecutive year we have distributed profits to our member owners. It is truly a great time to be a member of YOUR cooperative, AgCredit! This return of profits is worthy of extra attention since it is a measure of our financial strength during a challenging time in agriculture. The patronage program allows for the reinvestment of our profits into the farming operations and local communities where we work and live. Distribution of our profit sharing will be in April and will be paid 100 percent in cash.

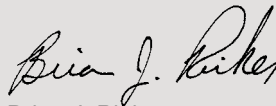
The pictures in this report capture our local agriculture and its importance to all of us. Our mission of serving agriculture and our rural communities has never been stronger. In support of our mission, the Association formed the AgCredit Mission Fund in 2018. Its purpose is to support organizations who positively affect the quality of life in our rural community. During the year, the fund provided \$50,000 in grants to a variety of organizations that are making a positive impact to our local communities.

We are fortunate to have the opportunity to work with many wonderful people and operations. We are proud to serve this cooperative and are grateful for a dedicated employee team who works extremely hard to provide a superior customer experience. Thank you for placing your trust in us and choosing AgCredit to be your financial provider. We are proud to guide, direct and manage your cooperative.

Have a safe, healthy and profitable 2019!



Scott A. Schroeder  
*Chairman of the Board*



Brian J. Ricker  
*President & Chief  
Executive Officer*

March 13, 2019





## OUR CORE VALUES

Treat our customers, prospects and team members as we would like to be treated.

Conduct ourselves professionally with unyielding integrity.

Meet new challenges objectively with a positive mental attitude.

Focus on building, nurturing and maintaining genuine relationships with our stockholders.

Exceed our customers' expectations and produce what we promise.

# REPORT OF MANAGEMENT

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

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

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

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2018 Annual Report of AgCredit Agricultural Credit Association, that the report has been prepared under the oversight of the audit committee of the Board of Directors in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Scott A. Schroeder  
Chairman of the Board



Brian J. Ricker  
Chief Executive Officer



Logan W. Kreais  
Chief Financial Officer

March 13, 2019




# REPORT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2018. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of December 31, 2018, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2018.



Brian J. Ricker  
Chief Executive Officer



Logan W. Kreais  
Chief Financial Officer

March 13, 2019

# WHAT IS A COOPERATIVE?

A cooperative is a business or enterprise jointly owned by those who use its services. As owners of AgCredit, our customers share in its prosperity through our patronage program.





# CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

<i>(dollars in thousands)</i>	December 31,				
	2018	2017	2016	2015	2014
<b>Balance Sheet Data</b>					
Cash	\$ 7,950	\$ 6,143	\$ 5,148	\$ 4,080	\$ 4,656
Investments in debt securities	10,594	11,523	12,720	19,193	22,783
Loans	1,960,392	1,879,677	1,796,515	1,716,490	1,583,788
Allowance for loan losses	(11,058)	(12,330)	(13,484)	(13,858)	(14,014)
Net loans	1,949,334	1,867,347	1,783,031	1,702,632	1,569,774
Equity investments in other Farm Credit institutions	22,351	21,458	20,747	19,122	17,480
Other property owned	—	—	—	60	—
Other assets	68,305	65,119	59,414	56,829	53,853
Total assets	\$ 2,058,534	\$ 1,971,590	\$ 1,881,060	\$ 1,801,916	\$ 1,668,546
Notes payable to AgFirst Farm Credit Bank*	\$ 1,673,338	\$ 1,611,375	\$ 1,551,034	\$ 1,500,003	\$ 1,390,681
Accrued interest payable and other liabilities with maturities of less than one year	38,870	40,360	36,081	33,021	32,128
Total liabilities	1,712,208	1,651,735	1,587,115	1,533,024	1,422,809
Capital stock and participation certificates	18,672	19,522	19,661	19,505	19,173
Retained earnings					
Allocated	241,680	219,004	197,649	177,063	157,715
Unallocated	85,974	81,329	76,635	72,324	68,849
Total members' equity	346,326	319,855	293,945	268,892	245,737
Total liabilities and members' equity	\$ 2,058,534	\$ 1,971,590	\$ 1,881,060	\$ 1,801,916	\$ 1,668,546
<b>Statement of Income Data</b>					
Net interest income	\$ 52,094	\$ 49,210	\$ 47,297	\$ 43,961	\$ 40,836
Provision for (reversal of allowance for) loan losses	(1,084)	(1,154)	(259)	(57)	(1,393)
Noninterest income, net	6,859	6,664	2,047	3,400	9,252
Net income	\$ 60,037	\$ 57,028	\$ 49,603	\$ 47,418	\$ 51,481
<b>Key Financial Ratios</b>					
Rate of return on average:					
Total assets	3.08%	3.09%	2.80%	2.86%	3.43%
Total members' equity	17.56%	18.21%	17.11%	18.02%	21.50%
Net interest income as a percentage of average earning assets	2.76%	2.75%	2.75%	2.72%	2.79%
Net (chargeoffs) recoveries to average loans	(0.010)%	0.000%	(0.007)%	(0.006)%	(0.002)%
Total members' equity to total assets	16.82%	16.22%	15.63%	14.92%	14.73%
Debt to members' equity (:1)	4.94	5.16	5.40	5.70	5.79
Allowance for loan losses to loans	0.56%	0.66%	0.75%	0.81%	0.88%
Permanent capital ratio	20.43%	19.87%	20.49%	19.85%	20.95%
Total surplus ratio	**	**	19.05%	18.32%	19.23%
Core surplus ratio	**	**	17.52%	17.05%	17.71%
Common equity tier 1 capital ratio	18.96%	17.90%	**	**	**
Tier 1 capital ratio	18.96%	17.90%	**	**	**
Total regulatory capital ratio	20.25%	19.71%	**	**	**
Tier 1 leverage ratio	15.35%	14.34%	**	**	**
Unallocated retained earnings (URE) and URE equivalents leverage ratio	15.87%	14.85%	**	**	**
<b>Net Income Distribution</b>					
Cash dividends declared/paid	\$ 177	\$ 184	\$ 184	\$ 188	\$ 196
Estimated patronage refunds:					
Cash	27,616	25,060	19,034	18,474	20,034
Nonqualified retained earnings	27,767	27,175	26,204	25,167	27,294

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

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

# OUR PHILOSOPHY IS CLEAR:

To help our customers choose a product or service that is right for them and is in their best interest. Our goal is to build lifetime relationships. We believe by tailoring a well-balanced, constructive financial package that enhances the success of a customer's farm, rural property, or agribusiness, we will effectively nurture that lifetime relationship.





# MANAGEMENT'S DISCUSSION & ANALYSIS

## OF FINANCIAL CONDITIONS & RESULTS OF OPERATIONS

(dollars in thousands, except as noted)

### GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of AgCredit, ACA, (Association) for the year ended December 31, 2018 with comparisons to the years ended December 31, 2017 and December 31, 2016. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying Consolidated Financial Statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" included in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 100 years. The System's mission is to support rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration, (FCA), which is an independent safety and soundness regulator.

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

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

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, [www.agcredit.net](http://www.agcredit.net), or by calling 1-800-837-3678, extension 1023, or writing Dan Ebert, Chief Operating Officer at 610 W. Lytle St, Fostoria, OH 44830. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the

fiscal year and distributes the Annual Report to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

### FORWARD LOOKING INFORMATION

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

- Political, legal, regulatory and economic changes in the United States and abroad;
- Economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- Weather, disease, and other climatic or biological conditions that impact agricultural productivity and income;
- Changes in governmental support of the agricultural industry and the Farm Credit System, a government-sponsored enterprise;
- Investor and rating-agency reactions to events involving other government-sponsored enterprises and financial institutions; and
- Actions taken by the Federal Reserve System in implementing monetary policy.

### AGRICULTURAL OUTLOOK AND ECONOMIC CONDITIONS

2018 resulted in a "holding pattern" type of year regarding financial results for much of the agricultural industry of northwest (NW) Ohio. Agricultural commodity markets overall experienced a general sideways movement in prices when compared to the past several years of price history. Grains, consisting of corn, soybeans and wheat, are the primary commodities raised within the eighteen counties comprising the Association's chartered territory. Within the Association's loan portfolio, grains, along with related landlords, account for

approximately 68% of the total volume. As the primary component of livestock feed, grains also play a significant role in the profitability of the Association's livestock portfolio.

Many agricultural economists refer to the period from approximately 2007 through 2013 as a "Super Cycle" for agriculture in general, but more specifically for cash grain producers. Increases in grain prices to historical highs outpaced production costs leading to very profitable years for many producers. These abnormally large profit margins fueled significant capital expenditures to update equipment lines, build farm buildings and purchase real estate. Cash rents increased rapidly as competition for additional rented acres intensified and land values also spiraled upwards as demand exceeded the available supply.

The first indications that the "Super Cycle" was ending appeared in 2014. Grain prices decreased significantly while input costs were slow to respond with a corresponding downward trend. This led to significantly reduced profit margins. The years 2015 through 2018 have been a period of adjustment as grain prices have been relatively stable, but at levels that provided limited opportunities to generate positive returns to the asset or equity base of most operations. Many producer balance sheets that had seen significant strengthening during the "Super Cycle" have subsequently experienced signs of deterioration, especially within the working capital segment. This deterioration has led to some signs of stress within AgCredit's loan portfolio and merits continued assessment during 2019. Fortunately, in the AgCredit chartered territory, crop yields in 2018 were very strong. Many producers experienced record yields, which should help to stabilize net incomes for at least one year.

The following table showing annual average prices for a number of commodities within AgCredit's portfolio, provides further insight into the discussion of the "Super Cycle" and its apparent demise

U.S. Annual Average Commodity Prices Received

Year	Corn	Soybeans	Wheat	Milk	Beef	Hogs
2008	4.78	11.32	8.01	18.32	94.39	48.39
2009	3.75	10.05	5.29	12.81	85.36	42.27
2010	3.83	9.97	5.12	16.29	97.18	55.27
2011	6.01	12.53	7.44	20.15	117.17	66.98
2012	6.67	13.96	7.60	18.57	126.25	64.69
2013	6.15	14.07	7.32	20.04	126.58	67.36
2014	4.11	12.47	6.33	23.98	154.33	77.10
2015	3.71	9.49	5.27	17.10	149.33	53.97
2016	3.48	9.40	4.11	16.24	121.67	49.98
2017	3.36	9.39	4.44	17.66	121.67	53.93
2018*	3.46	9.29	5.12	16.07	117.60	51.26
2019**	3.60	8.60	5.15	16.80	118.00	42.50

\*2018 information available through October only

\*\*2019 are projected December 2018 WASDE mid-point estimates

#### Cash grains:

The prices received for corn, soybeans and wheat in 2018 remained at levels that resulted in continued low profit margins as input costs remained stubbornly high. On December 11, 2018, the United States Department of Agriculture (USDA) released the most recent World Agricultural Supply and Demand Estimates (WASDE). The following are the projected season average ranges and (mid-points) for the 2018/2019 crop marketing year: Corn \$3.25 - \$3.95 (\$3.60); Soybeans \$7.85 - \$9.35 (\$8.60); and Wheat \$5.05 - \$5.25 (\$5.15); The projected prices are not expected to provide much relief in the cash grain

sector as cash rents, real estate taxes and direct input costs remain stubbornly high, limiting overall profitability. Producers are aggressively pursuing cost reduction measures to bring expenses in line with receipts. They are also reviewing their crop rotation to determine what commodities present the greatest opportunity for profit and are adjusting their crop mix accordingly to maximize their returns. Obtaining trend line yields or above will be key to a successful year. Crop insurance and government program payments have been helpful the past several years in minimizing the negative impacts of the lower commodity prices but can vary significantly from county to county and farm to farm. Over time, in a downward trending price environment, their ability to serve as an underlying safety net declines. This leads to a higher level of risk for producers of the covered commodities (primarily corn, soybeans and wheat in N.W. Ohio).

The Trump administration initiated a number of changes in the position of the U.S. regarding international trade over the past two years. In early 2017 the decision was made to pull out of the multi-lateral Trans Pacific Partnership (TPP) trade discussions to negotiate separate agreements with individual countries. Then during 2018 it was announced the U.S. was going to pull out of the North American Free Trade Agreement unless it was renegotiated. This resulted in a new agreement, the United States, Mexico and Canada Agreement (USMCA), which is pending ratification by the participating countries. The end result of these actions was a trade war atmosphere, primarily with China, but also with a number of other countries, that have at least temporarily resulted in lower prices for some commodities, especially soybeans. There was a pronounced decrease in the price of soybeans for the second half of 2018. To offset the impact on the prices received by agricultural producers, a Market Facilitation Program (MFP) was implemented by the Trump administration which will provide direct payments to eligible producers for various commodities. Within N.W. Ohio, the soybean payment of \$1.65 per bushel is the most significant line item of the MFP. It will provide a onetime infusion of funds to farmers and when coupled with strong yields, perhaps lead to a generally profitable year for cash grain producers. However, the long-term results of the trade war are yet to be determined and have resulted in a significant level of uncertainty in the direction of the U.S. economy for 2019 and beyond.

#### Livestock:

Livestock producers were initially negatively impacted by the "Super Cycle". Increases in grain prices led to higher input costs for feed. At the same time, consumer demand for meat was reduced as the U.S. was in the throes of the "Great Recession" and consumers reduced discretionary spending. The low profit levels eventually led to decreased meat production and, as the U.S. and World economies began to recover, increased demand led to significant improvement in livestock prices resulting in a return to profitable levels for most producers. When grain prices declined in 2014 it further enhanced profits within the livestock sector leading to record margins for many producers. While the continued reduction in grain prices during 2015 remained a positive influence on potential livestock profits, prices of end products were significantly lower and led to much lower profit margins as 2015 came to a close. Prices during 2016 through 2018 leveled out at levels that provide some margin for profitability for most cattle and hog producers. The following are the 2019 WASDE projected season average ranges and (mid-points) for livestock: Beef Cattle \$114.00 - \$122.00 (\$118.00) and Hogs \$41.00 - \$44.00 (\$42.50).



Similar to soybeans, the hog market was more significantly impacted by the trade wars than the cattle market. Correspondingly, the MFP included a more significant payment level for hog producers of \$8.00 per head.

(Note: there are payment limits built into the MFP for both grain and livestock producers that cap the total dollar amount of payments per producer).

#### Dairy:

The dairy industry continues to experience significant upward and downward price cycles from year to year. High grain prices during the “Super Cycle” pressured profit margins and then, similar to meats, led to a period in much of 2014 where record milk prices resulted in very profitable margins. Unfortunately the high prices eroded fairly quickly during 2015 leading to profit margins approaching the breakeven or loss categories for many producers. 2016 saw the continuation of marginal to negative returns with prices showing some strengthening during the second half of the year. 2017 showed some overall improvement but margins remained tight. Unfortunately profit margins again eroded significantly during much of 2018 and this commodity segment is currently experiencing a significant shake out of producers who have been unable to adjust to this prolonged period of subpar profitability. The 2019 WASDE projected season average ranges and (mid-point) for Milk are \$16.40 - \$17.20 (\$16.80). While these would be enhanced pricing levels from those seen in 2018, they do not appear to provide the relief needed by many producers to avoid ongoing stress to their financial position.

#### Land Values:

During the “Super Cycle” time period land values had a strong upward trend. Land values appear to have peaked sometime during 2014. Despite the significantly reduced grain prices and resultant decreased profit margins seen over the past five years, land values have held up remarkably well. On average, within the Association’s eighteen county chartered territory, land values have declined about 8% from the peak through the middle of 2018. The fact that values have held up so well may be attributable to the very strong balance sheets of producers after the positive impact of the “Super Cycle” years, the continuation of favorable interest rates, and some increased investor interest in agricultural land. Expectations are for land values to continue on a gradual decline, with the full extent of the decline dependent upon how long the current low margin environment continues and how high interest rates move.

#### General Economy:

On a brighter note, the general economic conditions within the eighteen county chartered Association territory remained stable. Unemployment, which peaked around 13 percent in June of 2009, was at 4.48 percent in October of 2018, down slightly from the 4.87 percent level of December 2017. This level of unemployment is similar to the levels experienced during the years leading up to the “Great Recession” which began in 2008, and lower than the long term historical average of 7.25 percent for the time period 1970-2018. Energy prices during 2018 were very reasonable and remain at favorable levels for economic expansion. While the stock market had a poor year, the overall economy continued to expand and expectations for 2019 remain generally positive.

The strength of the general economy provided underlying support for the nursery, greenhouse, and other consumer related industries during 2018 as the housing market remained positive and overall consumer confidence remained steady.

#### Interest Rates:

In December of 2015 the Federal Reserve (the Fed) initiated a ¼ percent rate hike, the first such rate adjustment since December 2008. While it was expected rates would be raised several times during 2016, there were no further rate hikes by the Fed until December of 2016, as the economic recovery remained lethargic by most measures. This was followed with three rate hikes of ¼ percent during 2017 and four rate hikes of ¼ percent in 2018. What direction the Fed takes in 2019 will depend upon how well the U.S. and World economies continue to perform. Despite the rate hikes over the past three years, rates still remain at historically favorable levels and rate hikes to date have not had a significantly material impact upon AgCredit’s borrowers. However, if rates continue to increase while profit margins remain marginal, it could lead to increased margin compression and lower land values. Lower land values in turn, would have a negative impact on most producers’ balance sheets as equity in real estate is a key portion of both individual balance sheets and the composite balance sheet of agriculture. Such a decrease in equity and borrowing capacity would, coupled with the increased borrowing needs associated with lower liquidity that has resulted from the past four to five years of reduced returns, create additional stress to the Association’s loan portfolio.

#### Portfolio Management:

Despite the challenging agricultural economic environment, the Association’s credit quality remained very stable during 2018 and remains at acceptable levels. Non-earning assets did increase but continue to remain at very manageable levels as a percentage of total assets.

Management continues to believe the Association is well positioned financially to deal with the level of difficulties our members may encounter. Expectations are for the Association to see additional, but manageable reductions in credit quality in 2019, as the impacts of the reduced profitability within the cash grain sector impact the overall net worth, liquidity and repayment capacity of this segment of our loan portfolio. Each individual producer’s ability to work through this period of reduced profitability will be dependent upon how well they positioned themselves during the “Super Cycle” for the inevitable downturn. Crop insurance and the government farm program continue to provide some measure of a safety net and generally strong 2018 crop yields will provide some support to the start of 2019.

The Association will continue to emphasize loans to young, beginning, small and minority farmers as part of our business plan to meet the generational transfer needs of our stockholders. Please refer to the Young, Beginning and Small (YBS) Farmers and Ranchers Program discussion later in this section of the Annual Report.

The Association continues to utilize FSA, USDA, SBA and Business & Industry guaranteed loans, as well as Farmer Mac standby commitments as credit enhancements to assist the Association in leveraging its capital, mitigating its commodity (cash grain) concentration risk and reducing the Association’s

potential risk of loss on loans. As of December 31, 2018 the Association had 25.39 percent of guaranteed loan volume as compared to 26.00 percent of the portfolio at December 31, 2017. Furthermore, they enhance the potential for profitability and reduce risk exposure, ultimately returning more value to our member stockholders. We will continue to emphasize their use during 2019 as one of our key strategies for risk management.

The Association's cooperative structure, relationship lending philosophy, referrals from our membership and our long-term commitment to agriculture will continue to be focal points for the Association. By operating as a true cooperative, returning a portion of our earnings to our stockholders in the form of cash patronage refunds, we continue to obtain new business. The Association remains very competitive and has continued to maintain or increase our market share. Our stockholders understand the advantage of doing business with their cooperative, recognizing the reduced net borrowing costs resulting from the sharing of their cooperative's profits. We continue to look for ways to streamline our credit delivery systems, expand our services and tell the cooperative story to return added value to our stockholder base and meet the challenges presented by competition from other lending sources.

As we move forward during 2019 the prudent management of risk at all levels, whether it is at the individual borrower level or at the portfolio level, remains a focal point for the Association. The Board and Management of AgCredit recognize the increased risk associated with the end of the "Super Cycle" and the negative downtrend that has occurred.

Agriculture continues to be susceptible to shocks from a variety of sources, including, but not limited to:

- weather-related or other environmental shocks,
- market volatility,
- rising interest rates,
- geopolitical risks,
- continued low commodity prices and profit margins,
- stubbornly high input costs,
- and the variations in the strength of the U.S. dollar.

Any of these factors individually or in combination could have a negative impact on the earnings capacity of our borrowers and result in a significant reduction in land values.

Because the worldwide agricultural sector is primarily commodity driven, agricultural prices can be dramatically influenced by external shocks as well as supply and demand changes. External shocks affecting one area of the United States, a particular part of the world, or specific commodities may significantly affect other commodities or producers in other locations. Price uncertainty due to market fluctuations is particularly severe in export markets. Lending entities must remain diligent in developing and enforcing sound underwriting principles and establishing effective risk management and control procedures. Because agriculture is vulnerable to sharp shifts in commodity prices and operating costs, this level of volatility warrants implementation of strong risk-mitigation strategies. As a result of this increased risk, the Association continues to place a strong emphasis on the borrower's cash flow and repayment capacity and does not place undue reliance on collateral. The Association maintains a strong emphasis on developing a thorough knowledge of the agricultural sector and

a deep understanding of individual borrowers and their businesses. This helps establish appropriate loan structures and repayment plans based on the local agricultural base and individual customer's credit needs.

The Association recognizes it is a single industry lender highly concentrated in, and dependent upon, two government-supported commodities (corn and soybeans). These commodities have a significant impact on the financial results of its borrowers and hence the Association. Therefore the Association continues to stress:

- the use of crop insurance by our borrowers to reduce production and pricing risk,
- the use of governmental guarantees to reduce the credit risk within our portfolio,
- the prudent management of capital to ensure the ability to meet the ongoing financing needs of our borrowers,
- the use of sound, fundamental loan underwriting and servicing practices.

Capital preservation, enhanced risk management and a heightened awareness of the impact of outside forces on the well-being and success of the Association and its borrowers continue to be key strategic provisions of the business plan during 2019.

## CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management must make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies* and Note 12, *Income Taxes*, of the Notes to the Consolidated Financial Statements.

## LOAN PORTFOLIO

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

While we make loans and provide financially related services to qualified borrowers in agricultural and rural sectors and certain related entities, we strive to diversify our loan portfolio through loan participations purchased and sold, geographic locations served, loan type, commodity and loan size. The following tables illustrate the diversification by loan type, geography, commodity and by loan participations. Refer to Note 3, *Loans and Allowance for Loan Losses* for more loan portfolio information.



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

Loan Type	December 31,					
	2018		2017		2016	
Real estate mortgage	\$ 1,178,021	60.09%	\$ 1,105,137	58.79%	\$ 1,018,631	56.70%
Production and intermediate-term	600,444	30.63	600,206	31.93	610,584	33.99
Cooperatives	3,412	0.18	380	0.02	382	0.02
Processing and marketing	39,658	2.02	30,547	1.63	24,410	1.36
Farm-related business	16,588	0.85	15,788	0.84	16,951	0.94
Communications	—	—	2,418	0.13	2,409	0.13
Power and water/waste disposal	3,385	0.17	3,469	0.18	—	—
Rural residential real estate	118,238	6.03	120,662	6.42	121,788	6.78
Lease receivables	646	0.03	1,070	0.06	1,360	0.08
Total	\$ 1,960,392	100.00%	\$ 1,879,677	100.00%	\$ 1,796,515	100.00%

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

Branch	December 31,		
	2018	2017	2016
Findlay	7.1%	7.1%	7.3%
Wellington	—	—	2.5
Fremont	5.5	5.5	5.6
Tiffin	7.0	7.4	7.7
Bowling Green	5.8	5.9	6.0
Marion	3.9	3.9	3.9
Bucyrus	3.9	4.0	4.0
Kenton	4.3	4.7	4.4
Mt. Gilead	6.2	6.3	6.6
Upper Sandusky	3.3	3.1	2.9
Norwalk	9.4	9.5	6.8
Ottawa	6.5	6.6	6.2
Van Wert	10.1	9.2	8.9
Napoleon	4.0	4.2	4.3
Residential Lending	7.5	7.9	8.1
100% Guaranteed Purchases	1.1	0.6	—
Agribusiness	14.4	14.1	14.8
Total	100.0%	100.0%	100.0%

The decrease in the Wellington branch and corresponding increase in the Norwalk branch during 2017 is due to the merging of the Wellington branch operation into the Norwalk branch operation. The 100% Guaranteed Purchases branch was created in 2017 to purchase the federally guaranteed portion of eligible loans or investments.

Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. Commodity or industry categories are assigned based upon the largest agricultural commodity of the customer or specific commodity upon which repayment is dependent. The major commodities in the Association loan portfolio are shown below. The predominant commodities of general cash grains (primarily soybeans, corn and wheat), livestock and landlords constitute about 81 percent of the entire portfolio.

Commodity Group	December 31,					
	2018		2017		2016	
General Cash Grain	\$ 1,149,658	59%	\$ 1,122,394	60%	\$ 1,085,153	60%
Livestock	261,827	13	235,322	13	224,307	13
Landlords	187,779	9	189,404	10	175,105	10
Rural Home Loans	118,237	6	120,662	6	121,787	7
Horticulture	89,797	5	78,607	4	74,061	4
Other	153,094	8	133,288	7	116,102	6
Total	\$ 1,960,392	100%	\$ 1,879,677	100%	\$ 1,796,515	100%

Repayment ability is primarily related to the profitability of the commodities produced by our borrowers and the borrowers' off-farm income. The Association's loan portfolio contains a

high concentration of cash grain producers. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are supplemented with off-farm employment income helping to reduce overall risk exposure. Consumer demand for beef, poultry and pork, demand for alternate renewable fuel sources, weather, regulations, government policies and international trade are some of the factors affecting the price of these commodities. Refer to the Agricultural Outlook and Economic Conditions discussion in this report for more details. The risk in the portfolio associated with commodity concentration and large loans is reduced by the utilization of crop insurance, and the use of FSA, USDA, Business and Industry, SBA and Farmer Mac loan guarantees.

Loan portfolio concentration risk, whether by enterprise, individual, or related parties, is managed through loan participations, adherence to sound underwriting standards, loan guarantees, internal lending limits and sound portfolio management practices. As a part of these risk management strategies, the Association has entered into participation agreements with AgFirst, System entities and other entities and continues to participate in the federal loan guarantee programs. Refer to the Agricultural Outlook and Economic Conditions discussion in this report for more details.

The dollar and percentage changes between 2018 and 2017 for the different loan types are shown in the chart below.

Loan Type	December	December	\$	%
	2018	2017	Change	Change
Real estate mortgage	\$ 1,178,021	\$ 1,105,137	\$ 72,884	6.60%
Production and intermediate-term	600,444	600,206	238	0.04
Cooperatives	3,412	380	3,032	797.89
Processing and marketing	39,658	30,547	9,111	29.83
Farm related business	16,588	15,788	800	5.07
Communications	—	2,418	(2,418)	(100.00)
Power and water/waste disposal	3,385	3,469	(84)	(2.42)
Rural residential real estate	118,238	120,662	(2,424)	(2.01)
Lease receivables	646	1,070	(424)	(39.63)
Total	\$ 1,960,392	\$ 1,879,677	\$ 80,715	4.29%

Real estate mortgage volume increased primarily due to increased new loans generated by strong marketing efforts by our branch teams, favorable recommendations from our members, excellent customer service, competitive interest rates and the value returned to members via the Association's patronage program.

Production and intermediate-term (IT) volume remained about the same as 2017 due to our members minimizing spending for operational needs and scaling back their use of IT credit as they

limited their purchases of farm equipment and buildings due to the decline in the farm profitability as previously discussed.

Process and marketing and cooperative volume increased primarily due to increased participation purchased and larger commercial loans.

Communication, power and water/waste disposal, rural residential real estate (RRRE) and leases decreased due to payments made on loan balances. Increased competition and the interest rate market contributed to the decrease in the RRRE segment of our portfolio.

Since the formation of an Agribusiness department in 2014, the Association has actively purchased and sold loan participations within and outside the System. During 2018, the Association's participation purchased efforts were enhanced by purchasing 100 percent of the guaranteed portions of loans. Participations purchased provide another source of income along with portfolio diversification. Participations sold have increased significantly as the Association worked to decrease the amounts held on large commercial accounts that exceed the Association's internal lending limits. This reduces the risk to the Association and its members, while providing stable credit availability to large commercial borrowers.

Loan Participations:	December 31,		
	2018	2017	2016
Participations Purchased			
– FCS Institutions	\$ 60,394	\$ 48,342	\$ 39,086
Participations Purchased			
– Non-FCS Institutions	28,611	13,303	4,360
Participations Sold	(261,560)	(229,771)	(216,170)
Total	<u>\$ (172,555)</u>	<u>\$ (168,126)</u>	<u>\$ (172,724)</u>

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

The Association also sells qualified long-term home mortgage loans into the secondary market. In 2018, the Association originated \$858 of home loans for resale into the secondary market, compared to \$484 in 2017 and none in 2016.

### MISSION RELATED INVESTMENTS

In 2004, the FCA initiated an investment program to stimulate economic growth and development in rural areas. The FCA outlined a program to allow System institutions to hold such investments, subject to approval by the FCA on a case-by-case basis. The FCA approved the Rural America Bonds pilot under the Mission Related Investments umbrella, as described below.

In October 2005, the FCA authorized AgFirst and the Associations to make investments in Rural America Bonds under a three-year pilot program. FCA approved a continuation of the program on October 31, 2008, for an undetermined time period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments funding

value-added food and fiber processors and marketers; agribusinesses; commercial enterprises that create and maintain employment opportunities in rural areas; community services, such as schools, hospitals, and government facilities; and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program was to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing increased access to capital to rural areas through bond financing. These bonds may be classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. As of December 31, 2018, 2017 and 2016, the Association had \$10,594, \$11,523 and \$12,720, respectively, in Rural America Bonds.

Effective December 31, 2017, the FCA concluded each pilot program approved as part of the Investment in Rural America program. Each institution participating in such programs may continue to hold its investment through the maturity dates for the investments, provided the institution continues to meet all approval conditions. Although the pilot programs have ended, the FCA can consider future requests on a case-by-case basis. The Association plans to continue looking for Rural America Bond opportunities that will help diversify the Association's portfolio and enhance earnings and will work with FCA to gain their approval of the investment.

### CREDIT RISK MANAGEMENT

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

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

All Title I loans must be collateralized by a first lien on real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. The regulatory maximum loan to appraised value (LTV) is 85 percent for all Title I loans unless the loan is guaranteed by a state, federal or other governmental agency, then the maximum is 97 percent. Although these are the regulatory maximums, the Association's general lending level for all agricultural Title 1 loans is 70% LTV and includes a loanable limit on a tillable acre basis. The loanable limit curbs over reliance on standard lending strategies in an environment of rapidly increasing asset values. To offer flexibility to higher quality borrowers with probability of default (PD) indicators of 4 through 6 (post-closing), the



lending level can go up to 80 percent LTV but only if the repayment plan is limited to 20 years or less on a fixed principal payment plan or 15 years or less if on an equal-amortized payment plan. For a loan with a PD of 10, the LTV must be less than or equal to 65 percent and must have a loan guarantee, if eligible. Title 1 loans made to PDs of 11 and 12 require Credit Department approval. Rural residential mortgage loans (rural home loans and resident loans to farmers) utilize the 85 percent LTV (97 percent with state, federal or other governmental agency guarantee) lending level. As a result of the Association's internal policies, the actual loan to appraised value when loans are originated is generally lower than the statutory maximum percentage. Appraisals by state certified appraisers are required for Title 1 loans of more than \$250,000. Each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses and risks in a particular relationship.

We review the credit quality of the loan portfolio on an ongoing basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System, which is used by all Farm Credit System institutions. Below are the classification definitions.

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

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

Credit Quality	2018	2017	2016
Acceptable & OAEM	96.48%	96.02%	98.74%
Substandard	3.52	3.96	1.26
Doubtful	–	0.02	–
Loss	–	–	–
Total	100.00%	100.00%	100.00%

### Nonperforming Assets

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

High-risk Assets	December 31,		
	2018	2017	2016
Nonaccrual loans	\$ 6,120	\$ 2,969	\$ 811
Restructured loans	6,760	7,320	7,841
Accruing loans 90 days past due	–	–	–
Total high-risk loans	12,880	10,289	8,652
Other property owned	–	–	–
Total high-risk assets	\$ 12,880	\$ 10,289	\$ 8,652
<b>Ratios</b>			
Nonaccrual loans to total loans	0.31%	0.16%	0.05%
High-risk assets to total assets	0.63%	0.52%	0.46%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. While nonaccrual loans increased \$3,151 or 106.1 percent in 2018 primarily due to the challenging agricultural environment and a small amount of net charge-offs, they remain at manageable levels as a percentage of total loans. Current nonaccrual volume is defined as nonaccrual volume that is current on scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred back into accrual status. Current nonaccrual volume at December 31, 2018 was \$4,341 of the total nonaccrual volume of 6,120. Current nonaccrual volume to total nonaccrual volume at December 31, 2018, 2017 and 2016 was 70.93 percent, 60.42 percent and 17.39 percent, respectively.

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

### Allowance for Loan Losses

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

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

Allowance for Loan Losses Activity:	Year Ended December 31,		
	2018	2017	2016
Balance at beginning of year	\$ 12,330	\$ 13,484	\$ 13,858
Charge-offs:			
Real estate mortgage	(30)	—	—
Production and intermediate-term	(399)	(254)	(79)
Agribusiness	—	—	(125)
Rural residential real estate	(58)	—	—
Total charge-offs	(487)	(254)	(204)
Recoveries:			
Production and intermediate-term	297	254	89
Rural residential real estate	2	—	—
Total recoveries	299	254	89
Net (charge-offs) recoveries	(188)	—	(115)
Provision for (reversal of) loan losses	(1,084)	(1,154)	(259)
Balance at end of year	\$ 11,058	\$ 12,330	\$ 13,484
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.010)%	0.000%	(0.007)%

The table below shows the allowance for loan losses by loan type for the most recent three years.

Allowance for Loan Losses by Type	December 31,		
	2018	2017	2016
Real estate mortgage	\$ 2,743	\$ 2,504	\$ 2,550
Production and intermediate-term	6,851	8,912	10,140
Agribusiness	887	304	220
Communications	—	11	10
Power and water/waste disposal	21	15	—
Rural residential real estate	555	582	561
Lease receivables	1	2	3
Total allowance	\$ 11,058	\$ 12,330	\$ 13,484

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

Allowance for Loan Losses as a Percentage of:	December 31,		
	2018	2017	2016
Total loans	0.56%	0.66%	0.75%
Nonperforming loans	85.85%	119.84%	155.85%
Nonaccrual loans	180.69%	415.29%	1,662.64%

The decrease in the allowance for loan losses for 2018 is a result of the elimination of the management qualitative allowance (MQA) and reduced specific reserves on loans in nonaccrual status. These were offset in part by volume growth. The decrease in the allowance for loan losses during 2017 resulted from the reduced specific reserves on nonaccrual loans and changes to our MQA.

The MQA within the general reserves were implemented in 2013 to address the Board and management's analysis and conclusion of the cyclical risk inherent in our cash grain and related landlord segments of our portfolio. Over the course of 2016, 2017 and 2018 the Association reduced the MQA portion of the Allowance until eliminated in 2018.

The lower crop prices and higher input costs adversely impact the members' financial position, which does increase the risk to the Association. Despite the adverse conditions, our credit quality remains strong. Continued emphasis on sound underwriting and servicing standards will help our members and the Association through the more difficult times ahead. Refer to the Agricultural Outlook and Economic Conditions section of this report for factors posing potential adverse impact to the portfolio in 2019.

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

### RESULTS OF OPERATIONS

Net income for the year that ended December 31, 2018, totaled \$60,037, an increase of \$3,009 or 5.28 percent when compared to the 2017 net income of \$57,028. The 2017 net income was \$7,425 or 14.97 percent higher than the 2016 net income of \$49,603. Major components of the change in net income for the past two years are outlined in the following table.

Change in Net Income:	2018-2017	2017-2016
Net income (prior year)	\$ 57,028	\$ 49,603
Increase (decrease) in net income due to:		
Investment securities	(64)	(374)
Interest income	10,424	6,495
Interest expense	(7,476)	(4,208)
Net interest income	2,884	1,913
(Provision for) reversal of loan losses	(70)	895
Loan fees	(13)	(191)
Financially related services	13	7
Equity earnings of AgFirst Farm Credit Bank	(910)	6,277
Insurance fund refund	892	—
Gains (losses) on sales of premises and equipment, net	495	(545)
Other noninterest income	(116)	22
Salaries and employee benefits	(739)	(724)
Occupancy and equipment	(164)	(106)
Gains (losses) on other property owned, net	19	(13)
Insurance Fund premiums	599	136
Guarantee fees	324	(249)
Other operating expenses	(209)	11
(Provision for) reversal of income taxes	4	(8)
Total changes in income	3,009	7,425
Net income	\$ 60,037	\$ 57,028



### Net Interest Income

Net interest income was \$52,094, \$49,210 and \$47,297 in 2018, 2017 and 2016, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

	Volume*	Rate	Total
<b>12/31/18 – 12/31/17</b>			
Interest income	\$ 4,771	\$ 5,589	\$ 10,360
Interest expense	1,933	5,543	7,476
Change in net interest income	\$ 2,838	\$ 46	\$ 2,884
<b>12/31/17 – 12/31/16</b>			
Interest income	\$ 3,496	\$ 2,625	\$ 6,121
Interest expense	1,243	2,965	4,208
Change in net interest income	\$ 2,253	\$ (340)	\$ 1,913

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

Net interest income for 2018 increased by \$2,884 or 5.86 percent when compared to the 2017 net interest income. Net interest income for 2017 increased by \$1,913 or 4.04 percent when compared to 2016 net interest income.

For 2018, 2017 and 2016 the Association's earnings on its own funds in loans were \$9,393, \$7,787 and \$6,639 respectively. The \$1,606 or 20.62 percent increase for 2018 when compared to 2017 is primarily a result of the increase in our own funds in loans and a slight increase in the return on these funds. The 2017 increase when compared to 2016 is primarily a result of an increase in our own funds and a slight increase in the return on these funds.

### Provision for Loan Losses

The Association evaluates risks inherent in our loan portfolio on an ongoing basis and establishes appropriate reserves for loan losses. For 2018, 2017 and 2016 the Association recorded a reversal of provision for loan losses of (\$1,084), (\$1,154) and (\$259), respectively. The reversals resulted from the changes in the allowance for loan loss as previously discussed.

Please refer to the *Allowance for Loan Losses* portion of Note 2, *Summary of Significant Accounting Policies* section of this report for further information concerning the calculation of the allowance for loan losses.

### Noninterest Income

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

Noninterest Income	For the Year Ended			Percentage	
	December 31,			2018/	2017/
	2018	2017	2016	2017	2016
Loan fees	\$ 455	\$ 468	\$ 659	(2.78)%	(28.98)%
Fees for financially related services	321	308	301	4.22	2.33
Patronage refund from other Farm Credit Institutions	26,696	27,606	21,329	(3.30)	29.43
Insurance fund refunds	892	—	—	—	—
Gains (losses) on sales of premises and equipment, net	(45)	(540)	5	(91.67)	(10,900.00)
Other noninterest income	(53)	63	41	(184.13)	53.66
Total noninterest income	\$ 28,266	\$ 27,905	\$ 22,335	1.29 %	24.94 %

Noninterest income increased for 2018 primarily due to the \$892 of FCSIC refund received and the reduction of loss on the sale of premises and equipment. This was offset in part by the reduction in the Associations special patronage refund from the Bank. Noninterest income for 2017 increased from 2016 primarily due to increased patronage refund from the bank, increases in fees for financially related services and increases to other noninterest income.

The 2018 patronage from the Bank is comprised of \$11,910 of general patronage, \$13,132 in special patronage, \$1,541 in patronage on participation loans sold to the Bank and \$113 in other patronage earned. The Association received special distributions of \$13,132, \$14,563 and \$9,137 for 2018, 2017 and 2016, respectively. The significant special patronage refunds for 2018, 2017 and 2016 are due to the benefit of the Association's cooperative membership in AgFirst. During all three years, AgFirst had excess capital resulting from strong earnings and flat to limited volume growth within the AgFirst District. As a result of their capital strength, the Bank's Board of Directors approved the payment of the special distributions to the AgFirst District associations, which are the Bank's member owners.

Loan fees decreased in 2018 compared to 2017 primarily from decreased income from participation sold and bond fees. These were partially offset by increased fee income from servicing, secondary market sold loans and origination loan fees. Loan fees decreased in 2017 due to decreased income from servicing, new loans, investment, participation purchased and sold fees.

Fees for financially related services increased for 2018 as compared to 2017 as a result of an increase in appraisal services and crop hail insurance income. This was partially offset by a decrease of multi-peril insurance income. Fees for financially related services increased in 2017 as a result of an increase in multi-peril insurance income. This was partially offset by a decrease of income in crop hail insurance and appraisal services.

Gains (losses) on sales of premises and equipment saw a large reduction for 2017 as a result the Association retiring all assets under \$5,000. No such loss occurred in 2018.

The 2018 decrease in other non-interest income is a result of net 2018 losses and 2017 gains primarily due to the Mission Fund.

*Noninterest Expense*

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

<b>Noninterest Expense</b>	<b>For the Year Ended</b>			<b>Percentage Increase/(Decrease)</b>	
	<b>December 31,</b>			<b>2018/</b>	<b>2017/</b>
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Salaries and employee benefits	\$ 14,425	\$ 13,686	\$ 12,962	5.40%	5.59%
Occupancy and equipment expense	1,289	1,125	1,019	14.58	10.40
Insurance Fund premium	1,036	1,635	1,771	(36.64)	(7.68)
Guarantee fee	835	1,159	910	(27.96)	27.36
Losses (gains) on other property owned, net	–	19	6	(100.00)	216.67
Other operating expense	3,822	3,613	3,624	5.78	(0.30)
Total noninterest expense	\$ 21,407	\$ 21,237	\$ 20,292	0.80%	4.66%

Salaries and employee benefits expenses increased due to staffing increases, merit compensation and salary related benefits. These were offset in part by reduced expenses for the Association's pension plan. Salaries and employee benefits increased for 2017 due to staffing increases, merit compensation, salary related benefits and lower deferred loan origination costs.

Insurance Fund premium expenses decreased for 2018 due to lower premium rates. In 2017, the Association saw a decrease in insurance fund premium expenses due to lower premium rates and an increase in guaranteed loans.

Occupancy and equipment expenses increased for 2018 primarily due to increased expenses for maintenance and cost of space. These were offset in part by a reduction in depreciation expenses. The 2017 expenses increased for depreciation, maintenance and cost of space.

Guarantee fees are one-time and/or annual fees paid by the Association to obtain federal government and Farmer Mac loan guarantees. Guarantee related expenses decreased in 2018 due to reduced guarantee loan applications. Guarantee fees increased for 2017 due to increased availability and resultant use of guarantee funding.

Loss on the sale of other property owned (OPO) decreased for 2018 due to decreased expenses related to OPO's. The 2017 loss on sale of OPO's increased due to increased expenses related to an OPO.

The 2018 increase in other operating expenses is a result of increased expenses for directors, purchased services, training, member relations, data processing, non-property insurance and supervisory and examination. These were offset in part by decreased expenses for travel, printing and advertising. Other operating expenses for 2017 decreased due to decreased expenses for training, purchased services, member relations and data processing. These were offset in part by increased expenses for directors, travel, printing, office supplies, furniture and equipment, advertising and loan guarantees.

Postretirement benefits decreased by \$395 or 12.96 percent. During 2017, the method of recording expenses for the Association's defined benefit pension plan and other postretirement benefit plan was modified. This change resulted in the reduction of Other Assets by \$4,585 and the reduction of Other Liabilities by \$4,459 on the Association's Balance Sheets, and a corresponding increase in postretirement benefit costs on the Association's Statements of Income of \$126 during 2017. Refer to Note 9, *Employee Benefit Plans*, of the

Notes to the Consolidated Financial Statements, for further information concerning postretirement benefit expenses.

For 2018 the Association recorded expenses using the modified process. The 2018 expenses were less than 2017 due to transitional costs incurred in 2017 as previously discussed.

*Income Taxes*

For 2018, the Association did not record a provision for income taxes as compared to a reversal of provision for taxes of \$4 in 2017. Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes* and Note 12, *Income Taxes*, of the Notes to the Consolidated Financial Statements for more information concerning Association income taxes.

*Key Results of Operations Comparisons*

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

<b>Key Results of Operations Comparisons</b>	<b>For the 12 Months Ended</b>		
	<b>12/31/18</b>	<b>12/31/17</b>	<b>12/31/16</b>
Return on average assets	3.08%	3.09%	2.80%
Return on average members' equity	17.56%	18.21%	17.11%
Net interest income as a percentage of average earning assets	2.76%	2.75%	2.75%
Net (charge-offs) recoveries to average loans	(0.01)%	(0.00)%	(0.007)%
Total members' equity to total assets	16.82%	16.22%	15.63%
Debt to members' equity (:1)	4.94	5.16	5.40

The ratios as of December 31, 2018 and the changes in the ratios shown in the table are due to the financial information previously stated.

Key factors in maximizing net income for future years will be increasing net interest and noninterest income while controlling operating expenses. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. These objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.



## LIQUIDITY AND FUNDING SOURCES

### *Liquidity and Funding*

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

Total notes payable to the Bank at December 31, 2018, was \$1,673,338 as compared to \$1,611,375 at December 31, 2017 and \$1,551,034 at December 31, 2016. This is an increase of \$61,963 or 3.85 percent for 2018 and an increase of \$60,341 or 3.89 percent for 2017. The increase for both years is attributable to continued loan growth, patronage payments to members, premises and equipment purchases and pension funding. This was partially offset by Association earnings. The average volume of outstanding notes payable to the Bank was \$1,588,045, \$1,513,967 and \$1,466,401 for the years ended December 31, 2018, 2017 and 2016, respectively. Refer to Note 6, *Debt, Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities and additional information concerning the Association's notes payable.

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

The Association had no lines of credit from third party financial institutions as of December 31, 2018.

### *Funds Management*

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

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

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

### *Relationship with the Bank*

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

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

## CAPITAL RESOURCES

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

The Association Board of Directors establishes, adopts and maintains a formal written capital adequacy plan to ensure adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure all stockholders are treated equitably. There were no material changes to the capital plan for 2018 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

The following table shows the components of and total members' equity as of December 31, 2018, 2017 and 2016.

	December 31,		
	2018	2017	2016
Class A Preferred Stock	\$ 11,096	\$ 11,979	\$ 12,254
C Stock and Participation Certificates	7,576	7,543	7,407
Nonqualified Retained Earnings	231,662	203,997	176,906
Nonqualified Allocated Retained Earnings	10,018	15,007	20,743
Unallocated Retained Earnings	85,974	81,329	76,635
Total members' equity	\$ 346,326	\$ 319,855	\$ 293,945

Total members' equity increased by \$26,471 or 8.28 percent for 2018 when compared to 2017. In 2018 members' equity increased due to strong earnings offset by cash patronage. Nonqualified allocated retained earnings (NQA) decreased due to the distribution of the 2012 NQA and the move to all cash patronage. All cash patronage means the NQA will continue to decrease until all NQA is disbursed. Total members' equity

increased for 2017 due to strong earnings offset in part by cash patronage.

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

### Capital

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

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

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

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

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

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

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

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31,	
				2018	2017
Risk-adjusted ratios:					
CET1 Capital	4.5%	1.25%	5.75%	18.96%	17.90%
Tier 1 Capital	6.0%	1.25%	7.25%	18.96%	17.90%
Total Capital	8.0%	1.25%	9.25%	20.25%	19.71%
Permanent Capital	7.0%	0.0%	7.0%	20.43%	19.87%
Non-risk-adjusted ratios					
Tier 1 Leverage	4.0%	1.0%	5.0%	15.35%	14.34%
URE and UREE Leverage	1.5%	0.0%	1.5%	15.87%	14.85%

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

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

The following sets forth regulatory Capital ratios as previously reported:

	Regulatory Minimum	2016	2015	2014	2013	2012
Permanent Capital Ratio	7.00%	20.49%	19.85%	20.95%	20.28%	19.36%
Total Surplus Ratio	7.00%	19.05%	18.32%	19.23%	18.46%	17.39%
Core Surplus Ratio	3.50%	17.52%	17.05%	17.71%	16.73%	15.25%

## PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, and the *Consolidated Statements in Changes in Members' Equity*, of the Consolidated Financial Statements, for more information concerning the patronage distributions.

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

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young\*, Beginning\*\* and Small\*\*\* farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit. We are pleased to report the 2018 goals were met.

The following table outlines the loan volume and number of YBS loans in the loan portfolio for the Association. Statistics for minority farmers are not available.

	As of December 31, 2018	
	Number of Loans	Amount of Loans
Young	3,331	\$414,105
Beginning	3,352	\$373,582
Small	8,408	\$684,718

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

The 2012 USDA (2012 is the latest USDA Ag census data available) Ag census data has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory (counties) there were 13,573 reported farmers of which by definition 1,038 or 7.6 percent were young, 2,028 or 14.9 percent were beginning, and 11,071 or 81.6 percent were small. Comparatively, as of December 31, 2018, the demographics of the Association's agricultural portfolio contained 8,141 farmers, of which by definition 1,808 or 22.2 percent were young, 1,969 or 24.2 percent were beginning and 4,857 or 59.7 percent were small.

Slight differences between the Census and our YBS information are as follows:

- The Census shows young farmers in a group up to age 34, whereas the Association's YBS information shows young farmers up to age 35.
- The Census shows years on present farm up to 9 years, whereas the Association's YBS information shows 10 years or less for a beginning farmer.

The Association's YBS program is designed to help YBS farmers finance their operations. It consists of three focus areas: education, events and financial support. Education is at the heart of the program, and includes supporting or conducting seminars and training sessions. These educational opportunities may be in-house; in the form of events held by the Association, or external; in which case the Association provides a speaker or provides educational materials. The Association's website, [www.agcredit.net](http://www.agcredit.net), includes information and resources for YBS visitors to the site.

The second focus area of the program includes those activities in which the Association sponsors local events (such as 4-H and FFA activities at county fairs), or events where the Association is an exhibitor (such as industry or trade shows).

The third prong of the program, financial support, addresses the specific credit programs and partnerships that we've developed to help small farmers, young farmers, and beginning farmers. It includes programs such as those offered by the Farm Service Agency (FSA). As a "preferred lender" with FSA, the Association utilizes this relationship to obtain guarantees providing financial support to YBS farmers.

The Association is also a Guaranteed Participating Lender for the Small Business Administration (SBA), which offers lending programs specifically for small borrowers. Additionally, the Association offers flexible financing options in-house for qualifying borrowers.

A member of the Credit team and the Corporate Services team coordinates the Association's YBS efforts. Additional team members in each of the Association's branch offices help conduct or coordinate YBS programs. The Association includes YBS goals in the annual strategic plan and reports on those goals and achievements to the Board of Directors on a quarterly basis.

The Association is committed to the future success of Young, Beginning and Small farmers.

- \* Young farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.
- \*\* Beginning farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.
- \*\*\* Small farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than \$250,000 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.



**Credit Programs:**

The Association continues to promote 3 credit programs to better assist Young, Beginning and Small as well as Minority, Women and Veteran Farmers (AgStart Farmers):

**AgGrow Loans for farm operators.** This loan program was created for AgStart Farmers who are making their first or second time farmland purchases or contract livestock building purchases. This loan program eases requirements on certain credit ratios, provides extended terms, has lower borrowing costs, and requires an FSA guarantee along with other certain loan requirements.

**AgGrow loans for non-farm operators.** This loan program was created for AgStart Farmers who desire to purchase farmland to continue/expand their family farm legacy and/or for a long term investment in our agriculture communities. This loan program eases requirements on certain credit ratios, provides extended terms, has lower borrowing costs, and gives strong consideration for the applicant's off-farm profession for business management experience.

**AgNiche Loans for non-traditional/niche farm programs.** This loan program is intended for AgStart farmers running a non-traditional operation with benefits consisting of: flexible repayment terms to match income stream, strong focus on the operator's education/experience/research background of their non-traditional business, a business plan that includes a detailed marketing plan and proper research of their public relations with their community. Loan limit of \$25,000 on new start-up operations with higher loan amounts available on established operations.

The following strategies and outreach programs have been implemented to allow the Association to meet its objectives and goals for the young, beginning and small farmer program to date.

**Use of FSA and other loan related programs including:**

- FSA guarantees
- FSA Beginning Farmer Down Payment Farm Ownership loan
- FSA 50/50 Participation Program
- FSA Socially Disadvantaged Loan Program

**FFA and 4-H Involvement:**

- Participating in FFA career days, field days and judging events.
- Offering \$300 per county for 4-H "Real Money, Real World" money management projects.
- Sponsoring the FFA 110 Percent Awards, attending award banquets and recognizing winners in the AgCredit Leader magazine.
- Supporting 4-H, FFA and young farmer organizations through local, district, state and national sponsorships.
- Donating FFA Handbooks for students (1,545 in 2018) and CDs (as needed) for teachers and advisors.
- All branches are supporting their local junior fair livestock sales and other junior fair activities.
- Giving scholarships for young FFA women to attend Women in Agriculture conference.

- Making loans for FFA and 4-H projects (with parent co-signer).
- Providing financing for calf clubs to help provide animals for the Junior Exhibitors.
- Donating money for prizes, giveaways for barn meetings, chairs for exhibitors, back tags for show ring and t-shirts for Jr. Fair exhibitors.
- Newspaper and social media advertising for National 4-H and FFA week.
- Sponsoring FFA Gold Medal Chapter Award.
- Celebrating FFA Week at area schools by providing snacks and gifts.
- Donating 836 "Amplify" T-Shirts to local FFA chapters in 2018.
- Serving on 4-H Endowment Boards and Scholarship Committees.
- Donating 4-H project books.
- Sponsoring t-shirts for every Junior Fair livestock exhibitor at the Putnam County Fair.
- Sponsoring a "Catch-a-Pig" contest at the Pemberville Fair.

**Other Youth Involvement:**

- Reimbursing course fees to youth who successfully complete any farm safety course.
- Providing three \$2,000 college scholarships to students studying an agricultural curriculum.
- Providing PowerPoint presentation to use when talking with vocational agriculture classes about the importance of establishing and maintaining good credit.
- Teaching eighth graders from county schools the importance of paying loans back on time or earlier.
- Association employees making presentations to high school agri-business classes explaining AgCredit, the cooperative method of doing business and agricultural finance issues.
- Sponsoring two statewide Environmental Envirothon (Area 1 and Area 2) competitions for 100 students from 18 high schools.
- Making donations to support area youth programs like, but not limited to, Flying Horse summer camp, local ballpark sponsorships and banners, golf teams, yearbook ads, community safety programs, farm rescue bin safety training, high school music, athletic, and academic boosters, advertising at the Ohio HS All Star game, fishing derby for kids, "Pork in the Classroom", school essay winner prizes and judging.
- Sponsoring, organizing and running Pee Wee Pig shows at six fairs (Wood, Ottawa, Seneca, Hancock, Wyandot and Attica Independent). Awarded 42 prize bags and over 250 t-shirts in 2018.
- Sponsoring PeeWee Sheep show at Huron County Fair.
- Employing three interns in summer of 2018.
- Teaching business-planning classes and explaining AgCredit at Lorain Community College and Terra Community College.
- Sponsoring Farm Safety Camp for third graders, sponsor breakfast and lunch, teach at a station and providing the t-shirts (Ottawa).

**Other YBSMWV Activities:**

- Creating a database of Veteran members and their stories by doing a Veteran survey in the Leader.
- Featuring Veteran members on Facebook for Veteran's day.
- Sponsoring a military veteran to attend Farm Credit Council's Farmer Veteran event in Washington, DC.
- Sponsoring and attending Women in Agriculture Conference.
- Sponsoring OSU Agribusiness Club annual trip.
- Sponsoring and Attended Farm Bureau Young Ag Professionals Conference.
- Sponsoring Ohio Sheep Improvement Association LEAD Program.

**In 2018, AgCredit planned and sponsored these seminars:**

- Hosting four Succession Planning seminars (January 2018).
- Hosting four Tools for the Transition seminars (February/March 2018).

**Other YBS outreach:**

- AgStart radio campaign.
- Farm tours with lawmakers.
- New YBS survey sent in January 2018.
- Presenting a "Finance 101" workshop to a group of "Young Gun" farmer customers of local Sunrise supply Co-op.
- Serving as FCS rep with the North Central Risk Management Education Center Advisory Committee.
- Working with Lorain County Ag Group to share info and ideas for YBS farmers in the county.
- Delivering box lunches to several YBS farmers in the field during fall harvest.
- Awarding \$50,000 in grant money to five local community organizations.

**REGULATORY MATTERS**

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

***Farm Bill***

The Agricultural Improvement Act of 2018 (Farm Bill) was signed into law on December 20, 2018. This new Farm Bill will

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

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

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

**LIBOR TRANSITION**

On July 27, 2017, the United Kingdom Financial Conduct Authority (the Conduct Authority) announced that it will no longer persuade or compel such banks to submit rates for the calculation of the LIBOR rates after 2021. The Conduct Authority regulates the panel banks that submit quotes for the purpose of calculating LIBOR to the Intercontinental Exchange (ICE) Benchmark Administration (the entity that is responsible for calculating LIBOR). Accordingly, it is uncertain whether the ICE Benchmark Administration will continue to quote LIBOR after 2021. Furthermore, in the United States, efforts to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee (ARRC) of the Federal Reserve Board and the Federal Reserve Bank of New York. Specifically, the ARRC has proposed the Secured Overnight Financing Rate (SOFR) as the recommended alternative to LIBOR and the Federal Reserve Bank of New York began publishing SOFR in April of 2018. SOFR is based on a broad segment of the overnight Treasury repurchase market and is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities.

At this time, it is not possible to predict, among other uncertainties, whether (i) LIBOR will be discontinued, (ii) the effect of any changes to the methodology for calculating LIBOR, or (iii) any establishment of alternative reference rates or any other reforms to LIBOR that may be enacted in the United Kingdom, in the United States or elsewhere. Uncertainty as to the nature of such potential changes, alternative reference rates or other reforms may adversely affect the trading market for LIBOR based instruments, including certain of the Systemwide Debt Securities, System borrowings, loans, investments, derivatives, other System assets and liabilities and preferred stock that are indexed to LIBOR. Accordingly, reform of, or the replacement or

disappearance of, LIBOR and the proposed regulation of LIBOR and other “benchmarks” may adversely affect the rates of interest the System pays on its Systemwide Debt Securities (including changes to their value and liquidity, return, and usefulness for intended purpose), on other borrowings and preferred stock, as well as the value of and return on loans and investments and the value and effectiveness of derivatives. This could adversely affect the System’s cash flows. Moreover, if LIBOR is replaced, System institutions will need to take steps to restructure their debt and derivatives, which could adversely affect operations.

The System institutions are currently evaluating the potential impact of the eventual replacement of the LIBOR benchmark interest rate, including the possibility of using SOFR as the alternative to LIBOR. While each system institution is required by the regulator to have a transition plan, the transition from LIBOR to SOFR is expected to be complex and to include the development of term and credit adjustments to minimize, to the extent possible, discrepancies between LIBOR and SOFR. Accordingly, the transition may introduce additional basis risk for market participants, including when an alternative index, e.g., SOFR, exists in conjunction with LIBOR. There can be no guarantee that SOFR will become the dominant alternative to U.S. dollar LIBOR or that SOFR will be widely used. In

addition, other alternatives may or may not be developed with additional complications.

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

**MANAGEMENT RESTRUCTURING**

Effective March 1, 2019, Daniel E. Ebert, currently Chief Financial Officer, will become Chief Operations Officer, and Logan Kreais, currently Controller, will become Chief Financial Officer.

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
<b>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</b>	
<ul style="list-style-type: none"> <li>Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management’s estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets.</li> <li>Changes the present incurred loss impairment guidance for loans to a CECL model.</li> <li>The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit.</li> <li>Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets.</li> <li>Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.</li> <li>Effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.</li> </ul>	<ul style="list-style-type: none"> <li>The Association has begun implementation efforts by establishing a cross-discipline governance structure and will implement a third-party model. The Association is currently identifying key interpretive issues and assessing processes against the new guidance to determine what modifications may be required.</li> <li>The Association expects that the new guidance will result in an increase in its allowance for credit losses due to several factors, including:                         <ol style="list-style-type: none"> <li>The allowance related to loans and commitments will most likely increase to cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions,</li> <li>An allowance will be established for estimated credit losses on any debt securities,</li> <li>The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans.</li> </ol> </li> <li>The extent of the increase is under evaluation, but will depend upon the nature and characteristics of the Association’s portfolio at the adoption date, and the macroeconomic conditions and forecasts at that date.</li> <li>The Association expects to adopt the guidance in first quarter 2021.</li> </ul>
<b>ASU 2016-02 – Leases (Topic 842)</b>	
<ul style="list-style-type: none"> <li>Requires lessees to recognize leases on the balance sheet with lease liabilities and corresponding right-of-use assets based on the present value of lease payments.</li> <li>Lessor accounting activities are largely unchanged from existing lease accounting.</li> <li>The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification.</li> <li>Also, expands qualitative and quantitative disclosures of leasing arrangements.</li> <li>Requires adoption using a modified cumulative-effect approach wherein the guidance is applied to all periods presented. A recent amendment provides an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.</li> <li>Effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted.</li> </ul>	<ul style="list-style-type: none"> <li>The practical expedients allow entities to largely account for existing leases consistent with current guidance, except for the incremental balance sheet recognition for lessees.</li> <li>The Association completed its evaluation of leasing contracts and activities and developed its methodology to estimate the right-of-use assets and lease liabilities, which is based on the present value of lease payments. There will not be a material change to the timing of expense recognition.</li> <li>Given the limited changes to lessor accounting, there were no material changes to recognition or measurement for the Association.</li> <li>The Association will need to provide additional disclosure information as a result of adopting the Update.</li> <li>The Association will adopt the guidance in first quarter 2019 using the optional modified retrospective method and practical expedients for transition.</li> <li>Upon adoption, the Association will record a cumulative-effect adjustment to equity of approximately \$(7). In addition, a Right of Use Asset in the amount of \$405 and Lease Liability in the amount of \$412 will be recorded.</li> </ul>





**OUR AGRIBUSINESS  
DEPARTMENT CAN GIVE  
YOU THE PERSONAL,  
PROFESSIONAL  
RELATIONSHIP THAT A  
PROFITABLE BUSINESS  
DESERVES.**



# DISCLOSURE REQUIRED

## BY FARM CREDIT ADMINISTRATION REGULATIONS

### Description of Business

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

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

### Description of Property

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

Location	Description	Form of Ownership
610 W. Lytle St. Fostoria	Administrative	Owned
602 W. Lytle St. Fostoria	Branch	Owned
7868 County Rd. 140, Ste. A Findlay	Branch	Leased <sup>(1)</sup>
2155 Oak Harbor Rd., Suite B Fremont	Branch	Owned <sup>(2)</sup>
2500 W Market St. Tiffin	Branch	Owned
111 E. Gypsy Lane Rd. Bowling Green	Branch	Owned
1100 E. Center St. Marion	Branch	Owned
3113 St. Rt. 98 Bucyrus	Branch	Owned
12923 St. Rt. 309 Kenton	Branch	Owned
97 Houpt Dr., Room E. Upper Sandusky	Branch	Leased <sup>(3)</sup>
5362 US Route 42 Mt. Gilead	Branch	Owned
735A US Highway 20 E. Norwalk	Branch	Owned
311 Maple St. Wellington	Office	Leased <sup>(4)</sup>

Location	Description	Form of Ownership
315 W. Williamstown Rd. Ottawa	Branch	Owned
1195 Professional Dr. Van Wert	Branch	Leased <sup>(5)</sup>
1485 Scott St. Napoleon	Branch	Owned
103 E. Perry St. Paulding	Office	Leased <sup>(6)</sup>

(1) One-year lease terminating on December 31, 2019. Annual lease of \$31,277.75

(2) The Association owns the West half of the building.

(3) Five-year lease terminating February 28, 2022. Annual lease of \$20,400.

(4) Five-year lease terminating September 30, 2022. Annual lease of \$31,200.

(5) Ten-year lease terminating January 1, 2023. Annual lease of \$33,780.

(6) Lease agreement is on a month-to-month basis until terminated. Annual lease of \$3,000.

### Legal Proceedings

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

### Description of Capital Structure

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

### Description of Liabilities

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

### Management’s Discussion and Analysis of Financial Condition and Results of Operations

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

## Senior Officers

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

Senior Officer	Position
Brian Ricker	<i>President and Chief Executive Officer</i> effective February 1, 2014. <i>Chief Operating Officer</i> from October 1, 2013 through January 31, 2014. <i>Chief Credit Officer</i> from September 2012 through September 2013. <i>Senior Credit Officer</i> from March 2012 through August 2012. <i>Relationship Manager</i> from November 2009 through February 2012. <i>Branch Manager</i> from March 1997 through October 2009. Employed by AgCredit for the past 5 years and since March 1997.
Daniel Ebert	<i>Chief Financial Officer and Secretary / Treasurer</i> . <i>Chief Financial Officer</i> since August 1, 2007. <i>Secretary / Treasurer</i> since April 2008. Employed by AgCredit for the past 5 years. Employed by AgCredit, or predecessor associations, since July 1986.
Jeff Rickenbacher	<i>Chief Credit Officer</i> effective May 16, 2016. <i>Senior Credit Officer</i> from January 10, 2014 through May 14, 2016. <i>Regional Manager</i> from April 01, 2012 through January 9, 2014. <i>Branch Manager</i> from July 01, 1999 through March 31, 2012. <i>Account Officer</i> from October 1997 through July 1999. Employed by AgCredit for the past 5 years and since October 1997.
John Hunter	<i>General Counsel</i> since May 2014. <i>Corporate Counsel</i> from April 2013 through April 2014. Served as outside counsel to AgCredit from approximately 1987 through March 2013. Was in private practice in Toledo, Ohio starting in 1986 and focused on commercial credit and creditor's rights, including matters affecting System lenders. Employed by AgCredit for the past five years.
June O'Neill	<i>Director of Human Resources</i> effective January 1, 2017. <i>Human Resources Manager</i> from January 1, 2016 through December 31, 2017. <i>Senior Human Resources Administrator</i> from January 1, 2009 through December 31, 2016. <i>Human Resources Administrator</i> from January 1, 2000 through December 31, 2008. Employed by AgCredit for the past five years. Employed by AgCredit, or predecessor associations, since January 1986.

For information relating to certain changes in senior management that were announced in February, 2019, see *Management's Discussion & Analysis of Financial Condition & Results of Operations – Management Restructuring*

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

Name of Individual or Number in Group	Year	Salary	Bonus	Deferred	Change in Pension Value	Perq/ Other*	Total
Brian Ricker	2018	\$ 316,879	\$ 62,328	\$ 18,868	\$ (69,494)	\$ 1,053	\$ 329,634
Brian Ricker	2017	\$ 313,210	\$ 47,589	\$ 5,743	\$ 225,781	\$ 1,039	\$ 593,362
Brian Ricker	2016	\$ 271,311	\$ 52,511	\$ 25,643	\$ 244,522	\$ 889	\$ 594,876
5	2018	\$ 844,457	\$ 155,937	\$ 5,000	\$ (23,539)	\$ 9,053	\$ 990,908
6	2017	\$ 839,025	\$ 125,000	\$ 5,000	\$ (132,526)	\$ 31,399	\$ 867,898
7	2016	\$ 1,046,020	\$ 187,984	\$ 5,000	\$ 477,134	\$ 14,328	\$ 1,730,466

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

*The changes in pension values as reflected in the table above resulted primarily from changes in the actuarial assumptions for mortality and discount rate. See further discussion in Note 9, Employee Benefit Plans, of the Financial Statements.*

*\*Amounts in the above table classified as Perquisites include one or more of the following items: travel incentives, group life insurance, automobile compensation, relocation, annual leave payments and tuition reimbursement.*

The Association participates in multi-association, District and multi-District sponsored benefit plans. Change in pension value is considered a part of compensation. The Pension Benefits table below reflects number of years credited service, actuarial present value of accumulated benefits, along with any payments made during 2018 for the CEO and senior officers and other highly compensated employees as a group.

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

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2018
<b>CEO:</b>					
Brian J. Ricker	2018	Independent Association Retirement Plan	22.92	\$ 1,100,640	\$ –
				\$ 1,100,640	\$ –
<b>Senior Officers and Highly Compensated Employees:</b>					
3 Individuals, excluding the CEO	2018	Independent Association Retirement Plan	31.64	\$ 3,056,798	\$ –
				\$ 3,056,798	\$ –



For the Retirement Plan, the present value of pension benefits is the value at a specific date of the benefit payment stream an individual is expected to receive upon retirement based on pay and service earned to date. These present values change year over year as (1) pension benefits increase due to an additional year of pay and service being earned under the benefit formula, (2) individuals are one year closer to receiving payments, and (3) the assumptions used to determine the present value change.

The present value of Retirement Plan pension benefits will naturally increase as the benefits earned under the plan increase. Since the pension benefit formula is dependent on base pay, pay increases directly impact the pension values.

The present values are calculated by discounting each expected future benefit payment back to the determination date at a specified interest (or discount) rate. When a year passes, there is one fewer year of discounting, which increases the present value.

Finally, the present value of the expected future benefit payment stream is based on actuarial assumptions, chiefly the discount rate mentioned above. Other assumptions are also used, such as expected retirement age and life expectancy. Changes in the actuarial assumptions can increase or decrease the pension values. The discount rate is updated every year based on the interest rate environment at December 31. A decrease in the discount rate (i.e. less discounting) increases the present values and vice versa.

Disclosure of information on the total compensation paid during 2018 to any senior officer, or to any other employee included in the aggregate group totals shown previously, is available and will be disclosed to Association's shareholders upon request.

Senior officers and other highly compensated employees may participate in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, a nonqualified deferred compensation plan that allows certain key employees to defer compensation and/or which restores the benefits limited in the qualified 401(k) plan as a result of restrictions in the Internal Revenue Code. The plan also includes a provision for discretionary contributions to be made by the Association.

In addition to base salary, employees and senior officers can earn additional compensation under an annual bonus plan designed to encourage teamwork in meeting or exceeding key financial and growth objectives established by the Board of Directors. The President and Chief Executive Officer can earn additional compensation under an annual bonus plan similar to the employee bonus plan and is designed to encourage teamwork in meeting or exceeding key financial and growth objectives established by the Board of Directors. The term of both plans is the year beginning September 1 through August 31. Both plans are based upon the achievement of predetermined Association performance goals for net income, return on equity, increase in loan volume, credit quality and credit administration with an emphasis on net income. The Board of Directors approves both plans annually.

Employees may earn additional incentive compensation under the Mortgage Loan Originator Incentive Plan (MLO Incentive), Residential Lending Referral Incentive, Farm Credit Express Incentive (FCE), Crop Insurance Incentive, Appraisal Path Incentive, Loan Processor Incentive Plan and the Retirement Early Notification Incentive. The MLO Incentive pays the employee for making qualified home mortgage loans. The MLO Incentive is designed to motivate employees to make loans to qualified borrowers and help the Association extend credit to the rural communities it serves. The Residential Loan Referral Incentive is paid to team members who make a referral that results in a closed rural home loan, residence loan to farmer, secondary market home loans or lot loans. The FCE Incentive is paid to the Account Manager - Financial Services and Governmental Affairs for establishing and maintaining relationships with FCE dealers providing increased ease and access to equipment financing. The Crop Insurance Incentive is paid to team members to promote the use of crop insurance products sold by the Association or its affiliated agents to reduce borrower risk and provide income to the Association. The Appraisal Path Incentive is paid to Association appraisers to promote achievement of required certifications. The Loan Processor Incentive is made to loan processors for processing and/or closing rural home or secondary market home loans. The Retirement Early Notification Incentive is paid to team members who provide at least nine months notice of their intention to retire allowing the Association the ability to manage succession. Incentives are shown in the year earned, which may be different from the year of payment.

All employees are reimbursed for mileage on personally owned automobiles at the rate allowed by IRS regulations and for all actual travel expenses incurred when traveling on Association business. A copy of the travel and other business expenses policy is available to shareholders upon written request.

## Directors

The following chart details the year the director began serving on the board, the current term expiration, current committee assignments, number of meetings, other activities, additional compensation paid for other activities and total cash compensation paid for each director:

Director	Original Year of Election or Appointment	Current Term Expiration	Committee Assignment	Days Served*		Comp. Paid for Other Activities**	Total Comp. Paid During 2018
				Regular Board Meetings	Other Official Activities**		
Scott A. Schroeder <i>Chairman</i>	2008	2020	Governance, Compensation, Scholarship	9	21	\$ 26,250	\$ 37,500
Gary L. Baldosser <i>Vice Chairman</i>	2009	2021	Governance, Compensation	9	18	17,300	25,850
David J. Conrad	2015	2021	Audit	7	13	12,075	18,725
Deborah L. Johlin-Bach	2007	2019	Audit	9	14	13,675	22,225
S. Jerry Layman	2004	2019	Credit, Compensation, Scholarship	9	6	5,388	13,938
Daniel C. Rengert <i>Outside Dir</i>	2012	2020	Governance, Compensation	7	10	9,025	15,675
Dustin J. Sonnenberg	2016	2019	Credit, Scholarship	9	11	10,850	19,400
David M. Stott, PhD <i>Outside Dir</i>	2012	2021	Audit, Compensation	9	11	10,450	19,000
Michael W. Stump	2008	2020	Operations	9	9	8,075	16,625
Michael A. Thiel	2015	2021	Operations	9	9	8,550	17,100
						<u>\$ 121,638</u>	<u>\$ 206,038</u>

\*The number of board meeting days and per diem totals include travel time to and from meetings

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

The following represents certain information regarding the directors of the Association:

**Scott A. Schroeder**, Chairman, represents Paulding, Putnam and Van Wert Counties. For the past five years, his principal occupation and employment was farming. Mr. Schroeder currently serves as treasurer of the Ohio Pork Council.

**Gary L. Baldosser**, Vice Chairman, represents Seneca County. For the past five years, his principal occupation and employment was farming.

**David J. Conrad** represents Erie, Huron and Lorain Counties. For the past five years, his principal occupation and employment was farming.

**Deborah L. Johlin-Bach** represents Ottawa, Sandusky and eastern Lucas Counties. For the past five years, her principal occupation and employment was farming. Mrs. Johlin-Bach also serves as the Secretary of the Woodmore FFA Alumni Association.

**S. Jerry Layman** represents Hardin and Hancock Counties. For the past five years, Mr. Layman's principal occupation and employment has been farming, a partner in a custom farm drainage operation and he served as Chairman of the Buck Township trustees. Mr. Layman also served as an at-large director to the AgFirst Farm Credit Bank Board of Directors in 2018.

**Daniel C. Rengert** is an outside director. For the past five years he has been retired. Mr. Rengert's principal occupation and employment prior to his retirement in June 2010 was president of TODCO, a division of the Overhead Door Company. During his 45 year career he served in various senior management capacities including President of TODCO and on the Senior Executive Team at the Overhead Door Company.

**Dustin J. Sonnenberg** represents Western Lucas, Henry and Wood Counties. For the past five years, Mr. Sonnenberg has been a farmer at Sonnenberg Farms and a consultant. Mr. Sonnenberg serves as Vice President for Tri-County Rural Electric Cooperative, Inc.

**David M. Stott, Ph.D., CPA** is an outside director. Dr. Stott's primary occupation and employment since July 2016 is as the Director of the School of Accountancy and the *O'Bleness Professor of Accountancy* at Ohio University. Prior to that time, he served as Chair of the Department of Accounting and MIS and Professor at Bowling Green State University for seventeen years. Dr. Stott also is a shareholder and secretary/treasurer of S&S CPA, Inc.

**Michael W. Stump** represents Crawford and Morrow Counties. For the past five years, his principal occupation and employment was farming. Mr. Stump currently co-owns and operates Stump's Heritage Farm Inc.

**Michael A. Thiel** represents Marion and Wyandot Counties. For the past five years, his principal occupation and employment was farming. Mr. Thiel serves as the President of the Wyandot County Beef Association.

Subject to approval by the Board, the Association may allow directors honoraria for attendance at regular meetings, committee meetings or special assignments. Honoraria for these meetings were \$1,250 per day for the Chairman, \$950 per day for all other directors and \$200 per conference call. Total compensation paid to directors, as a group was \$206,038. No director received non-cash compensation during the year.

Directors are reimbursed for mileage on personally owned automobiles at the rate allowed by IRS and for all actual travel expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to stockholders of the Association upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was \$115,833 for 2018, \$82,294 for 2017, and \$85,556 for 2016.

### Transactions with Senior Officers and Directors

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

FCA regulations require the disclosure of the purchase or retirement of Association preferred stock held by an Association officer or director. The Association only has Class A Preferred Stock (preferred stock) and is available for purchase by members and others in accordance with the Association's Bylaws. The average preferred stock dividend rate for dividends paid in 2018 was 1.50 percent. Dividends are declared quarterly and paid in cash. The following chart shows the directors and senior officers holding preferred stock and the preferred stock activity for each individual for 2018.

Director/Officer	Beginning Balance 1/1/18	Purchases	Retirements	Dividends Paid	Transfer In	Transfer Out	Ending Balance 12/31/18
Gary L. Baldosser	\$ 245	\$ -	\$ 245	\$ -	\$ -	\$ -	\$ -
Deborah L. Johlin-Bach	735	-	735	-	-	-	-
S. Jerry Layman	141,805	-	100,000	-	-	-	41,805
Jeffrey A. Rickenbacher	9,875	-	9,875	-	-	-	-
Michael W. Stump	1,620	-	1,620	-	-	-	-
Michael A. Thiel	750	-	750	-	-	-	-

### Involvement in Certain Legal Proceedings

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

### Relationship with Independent Auditors

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

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

Independent Auditors	2018
PricewaterhouseCoopers LLP	\$ 49,001

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

All audit fees incurred by the Association were approved by the Audit Committee.

### Consolidated Financial Statements

The Consolidated Financial Statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 13, 2019 and the report of management, which appear in this Annual Report, are incorporated herein by reference.

Copies of the Association's Annual and unaudited Quarterly reports are available upon request free of charge by calling 1-419-435-7758, ext. 1023, or writing Dan Ebert, Chief Financial Officer, AgCredit, Agricultural Credit Association, 610 West Lytle Street, Fostoria, OH 44830 or accessing the website, [www.agcredit.net](http://www.agcredit.net). The Association prepares an electronic version of the Annual Report which is available on the Association's website within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

### Borrower Information Regulations

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

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



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

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

### **Shareholder Investment**

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

# OUR MISSION STATEMENT

A cooperative lender who returns profits to its borrowers and is dedicated to serving our rural community. We focus on building, nurturing and maintaining lifetime relationships for our customers' and employees' success.



# REPORT OF THE AUDIT COMMITTEE

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

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

PricewaterhouseCoopers LLP (PwC), the Association's independent auditors for 2018, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 (*The Auditor's Communication With Those Charged With Governance*). The Committee discussed with PwC its independence from AgCredit. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Association's Annual Report for 2018. The foregoing report is provided by the following independent directors, who constitute the Committee:



David M. Stott, Ph.D., CPA  
Chairman of the Audit Committee

#### **Members of Audit Committee**

David J. Conrad  
Deborah L. Johlin-Bach

March 13, 2019



# REPORT OF INDEPENDENT AUDITORS



## Report of Independent Auditors

To the Board of Directors and Management of  
AgCredit Agricultural Credit Association

We have audited the accompanying consolidated financial statements of AgCredit Agricultural Credit Association and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2018, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in members' equity and cash flows for the years then ended.

### ***Management's Responsibility for the Consolidated Financial Statements***

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

### ***Auditors' Responsibility***

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

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

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AgCredit Agricultural Credit Association and its subsidiaries as of December 31, 2018, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

Miami, Florida

March 13, 2019



# FINANCING FROM THE DIRT UP

FARMS/HOMES/LAND/EQUIPMENT

# CONSOLIDATED BALANCE SHEETS

<i>(dollars in thousands)</i>	2018	December 31, 2017	2016
<b>Assets</b>			
Cash	\$ 7,950	\$ 6,143	\$ 5,148
Investments in debt securities:			
Held to maturity (fair value of \$10,942, \$11,719, and \$12,727, respectively)	10,594	11,523	12,720
Loans	1,960,392	1,879,677	1,796,515
Allowance for loan losses	(11,058)	(12,330)	(13,484)
Net loans	1,949,334	1,867,347	1,783,031
Accrued interest receivable	30,937	28,440	25,300
Equity investments in other Farm Credit institutions	22,351	21,458	20,747
Premises and equipment, net	8,506	7,845	7,969
Accounts receivable	26,783	27,584	21,349
Other assets	2,079	1,250	4,796
Total assets	<b>\$ 2,058,534</b>	<b>\$ 1,971,590</b>	<b>\$ 1,881,060</b>
<b>Liabilities</b>			
Notes payable to AgFirst Farm Credit Bank	\$ 1,673,338	\$ 1,611,375	\$ 1,551,034
Accrued interest payable	4,439	3,691	3,134
Patronage refunds payable	27,686	25,133	19,104
Accounts payable	1,245	1,789	2,090
Advanced conditional payments	1,001	5,442	484
Other liabilities	4,499	4,305	11,269
Total liabilities	<b>1,712,208</b>	<b>1,651,735</b>	<b>1,587,115</b>
Commitments and contingencies (Note 11)			
<b>Members' Equity</b>			
Capital stock and participation certificates	18,672	19,522	19,661
Retained earnings			
Allocated	241,680	219,004	197,649
Unallocated	85,974	81,329	76,635
Total members' equity	<b>346,326</b>	<b>319,855</b>	<b>293,945</b>
Total liabilities and members' equity	<b>\$ 2,058,534</b>	<b>\$ 1,971,590</b>	<b>\$ 1,881,060</b>

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



# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2018	2017	2016
<b>Interest Income</b>			
Loans	\$ 99,300	\$ 88,876	\$ 82,381
Investments	619	683	1,057
Total interest income	99,919	89,559	83,438
<b>Interest Expense</b>			
Notes payable to AgFirst Farm Credit Bank	47,825	40,349	36,141
Net interest income	52,094	49,210	47,297
Provision for (reversal of allowance for) loan losses	(1,084)	(1,154)	(259)
Net interest income after provision for (reversal of allowance for) loan losses	53,178	50,364	47,556
<b>Noninterest Income</b>			
Loan fees	455	468	659
Fees for financially related services	321	308	301
Patronage refunds from other Farm Credit institutions	26,696	27,606	21,329
Gains (losses) on sales of premises and equipment, net	(45)	(540)	5
Gains (losses) on other transactions	(89)	26	3
Insurance Fund refunds	892	—	—
Other noninterest income	36	37	38
Total noninterest income	28,266	27,905	22,335
<b>Noninterest Expense</b>			
Salaries and employee benefits	14,425	13,686	12,962
Occupancy and equipment	1,289	1,125	1,019
Insurance Fund premiums	1,036	1,635	1,771
Guarantee fees	835	1,159	910
(Gains) losses on other property owned, net	—	19	6
Other operating expenses	3,822	3,613	3,624
Total noninterest expense	21,407	21,237	20,292
Income before income taxes	60,037	57,032	49,599
Provision (benefit) for income taxes	—	4	(4)
Net income	60,037	57,028	49,603
Other comprehensive income	—	—	—
Comprehensive income	\$ 60,037	\$ 57,028	\$ 49,603

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

# CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
		Allocated	Unallocated	
Balance at December 31, 2015	\$ 19,505	\$ 177,063	\$ 72,324	\$ 268,892
Comprehensive income			49,603	49,603
Capital stock/participation certificates issued/(retired), net	156			156
Dividends declared/paid			(184)	(184)
Patronage distribution				
Cash			(19,034)	(19,034)
Nonqualified retained earnings		26,204	(26,204)	—
Retained earnings retired		(5,488)		(5,488)
Patronage distribution adjustment		(130)	130	—
<b>Balance at December 31, 2016</b>	<b>\$ 19,661</b>	<b>\$ 197,649</b>	<b>\$ 76,635</b>	<b>\$ 293,945</b>
Comprehensive income			57,028	57,028
Capital stock/participation certificates issued/(retired), net	(139)			(139)
Dividends declared/paid			(184)	(184)
Patronage distribution				
Cash			(25,060)	(25,060)
Nonqualified retained earnings		27,175	(27,175)	—
Retained earnings retired		(5,734)		(5,734)
Patronage distribution adjustment		(86)	85	(1)
<b>Balance at December 31, 2017</b>	<b>\$ 19,522</b>	<b>\$ 219,004</b>	<b>\$ 81,329</b>	<b>\$ 319,855</b>
<b>Comprehensive income</b>			<b>60,037</b>	<b>60,037</b>
<b>Capital stock/participation certificates issued/(retired), net</b>	<b>(850)</b>			<b>(850)</b>
<b>Dividends declared/paid</b>			<b>(177)</b>	<b>(177)</b>
<b>Patronage distribution</b>				
<b>Cash</b>			<b>(27,616)</b>	<b>(27,616)</b>
<b>Nonqualified retained earnings</b>		<b>27,767</b>	<b>(27,767)</b>	<b>—</b>
<b>Retained earnings retired</b>		<b>(4,989)</b>		<b>(4,989)</b>
<b>Patronage distribution adjustment</b>		<b>(102)</b>	<b>168</b>	<b>66</b>
<b>Balance at December 31, 2018</b>	<b>\$ 18,672</b>	<b>\$ 241,680</b>	<b>\$ 85,974</b>	<b>\$ 346,326</b>


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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2018	2017	2016
<b>Cash flows from operating activities:</b>			
Net income	\$ 60,037	\$ 57,028	\$ 49,603
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	475	560	561
Amortization (accretion) of net deferred loan costs (fees)	580	448	579
Premium amortization (discount accretion) on investments	(17)	(17)	(124)
Provision for (reversal of allowance for) loan losses	(1,084)	(1,154)	(259)
(Gains) losses on other property owned	(2)	19	7
(Gains) losses on sales of premises and equipment, net	45	540	(5)
(Gains) losses on other transactions	89	(26)	(3)
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	(2,497)	(3,140)	(1,681)
(Increase) decrease in accounts receivable	801	(6,235)	(1,169)
(Increase) decrease in other assets	(829)	3,546	1
Increase (decrease) in accrued interest payable	748	557	165
Increase (decrease) in accounts payable	(544)	(301)	375
Increase (decrease) in other liabilities	105	(6,957)	2,002
Total adjustments	(2,130)	(12,160)	449
Net cash provided by (used in) operating activities	57,907	44,868	50,052
<b>Cash flows from investing activities:</b>			
Purchases of investments in debt securities, held to maturity	—	—	(3,861)
Proceeds from maturities of or principal payments received on investments in debt securities, held to maturity	946	1,214	10,458
Net (increase) decrease in loans	(81,501)	(83,610)	(80,719)
(Increase) decrease in equity investments in other Farm Credit institutions	(893)	(711)	(1,625)
Purchases of premises and equipment	(1,195)	(979)	(324)
Proceeds from sales of premises and equipment	14	3	32
Proceeds from sales of other property owned	20	—	53
Net cash provided by (used in) investing activities	(82,609)	(84,083)	(75,986)
<b>Cash flows from financing activities:</b>			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	61,963	60,341	51,031
Net increase (decrease) in advanced conditional payments	(4,441)	4,958	(23)
Capital stock and participation certificates issued/(retired), net	(850)	(139)	156
Patronage refunds and dividends paid	(25,174)	(19,216)	(18,674)
Retained earnings retired	(4,989)	(5,734)	(5,488)
Net cash provided by (used in) financing activities	26,509	40,210	27,002
Net increase (decrease) in cash	1,807	995	1,068
Cash, beginning of period	6,143	5,148	4,080
Cash, end of period	\$ 7,950	\$ 6,143	\$ 5,148
<b>Supplemental schedule of non-cash activities:</b>			
Receipt of property in settlement of loans	\$ 18	\$ —	\$ —
Estimated cash dividends or patronage distributions declared or payable	27,793	25,244	19,218
<b>Supplemental information:</b>			
Interest paid	47,077	39,792	35,976

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



A young boy with short blonde hair, wearing a red, white, and blue plaid short-sleeved shirt, dark blue jeans, and a brown belt with a large silver buckle, stands in a cornfield. He is looking down and holding a large green corn leaf with both hands, examining it closely. The background is filled with tall, vibrant green corn stalks under bright, natural light. A dark grey semi-transparent box with a white diamond-patterned border on the left side is overlaid on the image, containing white text.

**AGCREDIT  
TAKES PRIDE  
IN FINANCING  
THE GROWTH  
OF RURAL  
AMERICA  
INCLUDING  
PRODUCERS  
WITH UNIQUE  
NEEDS.**

Our AgStart program meets the unique needs of farmers who are young, beginning, small, minority, female or veteran.



# NOTES

## TO THE CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except as noted)

### Note 1 — Organization and Operations

A. **Organization:** AgCredit Agricultural Credit Association (the Association or ACA) is a member-owned cooperative providing credit and credit-related services to qualified borrowers in the counties of Huron, Erie, Lorain, Paulding, Putnam, Van Wert, Henry, Lucas, Wood, Hancock, Ottawa, Sandusky, Seneca, Wyandot, Marion, Hardin, Crawford and Morrow in the state of Ohio.

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

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

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

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

The Farm Credit Act also established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on System wide debt obligations (Insured Debt), (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance

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

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

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

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

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

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

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

## Note 2 — Summary of Significant Accounting Policies

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

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

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

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

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

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

or otherwise discharged in full. A formal restructuring may also cure a past due status.

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

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

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

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

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

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

A specific allowance may be established for impaired loans under Financial Accounting Standards Board (FASB)



guidance on accounting by creditors for impairment of a loan. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

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

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

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

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

As of December 31, 2018, there were no loans held for sale.

- D. **Other Property Owned (OPO):** Other property owned, consisting of real estate, personal property and other assets acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of

the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income, expenses, and carrying value adjustments related to other property owned are included in Gains (Losses) from Other Property Owned, Net in the Consolidated Statements of Comprehensive Income.

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

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

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

#### ***Equity Investments in Other Farm Credit System Institutions***

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

#### ***Investments in Debt Securities***

The Association holds certain investment securities, as permitted under the FCA regulations. These investments are classified based on management's intention on the date of purchase and are generally recorded in the Consolidated Balance Sheets as securities on the trade date.

Securities for which the Association has the intent and ability to hold to maturity are classified as held-to-maturity (HTM) and carried at amortized cost. Investment securities classified as available-for-sale (AFS) are carried at fair value with net unrealized gains and losses included as a component of Other Comprehensive Income (OCI). Purchase premiums and discounts are amortized or accreted ratably over the term of the respective security using the interest method. The amortization of premiums on certain purchased callable debt securities that have explicit, noncontingent call features and that are callable at fixed prices on preset dates are amortized to the earliest call date.

#### ***Impairment***

The Association reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. As mentioned above, changes in the fair

value of AFS investments are reflected in OCI, unless the investment is deemed to be other-than-temporarily impaired (OTTI). Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a “credit loss”). If the Association intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but the Association does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and is separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is charged to current earnings, with the remainder of the loss amount recognized in OCI.

In subsequent periods, if the present value of cash flows expected to be collected is less than the amortized cost basis, the Association will record additional OTTI and adjust the yield of the security prospectively. The amount of total OTTI for an AFS security that previously was impaired is determined as the difference between its carrying amount prior to the determination of OTTI and its fair value.

#### **Investment Income**

Interest on investment securities, including amortization of premiums and accretion of discounts, is included in Interest Income. Realized gains and losses from the sales of investment securities are recognized in current earnings using the specific identification method.

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

#### **Other Investments**

As discussed in Note 8, certain investments, consisting primarily of mutual funds, are held in trust and investment accounts and are reported at fair value. Holding period gains and losses are included within Noninterest Income on the Consolidated Statements of Comprehensive Income and the balance of these investments, totaling \$81, is included in Other Assets on the accompanying Consolidated Balance Sheets as of December 31, 2018.

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

plans may include defined benefit final average pay retirement, defined benefit cash balance retirement, defined benefit other postretirement benefits, and defined contribution plans.

#### **Defined Contribution Plans**

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

Additional information may be found in Note 9.

#### **Multi-Employer Defined Benefit Plans**

Substantially all employees hired before January 1, 2009 may participate in the Independent Associations Retirement Plan (Plan), which is a defined benefit plan and considered multi-employer under FASB accounting guidance. The Plan is noncontributory and includes eligible Association and District employees. The “Projected Unit Credit” actuarial method is used for financial reporting purposes.

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

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

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

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

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

subsidiary are subject to federal, state and certain other income taxes.

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

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

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

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

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

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

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

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

pricing that is different than a third-party valuation or internal model pricing.

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

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

Additional information may be found in Note 8.

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

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

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

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

#### **Financial Instruments**

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

#### **Contracts with Customers**

In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers (Topic 606). This guidance, which became effective January 1, 2018, changed the recognition of revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to reflect the transfer of goods and



services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance also included expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Based on input received from stakeholders, the FASB issued several additional Updates that generally provided clarifying guidance where there was the potential for diversity in practice, or address the cost and complexity of applying Topic 606.

The Association maintains contracts with customers to provide support services in various areas such as lending transactions and appraisals. The Association does not generally incur costs to obtain contracts. As most of the contracts are to provide access to expertise or system capacity that the Association maintains, there are no material incremental costs to fulfill these contracts that should be capitalized.

#### Transition Information

- The Association identified ancillary revenues affected by this Update and adopted the guidance on January 1, 2018.
- The amendments were applied using the modified retrospective approach.
- The Association elected to only apply the guidance to contracts that were not completed at the date of initial application.
- Subtopics 610-20 on gains and losses from the derecognition of nonfinancial assets, and 340-40 on other assets and deferred costs-contracts with customers were adopted using the same transition options.
- Adoption did not have an impact on the Association's financial condition or results of operations.

#### ***Gains and Losses from Nonfinancial Assets***

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

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

In August 2018, the FASB issued ASU 2018-13 Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments are part of the FASB's disclosure framework project. The project's objective and primary focus are to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by GAAP that is most important to users of each entity's financial statements. The amendments remove, modify or add certain disclosures contained in the financial statement footnotes related to fair value.

Additionally, the guidance is intended to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Certain amendments should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Entities may early adopt the provisions in whole upon issuance or may early adopt any removed or modified disclosures upon issuance and delay adoption of the additional disclosures until their effective date. The Association has adopted the removed disclosures effective with the 2018 Annual Report.

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

In February 2018, the FASB issued ASU 2018-02 Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and are intended to improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The Update also requires certain disclosures about stranded tax effects. The guidance is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

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

In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update, and subsequent clarifying guidance issued, is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to better estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

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

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

#### Transition Information

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

### Note 3 — Loans and Allowance for Loan Losses

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

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

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

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

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

- Real estate mortgage loans — loans made to full-time or part-time farmers secured by first lien real estate mortgages with maturities from five to thirty years. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.
- Production and intermediate-term loans — loans to full-time or part-time farmers that are not real estate mortgage loans. These loans fund eligible financing needs including operating inputs (such as labor, feed, fertilizer, and repairs), livestock, living expenses, income taxes, machinery or equipment, farm buildings, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically one year or less. Intermediate-term loans are made for a specific term, generally greater than one year and less than or equal to ten years.
- Loans to cooperatives — loans for any cooperative purpose other than for communication, power and water and waste disposal.

- Processing and marketing loans — loans for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products or by a cooperative.
- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.
- Rural residential real estate loans — loans made to individuals, who are not farmers, to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home or to refinance existing debt. These loans are generally secured by a first lien on the property.
- Communication loans — loans primarily to finance rural communication providers.
- Power loans — loans primarily to finance electric generation, transmission and distribution systems serving rural areas.
- Water and waste disposal loans — loans primarily to finance water and waste disposal systems serving rural areas.
- Lease receivables — the net investment for all finance leases such as direct financing leases, leveraged leases, and sales-type leases.

A summary of loans outstanding at period end follows:

	December 31,		
	2018	2017	2016
Real estate mortgage	\$ 1,178,021	\$ 1,105,137	\$ 1,018,631
Production and intermediate-term	600,444	600,206	610,584
Loans to cooperatives	3,412	380	382
Processing and marketing	39,658	30,547	24,410
Farm-related business	16,588	15,788	16,951
Communication	—	2,418	2,409
Power and water/waste disposal	3,385	3,469	—
Rural residential real estate	118,238	120,662	121,788
Lease receivables	646	1,070	1,360
Total loans	<u>\$ 1,960,392</u>	<u>\$ 1,879,677</u>	<u>\$ 1,796,515</u>

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

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

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

	December 31, 2018							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 19,085	58,745	\$ 225	\$ 2,027	\$ 21,891	\$ —	\$ 41,201	\$ 60,772
Production and intermediate-term	13,813	185,206	135	392	6,720	—	20,668	185,598
Loans to cooperatives	3,428	—	—	—	—	—	3,428	—
Processing and marketing	20,315	4,803	—	10,387	—	—	20,315	15,190
Power and water/waste disposal	3,393	—	—	—	—	—	3,393	—
Total	<u>\$ 60,034</u>	<u>\$ 248,754</u>	<u>\$ 360</u>	<u>\$ 12,806</u>	<u>\$ 28,611</u>	<u>\$ —</u>	<u>\$ 89,005</u>	<u>\$ 261,560</u>

	December 31, 2017							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 6,555	\$ 62,801	\$ —	\$ 2,500	\$ 11,971	\$ —	\$ 18,526	\$ 65,301
Production and intermediate-term	18,580	156,118	192	769	1,332	—	20,104	156,887
Loans to cooperatives	383	—	—	—	—	—	383	—
Processing and marketing	16,731	2,961	—	4,622	—	—	16,731	7,583
Communication	2,422	—	—	—	—	—	2,422	—
Power and water/waste disposal	3,479	—	—	—	—	—	3,479	—
Total	<u>\$ 48,150</u>	<u>\$ 221,880</u>	<u>\$ 192</u>	<u>\$ 7,891</u>	<u>\$ 13,303</u>	<u>\$ —</u>	<u>\$ 61,645</u>	<u>\$ 229,771</u>



December 31, 2016

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 5,924	\$ 56,217	\$ -	\$ -	\$ 1,275	\$ -	\$ 7,199	\$ 56,217
Production and intermediate-term	15,457	157,614	176	702	3,085	-	18,718	158,316
Loans to cooperatives	383	-	-	-	-	-	383	-
Processing and marketing	14,731	1,637	-	-	-	-	14,731	1,637
Communication	2,415	-	-	-	-	-	2,415	-
Total	\$ 38,910	\$ 215,468	\$ 176	\$ 702	\$ 4,360	\$ -	\$ 43,446	\$ 216,170

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

	December 31, 2018			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 2,423	\$ 63,839	\$ 1,111,759	\$ 1,178,021
Production and intermediate term	243,295	246,997	110,152	600,444
Loans to cooperatives	-	1,783	1,629	3,412
Processing and marketing	5,804	17,103	16,751	39,658
Farm-related business	4,214	3,846	8,528	16,588
Power and water/waste disposal	-	-	3,385	3,385
Rural residential real estate	263	3,410	114,565	118,238
Lease receivables	121	478	47	646
Total loans	\$ 256,120	\$ 337,456	\$ 1,366,816	\$ 1,960,392
Percentage	13.07%	17.21%	69.72%	100.00%

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

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

	December 31,				December 31,		
	2018	2017	2016		2018	2017	2016
<b>Real estate mortgage:</b>				<b>Communication:</b>			
Acceptable	95.03%	95.45%	97.57%	Acceptable	-%	100.00%	100.00%
OAEM	1.88	1.25	1.38	OAEM	-	-	-
Substandard/doubtful/loss	3.09	3.30	1.05	Substandard/doubtful/loss	-	-	-
	100.00%	100.00%	100.00%		-%	100.00%	100.00%
<b>Production and intermediate-term:</b>				<b>Power and water/waste disposal:</b>			
Acceptable	90.03%	90.24%	93.28%	Acceptable	100.00%	100.00%	-%
OAEM	5.67	3.62	4.95	OAEM	-	-	-
Substandard/doubtful/loss	4.30	6.14	1.77	Substandard/doubtful/loss	-	-	-
	100.00%	100.00%	100.00%		100.00%	100.00%	-%
<b>Loans to cooperatives:</b>				<b>Rural residential real estate:</b>			
Acceptable	100.00%	100.00%	100.00%	Acceptable	94.89%	95.11%	93.03%
OAEM	-	-	-	OAEM	4.21	3.81	6.25
Substandard/doubtful/loss	-	-	-	Substandard/doubtful/loss	0.90	1.08	0.72
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
<b>Processing and marketing:</b>				<b>Lease receivables:</b>			
Acceptable	90.91%	100.00%	100.00%	Acceptable	100.00%	100.00%	100.00%
OAEM	-	-	-	OAEM	-	-	-
Substandard/doubtful/loss	9.09	-	-	Substandard/doubtful/loss	-	-	-
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
<b>Farm-related business:</b>				<b>Total loans:</b>			
Acceptable	86.52%	87.76%	98.92%	Acceptable	93.35%	93.79%	95.86%
OAEM	0.54	11.34	0.16	OAEM	3.13	2.23	2.88
Substandard/doubtful/loss	12.94	0.90	0.92	Substandard/doubtful/loss	3.52	3.98	1.26
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%

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

	December 31, 2018					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	
	Real estate mortgage	\$ 5,363	\$ 697	\$ 6,060	\$ 1,191,297	\$ 1,197,357
Production and intermediate-term	2,239	966	3,205	608,173	611,378	
Loans to cooperatives	—	—	—	3,415	3,415	
Processing and marketing	—	—	—	39,774	39,774	
Farm-related business	65	—	65	16,656	16,721	
Power and water/waste disposal	—	—	—	3,388	3,388	
Rural residential real estate	306	9	315	118,270	118,585	
Lease receivables	—	—	—	646	646	
Total	\$ 7,973	\$ 1,672	\$ 9,645	\$ 1,981,619	\$ 1,991,264	

	December 31, 2017					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	
	Real estate mortgage	\$ 1,820	\$ 95	\$ 1,915	\$ 1,121,494	\$ 1,123,409
Production and intermediate-term	4,020	541	4,561	605,193	609,754	
Loans to cooperatives	—	—	—	380	380	
Processing and marketing	—	—	—	30,609	30,609	
Farm-related business	84	—	84	15,827	15,911	
Communication	—	—	—	2,419	2,419	
Power and water/waste disposal	—	—	—	3,471	3,471	
Rural residential real estate	544	74	618	120,408	121,026	
Lease receivables	—	—	—	1,070	1,070	
Total	\$ 6,468	\$ 710	\$ 7,178	\$ 1,900,871	\$ 1,908,049	

	December 31, 2016					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	
	Real estate mortgage	\$ 1,472	\$ 194	\$ 1,666	\$ 1,032,973	\$ 1,034,639
Production and intermediate-term	1,754	417	2,171	617,096	619,267	
Loans to cooperatives	—	—	—	382	382	
Processing and marketing	—	—	—	24,446	24,446	
Farm-related business	22	—	22	17,067	17,089	
Communication	—	—	—	2,410	2,410	
Rural residential real estate	358	—	358	121,791	122,149	
Lease receivables	—	—	—	1,360	1,360	
Total	\$ 3,606	\$ 611	\$ 4,217	\$ 1,817,525	\$ 1,821,742	

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

	December 31,		
	2018	2017	2016
<b>Nonaccrual loans:</b>			
Real estate mortgage	\$ 4,033	\$ 1,262	\$ 285
Production and intermediate-term	2,037	1,587	526
Rural residential real estate	50	120	—
Total	\$ 6,120	\$ 2,969	\$ 811
<b>Accruing restructured loans:</b>			
Real estate mortgage	\$ 321	\$ 321	\$ 320
Production and intermediate-term	6,439	6,999	7,521
Total	\$ 6,760	\$ 7,320	\$ 7,841
<b>Accruing loans 90 days or more past due:</b>			
Total	\$ —	\$ —	\$ —
Total nonperforming loans	\$ 12,880	\$ 10,289	\$ 8,652
Other property owned	—	—	—
Total nonperforming assets	\$ 12,880	\$ 10,289	\$ 8,652
Nonaccrual loans as a percentage of total loans	0.31%	0.16%	0.05%
Nonperforming assets as a percentage of total loans and other property owned	0.66%	0.55%	0.48%
Nonperforming assets as a percentage of capital	3.72%	3.22%	2.94%

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

	December 31,		
	2018	2017	2016
<b>Impaired nonaccrual loans:</b>			
Current as to principal and interest	\$ 4,341	\$ 1,794	\$ 141
Past due	1,779	1,175	670
Total	<u>\$ 6,120</u>	<u>\$ 2,969</u>	<u>\$ 811</u>
<b>Impaired accrual loans:</b>			
Restructured	\$ 6,760	\$ 7,320	\$ 7,841
90 days or more past due	—	—	—
Total	<u>\$ 6,760</u>	<u>\$ 7,320</u>	<u>\$ 7,841</u>
Total impaired loans	<u>\$ 12,880</u>	<u>\$ 10,289</u>	<u>\$ 8,652</u>
Additional commitments to lend	<u>\$ 38</u>	<u>\$ 3</u>	<u>\$ —</u>

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

Impaired Loans	December 31, 2018			Year Ended December 31, 2018	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses</b>					
Real estate mortgage	\$ 1,995	\$ 2,143	\$ 419	\$ 2,079	\$ 186
Production and intermediate-term	159	169	74	166	15
Total	<u>\$ 2,154</u>	<u>\$ 2,312</u>	<u>\$ 493</u>	<u>\$ 2,245</u>	<u>\$ 201</u>
<b>With no related allowance for credit losses</b>					
Real estate mortgage	\$ 2,360	\$ 2,450	\$ —	\$ 2,461	\$ 221
Production and intermediate-term	8,316	18,778	—	8,670	778
Rural residential real estate	50	111	—	52	5
Total	<u>\$ 10,726</u>	<u>\$ 21,339</u>	<u>\$ —</u>	<u>\$ 11,183</u>	<u>\$ 1,004</u>
<b>Total</b>					
Real estate mortgage	\$ 4,355	\$ 4,593	\$ 419	\$ 4,540	\$ 407
Production and intermediate-term	8,475	18,947	74	8,836	793
Rural residential real estate	50	111	—	52	5
Total	<u>\$ 12,880</u>	<u>\$ 23,651</u>	<u>\$ 493</u>	<u>\$ 13,428</u>	<u>\$ 1,205</u>

Impaired Loans	December 31, 2017			Year Ended December 31, 2017	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses</b>					
Real estate mortgage	\$ 75	\$ 73	\$ 29	\$ 90	\$ 9
Production and intermediate-term	553	563	506	662	65
Rural residential real estate	74	73	32	88	9
Total	<u>\$ 702</u>	<u>\$ 709</u>	<u>\$ 567</u>	<u>\$ 840</u>	<u>\$ 83</u>
<b>With no related allowance for credit losses</b>					
Real estate mortgage	\$ 1,508	\$ 1,583	\$ —	\$ 1,807	\$ 178
Production and intermediate-term	8,033	18,327	—	9,624	947
Rural residential real estate	46	48	—	56	5
Total	<u>\$ 9,587</u>	<u>\$ 19,958</u>	<u>\$ —</u>	<u>\$ 11,487</u>	<u>\$ 1,130</u>
<b>Total</b>					
Real estate mortgage	\$ 1,583	\$ 1,656	\$ 29	\$ 1,897	\$ 187
Production and intermediate-term	8,586	18,890	506	10,286	1,012
Rural residential real estate	120	121	32	144	14
Total	<u>\$ 10,289</u>	<u>\$ 20,667</u>	<u>\$ 567</u>	<u>\$ 12,327</u>	<u>\$ 1,213</u>



Impaired Loans	December 31, 2016			Year Ended December 31, 2016	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses</b>					
Production and intermediate-term	\$ 405	\$ 400	\$ 310	\$ 526	\$ 51
Total	\$ 405	\$ 400	\$ 310	\$ 526	\$ 51
<b>With no related allowance for credit losses</b>					
Real estate mortgage	\$ 605	\$ 689	\$ –	\$ 786	\$ 76
Production and intermediate-term	7,642	17,799	–	9,925	961
Farm-related business	–	196	–	–	–
Total	\$ 8,247	\$ 18,684	\$ –	\$ 10,711	\$ 1,037
<b>Total</b>					
Real estate mortgage	\$ 605	\$ 689	\$ –	\$ 786	\$ 76
Production and intermediate-term	8,047	18,199	310	10,451	1,012
Farm-related business	–	196	–	–	–
Total	\$ 8,652	\$ 19,084	\$ 310	\$ 11,237	\$ 1,088

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and water/waste disposal	Rural Residential Real Estate	Lease Receivables	Other	Total
<b>Activity related to the allowance for credit losses:</b>									
Balance at December 31, 2017	\$ 2,504	\$ 8,912	\$ 304	\$ 11	\$ 15	\$ 582	\$ 2	\$ –	\$ 12,330
Charge-offs	(30)	(399)	–	–	–	(58)	–	–	(487)
Recoveries	–	297	–	–	–	2	–	–	299
Provision for loan losses	269	(1,959)	583	(11)	6	29	(1)	–	(1,084)
Balance at December 31, 2018	\$ 2,743	\$ 6,851	\$ 887	\$ –	\$ 21	\$ 555	\$ 1	\$ –	\$ 11,058
Balance at December 31, 2016	\$ 2,550	\$ 10,140	\$ 220	\$ 10	\$ –	\$ 561	\$ 3	\$ –	\$ 13,484
Charge-offs	–	(254)	–	–	–	–	–	–	(254)
Recoveries	–	254	–	–	–	–	–	–	254
Provision for loan losses	(46)	(1,228)	84	1	15	21	(1)	–	(1,154)
Balance at December 31, 2017	\$ 2,504	\$ 8,912	\$ 304	\$ 11	\$ 15	\$ 582	\$ 2	\$ –	\$ 12,330
Balance at December 31, 2015	\$ 2,583	\$ 10,319	\$ 384	\$ 11	\$ –	\$ 554	\$ 4	\$ 3	\$ 13,858
Charge-offs	–	(79)	(125)	–	–	–	–	–	(204)
Recoveries	–	89	–	–	–	–	–	–	89
Provision for loan losses	(33)	(189)	(39)	(1)	–	7	(1)	(3)	(259)
Balance at December 31, 2016	\$ 2,550	\$ 10,140	\$ 220	\$ 10	\$ –	\$ 561	\$ 3	\$ –	\$ 13,484
<b>Allowance on loans evaluated for impairment:</b>									
Individually	\$ 419	\$ 74	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 493
Collectively	2,324	6,777	887	–	21	555	1	–	10,565
Balance at December 31, 2018	\$ 2,743	\$ 6,851	\$ 887	\$ –	\$ 21	\$ 555	\$ 1	\$ –	\$ 11,058
Individually	\$ 29	\$ 506	\$ –	\$ –	\$ –	\$ 32	\$ –	\$ –	\$ 567
Collectively	2,475	8,406	304	11	15	550	2	–	11,763
Balance at December 31, 2017	\$ 2,504	\$ 8,912	\$ 304	\$ 11	\$ 15	\$ 582	\$ 2	\$ –	\$ 12,330
Individually	\$ –	\$ 310	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 310
Collectively	2,550	9,830	220	10	–	561	3	–	13,174
Balance at December 31, 2016	\$ 2,550	\$ 10,140	\$ 220	\$ 10	\$ –	\$ 561	\$ 3	\$ –	\$ 13,484
<b>Recorded investment in loans evaluated for impairment:</b>									
Individually	\$ 4,354	\$ 8,476	\$ –	\$ –	\$ –	\$ 50	\$ –	\$ –	\$ 12,880
Collectively	1,193,003	602,902	59,910	–	3,388	118,535	646	–	1,978,384
Balance at December 31, 2018	\$ 1,197,357	\$ 611,378	\$ 59,910	\$ –	\$ 3,388	\$ 118,585	\$ 646	\$ –	\$ 1,991,264
Individually	\$ 1,583	\$ 8,586	\$ –	\$ –	\$ –	\$ 120	\$ –	\$ –	\$ 10,289
Collectively	1,121,826	601,168	46,900	2,419	3,471	120,906	1,070	–	1,897,760
Balance at December 31, 2017	\$ 1,123,409	\$ 609,754	\$ 46,900	\$ 2,419	\$ 3,471	\$ 121,026	\$ 1,070	\$ –	\$ 1,908,049
Individually	\$ 605	\$ 8,047	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 8,652
Collectively	1,034,034	611,220	41,917	2,410	–	122,149	1,360	–	1,813,090
Balance at December 31, 2016	\$ 1,034,639	\$ 619,267	\$ 41,917	\$ 2,410	\$ –	\$ 122,149	\$ 1,360	\$ –	\$ 1,821,742

\*May include the loan types; Loans to cooperatives, Processing and marketing, and Farm-related business.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. The tables do not include purchased credit impaired loans. There were no new TDRs that occurred during 2016.

		Year Ended December 31, 2018				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs	
<b>Pre-modification:</b>						
Production and intermediate-term	\$ -	\$ -	\$ 79	\$ 79		
Total	\$ -	\$ -	\$ 79	\$ 79		
<b>Post-modification:</b>						
Production and intermediate-term	\$ -	\$ -	\$ 79	\$ 79	\$ -	
Total	\$ -	\$ -	\$ 79	\$ 79	\$ -	

		Year Ended December 31, 2017				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs	
<b>Pre-modification:</b>						
Real estate mortgage	\$ -	\$ 172	\$ -	\$ 172		
Production and intermediate-term	374	296	-	670		
Total	\$ 374	\$ 468	\$ -	\$ 842		
<b>Post-modification:</b>						
Real estate mortgage	\$ -	\$ 152	\$ -	\$ 152	\$ -	
Production and intermediate-term	374	315	-	689	(207)	
Total	\$ 374	\$ 467	\$ -	\$ 841	\$ (207)	

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets.

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the periods presented. Payment default is defined as a payment that was thirty days or more past due.

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

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2018	2017	2016	2018	2017	2016
Real estate mortgage	\$ 447	\$ 463	\$ 320	\$ 126	\$ 142	\$ -
Production and intermediate-term	6,559	7,452	7,521	120	453	-
Total loans	\$ 7,006	\$ 7,915	\$ 7,841	\$ 246	\$ 595	\$ -
Additional commitments to lend	\$ 38	\$ 3	\$ -			

The following table presents information as of period end:

	December 31, 2018
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ -
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ 57

## Note 4 — Investments

### Investments in Debt Securities

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point

probability of default scale used to also grade loans, falls below 9. The FCA requires System institutions to provide notification to FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have different eligibility requirements. At December 31, 2018, the Association held two RABs totaling \$655 whose credit quality had deteriorated beyond the program limits.

A summary of the amortized cost and fair value of investment securities held-to-maturity follows:

	December 31, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 10,594	\$ 510	\$ (162)	\$ 10,942	5.43%

	December 31, 2017				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 11,523	\$ 397	\$ (201)	\$ 11,719	5.41%

	December 31, 2016				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 12,720	\$ 205	\$ (198)	\$ 12,727	5.39%

A summary of the contractual maturity, amortized cost and estimated fair value of investment securities held-to-maturity follows:

	December 31, 2018		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ —	\$ —	—%
After one year through five years	629	636	5.14
After five years through ten years	3,081	2,984	5.33
After ten years	6,884	7,322	5.50
Total	\$ 10,594	\$ 10,942	5.43%

A portion of these investments has contractual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	December 31, 2018			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	\$ —	\$ —	\$ 4,096	\$ (162)

	December 31, 2017			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	\$ 341	\$ (1)	\$ 860	\$ (200)

	December 31, 2016			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	\$ 3,640	\$ (74)	\$ 894	\$ (124)

The recording of an impairment loss is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others: (1) the length of time and the extent to which the fair value is less than cost, (2) adverse conditions specifically related to the industry, (3) geographic area and the condition of the underlying collateral, (4) payment structure of the security, (5) ratings by rating agencies, (6) the credit worthiness of bond insurers, and (7) volatility of the fair value changes.

The Association uses the present value of cash flows expected to be collected from each debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, amount and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics, and collateral type.

Significant inputs used to estimate the amount of credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The Association may obtain assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party, or generate the assumptions internally.

The Association has not recognized any credit losses as any impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.



### Equity Investments in Other Farm Credit Institutions

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

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association's investment in the Bank totaled \$21,955 for 2018, \$21,068 for 2017 and \$20,389 for 2016. The Association owns 8.03 percent of the issued stock of the Bank as of December 31, 2018 net of any reciprocal investment. As of that date, the Bank's assets totaled \$33.1 billion and shareholders' equity totaled \$2.2 billion. The Bank's earnings were \$306 million for 2018. In addition, the Association had an investment of \$395 related to other Farm Credit institutions at December 31, 2018.

## Note 5 — Real Estate and Other Property

### Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2018	2017	2016
Land	\$ 1,190	\$ 1,195	\$ 1,290
Buildings and improvements	9,638	8,752	8,371
Furniture and equipment	1,805	1,770	3,245
Total cost	12,633	11,717	12,906
Less: accumulated depreciation	4,127	3,872	4,937
Total	\$ 8,506	\$ 7,845	\$ 7,969

### Other Property Owned

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

	December 31,		
	2018	2017	2016
(Gains) losses on sale, net	\$ (2)	\$ —	\$ 7
Carrying value unrealized (gains) losses, net	—	19	—
Operating (income) expense, net	2	—	(1)
(Gains) losses on other property owned, net	\$ —	\$ 19	\$ 6

Gains on sales of other property owned were deferred if the sales involved financing from the Association and did not meet the criteria for immediate recognition. There were no deferred gains at December 31, 2018, 2017, and 2016.

## Note 6 — Debt

### Notes Payable to AgFirst Farm Credit Bank

Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The borrowing relationship is established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The GFA has a one year term which expires on

December 31 and is renewable each year. The Association has no reason to believe the GFA will not be renewed upon expiration. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2018, the Association's notes payable were within the specified limitations.

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

The weighted average interest rates on the variable rate advances were 3.41 percent for LIBOR-based loans and 3.49 percent for prime-based loans, and the weighted average remaining maturities were 2.4 years and 14.8 years, respectively, at December 31, 2018. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 3.13 percent, and the weighted average remaining maturity was 13.4 years at December 31, 2018. The weighted-average interest rate on all interest-bearing notes payable was 3.19 percent and the weighted-average remaining maturity was 10.9 years at December 31, 2018. Variable rate and fixed rate notes payable represent approximately 8.10 percent and 91.90 percent, respectively, of total notes payable at December 31, 2018. The weighted average maturities described above are related to matched-funded loans. The direct note itself has an annual maturity as prescribed in the GFA.

## Note 7 — Members' Equity

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

- A. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans or participation certificates in the case of rural home and farm-related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to 2 percent of the member's outstanding principal balance or \$1 thousand, whichever is less. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after January 30, 1997 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

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

#### B. Regulatory Capitalization Requirements and Restrictions:

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

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

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

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

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

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

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31,	
				2018	2017
Risk-adjusted ratios:					
CET1 Capital	4.5%	1.25%	5.75%	18.96%	17.90%
Tier 1 Capital	6.0%	1.25%	7.25%	18.96%	17.90%
Total Capital	8.0%	1.25%	9.25%	20.25%	19.71%
Permanent Capital	7.0%	0.0%	7.0%	20.43%	19.87%
Non-risk-adjusted ratios					
Tier 1 Leverage	4.0%	1.0%	5.0%	15.35%	14.34%
URE and UREE Leverage	1.5%	0.0%	1.5%	15.87%	14.85%

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

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

C. **Description of Equities:** The Association is authorized to issue or have outstanding Class A Preferred Stock, Class B Common Stock, Class C Common Stock, Class C

Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association's business. All stock and participation certificates have a par or face value of five dollars (\$5.00) per share.

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

Class	Protected	Shares Outstanding	
		Number	Aggregate Par Value
A Preferred/Nonvoting	No	2,219,085	\$ 11,096
C Common/Voting	No	1,285,071	6,425
C Participation Certificates/Nonvoting	No	230,222	1,151
Total Capital Stock and Participation Certificates		3,734,378	\$ 18,672

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

#### Retained Earnings

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

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

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

Allocated equities shall be retired solely at the discretion of the Board, provided that minimum capital standards established by the FCA and the Board are met. Nonqualified retained surplus is considered to be permanently invested in the Association and as such, there is no plan to revolve or retire this surplus. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2018, allocated members' equity consisted of \$10,018 of nonqualified allocated surplus and \$231,662 of nonqualified retained surplus.

#### Dividends

The Association may declare dividends on its capital stock and participation certificates. Dividend declaration, dividend rates and method of payment are at the discretion of the Board in accordance with the Association's bylaws.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. The Association declared dividends for each of the periods included in these Consolidated Financial Statements.

#### Patronage Distributions

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

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

#### Transfer

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

#### Impairment

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

1. Class B Common Stock, Class C Common Stock and Participation Certificates
2. Class A Preferred Stock



**Liquidation**

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

1. Class A Preferred Stock
2. Class B Common Stock; Class C Common Stock and Participation Certificates
3. Allocated surplus evidenced by qualified written notices of allocation on the basis of oldest allocations first
4. Allocated surplus evidenced by nonqualified notices of allocation on the basis of oldest allocations first
5. Unallocated surplus accrued after March 31, 1997 on a patronage basis
6. Any remaining assets of the Association after such distribution ratably to the holders of all classes of stock and participation certificates

**Note 8 — Fair Value Measurement**

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

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

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

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

**Level 1**

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

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

**Level 2**

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

**Level 3**

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

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

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

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

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

The fair value of investments in debt securities is estimated by discounting expected future cash flows using prevailing rates for similar instruments at the measurement date.

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

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

December 31, 2018						
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in trust funds	\$ 81	\$ 81	\$ –	\$ –	\$ 81	
Recurring Assets	\$ 81	\$ 81	\$ –	\$ –	\$ 81	
<b>Liabilities:</b>						
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 1,660	\$ –	\$ –	\$ 1,660	\$ 1,660	
Other property owned	–	–	–	–	–	
Nonrecurring Assets	\$ 1,660	\$ –	\$ –	\$ 1,660	\$ 1,660	
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 7,950	\$ 7,950	\$ –	\$ –	\$ 7,950	
Investments in debt securities, held-to-maturity	10,594	–	–	10,942	10,942	
Loans	1,947,674	–	–	1,890,840	1,890,840	
Other Financial Assets	\$ 1,966,218	\$ 7,950	\$ –	\$ 1,901,782	\$ 1,909,732	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 1,673,338	\$ –	\$ –	\$ 1,629,824	\$ 1,629,824	
Other Financial Liabilities	\$ 1,673,338	\$ –	\$ –	\$ 1,629,824	\$ 1,629,824	

December 31, 2017						
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in trust funds	\$ 77	\$ 77	\$ –	\$ –	\$ 77	
Recurring Assets	\$ 77	\$ 77	\$ –	\$ –	\$ 77	
<b>Liabilities:</b>						
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 135	\$ –	\$ –	\$ 135	\$ 135	
Other property owned	–	–	–	–	–	
Nonrecurring Assets	\$ 135	\$ –	\$ –	\$ 135	\$ 135	
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 6,143	\$ 6,143	\$ –	\$ –	\$ 6,143	
Investments in debt securities, held-to-maturity	11,523	–	–	11,719	11,719	
Loans	1,867,212	–	–	1,824,700	1,824,700	
Other Financial Assets	\$ 1,884,878	\$ 6,143	\$ –	\$ 1,836,419	\$ 1,842,562	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 1,611,375	\$ –	\$ –	\$ 1,575,848	\$ 1,575,848	
Other Financial Liabilities	\$ 1,611,375	\$ –	\$ –	\$ 1,575,848	\$ 1,575,848	

December 31, 2016

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Recurring Measurements</b>					
<b>Assets:</b>					
Assets held in trust funds	\$ 78	\$ 78	\$ –	\$ –	\$ 78
Recurring Assets	\$ 78	\$ 78	\$ –	\$ –	\$ 78
<b>Liabilities:</b>					
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –
<b>Nonrecurring Measurements</b>					
<b>Assets:</b>					
Impaired loans	\$ 95	\$ –	\$ –	\$ 95	\$ 95
Other property owned	–	–	–	–	–
Nonrecurring Assets	\$ 95	\$ –	\$ –	\$ 95	\$ 95
<b>Other Financial Instruments</b>					
<b>Assets:</b>					
Cash	\$ 5,148	\$ 5,148	\$ –	\$ –	\$ 5,148
Investments in debt securities, held-to-maturity	12,720	–	–	12,727	12,727
Loans	1,782,936	–	–	1,738,464	1,738,464
Other Financial Assets	\$ 1,800,804	\$ 5,148	\$ –	\$ 1,751,191	\$ 1,756,339
<b>Liabilities:</b>					
Notes payable to AgFirst Farm Credit Bank	\$ 1,551,034	\$ –	\$ –	\$ 1,509,018	\$ 1,509,018
Other Financial Liabilities	\$ 1,551,034	\$ –	\$ –	\$ 1,509,018	\$ 1,509,018

### SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

#### Investments in Debt Securities

The fair values of predominantly all Level 3 investments in debt securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would

generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these Level 3 assets.

#### Inputs to Valuation Techniques

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

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



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

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 1,660	Appraisal	Income and expense Comparable sales Replacement costs Comparability adjustments	* * * *

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

**Information about Other Financial Instrument Fair Value Measurements**

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Investments in debt securities, held-to-maturity	Discounted cash flow	Prepayment rates Risk adjusted spread
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

**Note 9 — Employee Benefit Plans**

The Association participates in three Association sponsored benefit plans. These plans include a multi-employer defined benefit pension plan, the Independent Associations Retirement Plan, which is a final average pay plan (IAR Plan). In addition, the Association participates in a multi-employer defined benefit other postretirement benefits plan (OPEB Plan), the Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plan, and a defined contribution 401(k) plan. The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

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

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

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

The IAR Plan covers employees hired prior to January 1, 2009 and includes other District employees that are not employees of the Association. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the

Combined Balance Sheets for the AgFirst District. IAR Plan expenses included in employee benefit costs on the Association's Statements of Income were \$1,684 for 2018, \$2,061 for 2017, and \$1,586 for 2016. At December 31, 2018, 2017, and 2016, the total liability balance for the IAR Plan presented in the District Combined Balance Sheets is \$8,626 \$15,078, and \$11,528, respectively. The IAR Plan is 88.42%, 81.82%, and 83.70% percent funded to the projected benefit obligation as of December 31, 2018, 2017, and 2016, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Association or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs on the Association's Statements of Income were \$201 for 2018, \$164 for 2017, and \$436 for 2016. At December 31, 2018, the total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition is \$181,820.

During 2017, the method of recording expenses at participating District entities for the IAR and OPEB Plans was modified. Prior to 2017, expense was recorded based on allocations of actuarially-determined costs and any differences between recorded expense and actual contributions were recorded in Other Assets or Other Liabilities on the Consolidated Balance Sheets. For 2017 and future years, participating entities will record employee benefit costs based on the actual contributions to the Plans. This change caused the Association to modify its accounting estimates recorded in

Other Assets and Other Liabilities since the assets and liabilities do not impact future contributions to the Plans. The change in estimate resulted in the reduction of Other Assets by \$4,585 and the reduction of Other Liabilities by \$4,459 on the Association's Balance Sheets, and a total addition to noninterest expenses on the Association's Statements of Income of \$126 during 2017.

The Association also participates in a defined contribution Farm Credit Benefits Alliance (FCBA) 401(k) plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. This 401(k) plan requires the Association to match 100 percent of employee optional contributions up to a maximum employee contribution of 6 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were \$764, \$692, and \$656 for the years ended December 31, 2018, 2017, and 2016, respectively. Contributions include an additional 3 percent of eligible compensation for participants hired after December 31, 2008.

In addition to the multi-employer plans described above, the Association sponsors a nonqualified supplemental 401(k) plan. The expenses of this nonqualified plan included in noninterest expenses were \$5, \$6, and \$2 for 2018, 2017, and 2016, respectively.

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

#### Note 10 — Related Party Transactions

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

Total loans to such persons at December 31, 2018 amounted to \$21,135. During 2018, \$14,800 of new loans were made and repayments totaled \$14,903. In the opinion of management, none of these loans outstanding at December 31, 2018 involved more than a normal risk of collectability.

#### Note 11 — Commitments and Contingencies

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

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

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2018, \$261,549 of commitments to extend credit and no commercial letters of credit were outstanding. There was no reserve for unfunded commitments included in Other Liabilities on the Consolidated Balance Sheets at December 31, 2018.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2018, standby letters of credit outstanding totaled \$360 with expiration dates ranging from March 16, 2019 to December 29, 2019. The maximum potential amount of future payments that may be required under these guarantees was \$360.

#### Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2018	2017	2016
Current:			
Federal	\$ —	\$ 4	\$ (4)
State	—	—	—
	—	4	(4)
Deferred:	—	—	—
Total provision for income taxes	\$ —	\$ 4	\$ (4)

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

	December 31,		
	2018	2017	2016
Federal tax at statutory rate	\$ 12,608	\$ 19,961	\$ 17,360
State tax, net	—	—	—
Patronage distributions	(5,799)	(8,771)	(6,662)
Tax-exempt FLCA earnings	(6,484)	(10,879)	(10,729)
Change in deferred tax asset valuation allowance	(299)	(2,130)	29
Impact of tax reform	—	1,837	—
Other	(26)	(14)	(2)
Provision for income taxes	<u>\$ —</u>	<u>\$ 4</u>	<u>\$ (4)</u>

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

	December 31,		
	2018	2017	2016
Deferred income tax assets:			
Allowance for loan losses	\$ 1,545	\$ 1,890	\$ 3,520
Annual leave	176	167	266
Nonaccrual loan interest	720	683	1,114
Pensions and other postretirement benefits	17	16	1,588
Other	—	—	31
Gross deferred tax assets	<u>2,458</u>	<u>2,756</u>	<u>6,519</u>
Less: valuation allowance	<u>(2,301)</u>	<u>(2,599)</u>	<u>(4,592)</u>
Gross deferred tax assets, net of valuation allowance	<u>157</u>	<u>157</u>	<u>1,927</u>
Deferred income tax liabilities:			
Pensions and other postretirement benefits	—	—	(1,605)
Other	(157)	(157)	(322)
Gross deferred tax liability	<u>(157)</u>	<u>(157)</u>	<u>(1,927)</u>
Net deferred tax asset	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

At December 31, 2018, deferred income taxes have not been provided by the Association on approximately \$3.3 million of its investment in the Bank. Management expects that these earnings will not be converted to cash.

The Association recorded a valuation allowance of \$2,301, \$2,599 and \$4,592 as of December 31, 2018, 2017 and 2016, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

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

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

## Note 13 — Additional Financial Information

### Quarterly Financial Information (Unaudited)

	2018				
	First	Second	Third	Fourth	Total
Net interest income	\$ 12,712	\$ 12,879	\$ 13,176	\$ 13,327	\$ 52,094
Provision for (reversal of allowance for) loan losses	(1,306)	(734)	580	376	(1,084)
Noninterest income (expense), net	(1,389)	(1,686)	(1,521)	11,455	6,859
Net income	<u>\$ 12,629</u>	<u>\$ 11,927</u>	<u>\$ 11,075</u>	<u>\$ 24,406</u>	<u>\$ 60,037</u>

	2017				
	First	Second	Third	Fourth	Total
Net interest income	\$ 12,039	\$ 12,191	\$ 12,464	\$ 12,516	\$ 49,210
Provision for (reversal of allowance for) loan losses	(1,297)	177	(150)	116	(1,154)
Noninterest income (expense), net	(2,137)	(1,782)	(1,679)	12,262	6,664
Net income	<u>\$ 11,199</u>	<u>\$ 10,232</u>	<u>\$ 10,935</u>	<u>\$ 24,662</u>	<u>\$ 57,028</u>

	2016				
	First	Second	Third	Fourth	Total
Net interest income	\$ 11,463	\$ 11,678	\$ 12,174	\$ 11,982	\$ 47,297
Provision for (reversal of allowance for) loan losses	(32)	(746)	(84)	603	(259)
Noninterest income (expense), net	(1,964)	(1,918)	(1,681)	7,610	2,047
Net income	<u>\$ 9,531</u>	<u>\$ 10,506</u>	<u>\$ 10,577</u>	<u>\$ 18,989</u>	<u>\$ 49,603</u>

## Note 14 — Subsequent Events

The Association evaluated subsequent events and determined that there were none requiring disclosure through March 13, 2019, which was the date the financial statements were issued.





## OFFICE LOCATIONS

### Bowling Green

111 E. Gypsy Lane Road  
Bowling Green, OH 43402  
419-352-5178  
877-635-3426

### Bucyrus

3113 State Route 98  
Bucyrus, OH 44820  
419-562-7926

### Findlay

7868 CR 140, Suite A  
Findlay, OH 45840  
419-422-7632  
888-405-2221

### Fostoria

Administrative Office  
610 W. Lytle Street  
Fostoria, OH 44830  
419-435-7758  
800-837-3678

### Fremont

2155 Oak Harbor Road  
Fremont, OH 43420  
419-332-2639  
800-896-4541

### Kenton

12923 SR 309  
Kenton, OH 43326  
419-675-2303  
877-808-0163

### Marion

1100 E. Center Street  
Marion, OH 43302  
740-387-2270

### Mt. Gilead

5362 US Hwy 42, Suite 100  
Mt. Gilead, OH 43338  
419-947-1040

### Napoleon

1485 Scott Street  
Napoleon, OH 43545  
419-599-8656  
800-347-0277

### Norwalk

735 US Highway 20 East  
Norwalk, OH 44857  
419-663-4020  
800-686-0756

### Ottawa

315 W. Williamstown Road  
Ottawa, OH 45875  
419-523-6677  
888-380-3738

### Tiffin

2500 W. Market Street  
Tiffin, OH 44883  
419-447-0787  
877-568-1688

### Upper Sandusky

97 Houpt Drive, Room E  
Upper Sandusky, OH 43351  
419-294-4933

### Van Wert

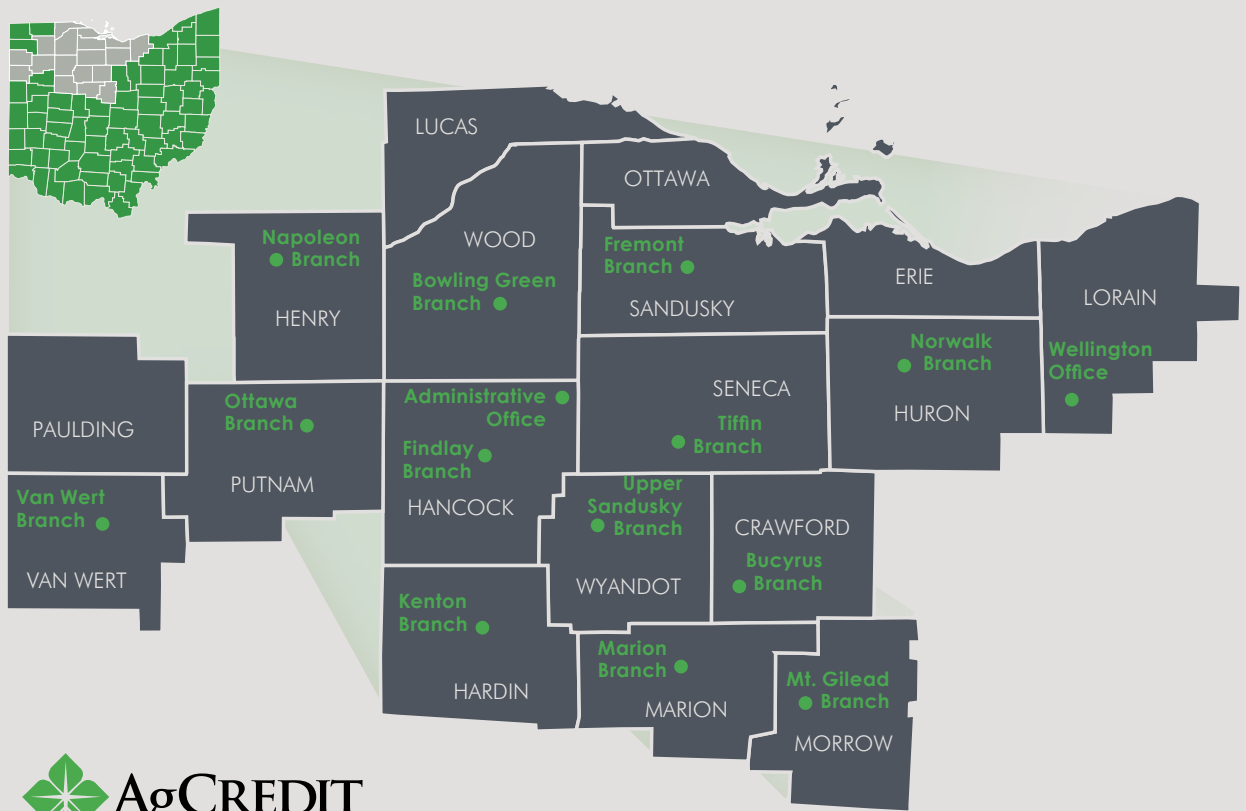
1195 Professional Drive  
Van Wert, OH 45891  
419-238-6838  
877-684-9455

### Wellington

311 Maple Street, Suite A  
Wellington, OH 44090  
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866-685-4446











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