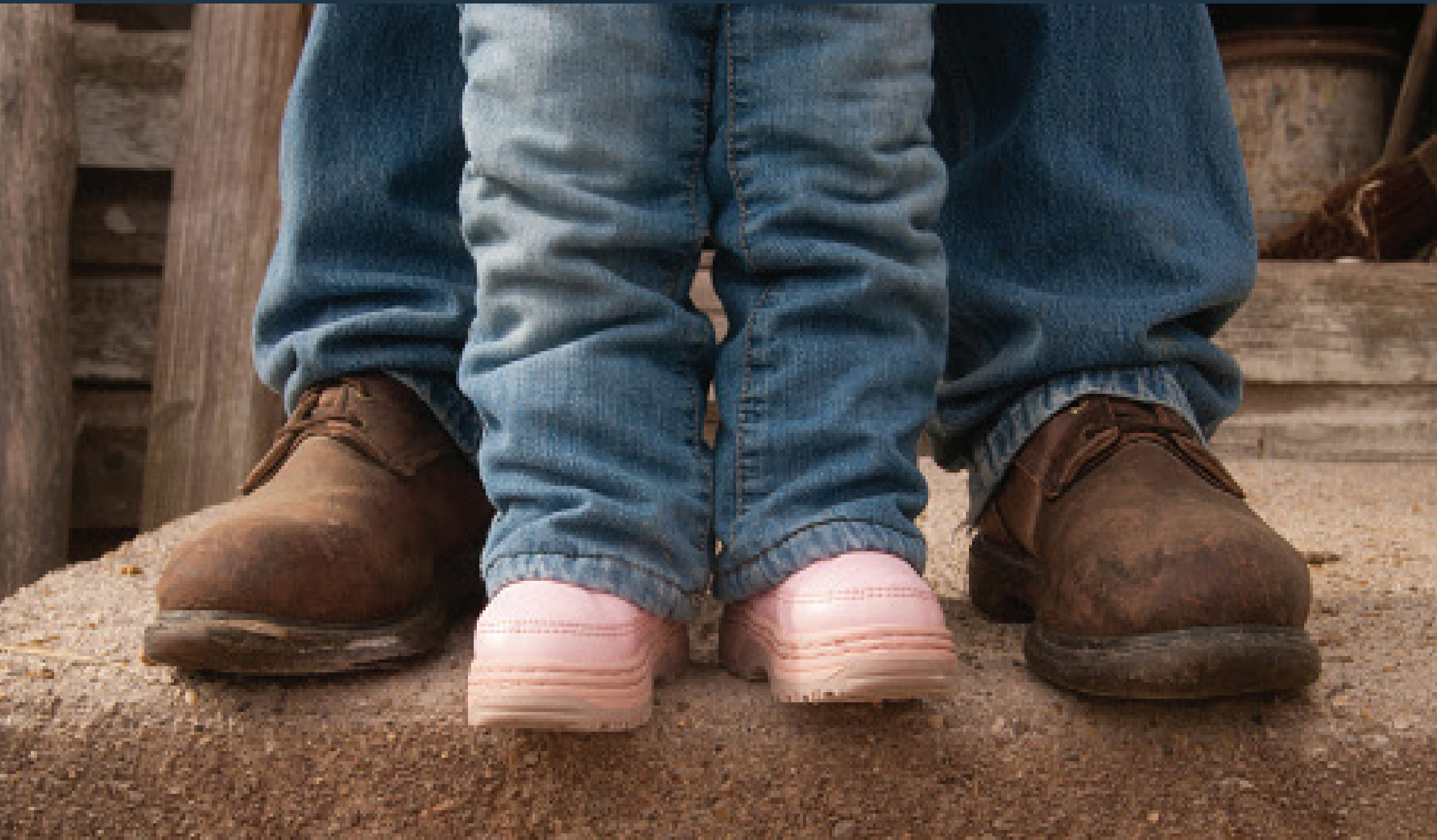
2019
Annual Report

HELPING GENERATIONS OF FARMERS, RANCHERS AND RURAL COMMUNITIES SUCCEED.

FCS Financial
Growing Relationships. Creating Opportunities.™
A FARM CREDIT COOPERATIVE



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MESSAGE FROM THE CHAIRPERSON OF THE BOARD AND CHIEF EXECUTIVE OFFICER

Dear FCS Financial Member:

We are pleased to present this 2019 Annual Report to Shareholders of FCS Financial. As a customer-owned cooperative, dedicated to serving agriculture and rural communities in Missouri, FCS Financial remains committed to supporting our owner-members and ensuring they have a consistent, reliable, and affordable source of financing and related services through all agricultural cycles.

Reflecting on our past year of service to our members, it reminds us of the diversity of agriculture in Missouri. Substantial spring rains across Missouri and significant snowmelt in the northern areas of the Missouri and Mississippi river systems affected a material part of the crop production areas of the state. Insurance and government support payments helped offset some of the impact related to weather-related events, commodity prices, and trade policy. 2019 continued to emphasize the importance of balancing sound production, marketing, operations, and financial management to an operation.

We continue to work with members on an individual basis to bring customized solutions to try and find the right solution for their particular needs, sometimes in difficult situations. Several years ago we began emphasizing a strategy of "no surprise lending", which focused on ensuring open and honest communication between the Association and the member. Communication is especially important during stressful times and our goal is to have conversations early when actions are still available to address any issues and concerns. Overall, we believe this strategy has been effective. However, there are times when a member may seek another financial partner because we cannot agree with the member on the best path forward. Despite this, our intent is to always do what we believe is in the best long-term interest of the member and the Association.

Similar to our members, we also must look for ways to diversify our portfolio and become more efficient in order to maintain a strong association. In recent years, we have extended our involvement in agribusiness financing and capital markets, and diversified our geographic and commodity reach by partnering with other financial institutions. By strengthening and diversifying our product lines in these areas, we are able to maintain a strong, balanced portfolio. This past year we realized over 7% growth on the average daily balance of our owned and managed assets. This growth exceeded our business plan goal and was driven by new business opportunities across all of our major segments.

We remain vigilant in maintaining cost effective operations at the Association. We have embarked on a process improvement initiative focused on bringing additional value for our members and enhancing the effectiveness and efficiency of our operations. We are making significant investments to our sales management, lending, credit decision, and appraisal processes to reduce application time and be more responsive. Over time, we believe these investments will provide significant benefits to the Association and our members.

The quality of the loan portfolio continues to be strong at 96.7% acceptable and special mention at December 31, 2019. Although this is a decline from year-end 2018, we remain encouraged by the determination and resilience of our members through these challenging times. Loans 30 days or more past due, an indicator of potential future credit concerns, remained at low levels and ended 2019 at 0.2%.

The Association remains financially strong and we are committed to ensuring it is here for future generations of farmers and ranchers. The Association's permanent capital ratio, a key indicator of financial adequacy, was 18.1% as of December 31, 2019, and was well in excess of our regulatory requirement. Maintaining a strong capital position is critical to ensure the Association is protected from unexpected losses and is well positioned for future opportunities to serve our owner-members, new members and rural communities in Missouri.

Based on the Association's sound financial position and strong earnings in 2019, the Board of Directors once again approved sharing a significant portion of the Association's success with our members through our patronage program. This year we will be returning over $27.5 million, or approximately 0.90% of average customer borrowings from FCS Financial, to our members in the form of patronage payments. With this year's patronage, we have returned over $147.5 million to our owner-members since 2006. We are especially pleased that this effectively reduces our members' borrowing costs, especially during this challenging period in agriculture. We believe patronage provides our owner-members a significant benefit and is one of the many advantages of choosing FCS Financial as your source of financing.

We remain optimistic about the future of agriculture and our rural communities. The future will not be without its uncertainties and setbacks. However, you can count on FCS Financial to remain a dependable and competitive source of financing and related services to our industry, our rural communities, and our members for years to come.

Thank you again for placing your trust in us and choosing FCS Financial as your financial provider of choice. We wish you continued success in 2020 and beyond.

Sincerely,

Kenneth Bergmann
Chairperson of the Board
FCS Financial, ACA

David D. Janish
Chief Executive Officer
FCS Financial, ACA

March 11, 2020

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

FCS Financial, ACA

(dollars in thousands)

As of December 31	2019	2018	2017	2016	2015
Statement of Condition Data					
Loans	**$4,364,514**	$4,075,933	$3,819,508	$3,659,032	$3,452,441
Allowance for loan losses	**17,013**	15,966	15,915	16,428	15,887
Net loans	**4,347,501**	4,059,967	3,803,593	3,642,604	3,436,554
Investment in AgriBank, FCB	**98,909**	83,006	79,125	77,179	75,579
Other property owned	**--**	258	--	1,067	510
Other assets	**115,802**	110,657	101,420	94,217	79,554
Total assets	**$4,562,212**	$4,253,888	$3,984,138	$3,815,067	$3,592,197
Obligations with maturities of one year or less	**$71,203**	$64,580	$50,819	$3,061,327	$2,887,257
Obligations with maturities greater than one year	**3,577,406**	3,330,133	3,131,564	--	--
Total liabilities	**3,648,609**	3,394,713	3,182,383	3,061,327	2,887,257
Protected members' equity	**6**	8	8	8	9
Capital stock and participation certificates	**11,901**	11,933	12,231	12,598	12,856
Unallocated surplus	**901,696**	847,234	789,516	741,134	692,075
Total members' equity	**913,603**	859,175	801,755	753,740	704,940
Total liabilities and members' equity	**$4,562,212**	$4,253,888	$3,984,138	$3,815,067	$3,592,197

For the year ended December 31	2019	2018	2017	2016	2015
Statement of Income Data					
Net interest income	**$105,350**	$99,033	$93,708	$90,043	$86,686
Provision for loan losses	**2,000**	--	--	1,000	500
Other expenses, net	**21,381**	17,312	23,566	27,477	25,603
Net income	**$81,969**	$81,721	$70,142	$61,566	$60,583
Key Financial Ratios					
For the Year					
Return on average assets	**1.9%**	2.0%	1.8%	1.7%	1.8%
Return on average members' equity	**9.2%**	9.9%	9.0%	8.4%	8.9%
Net interest income as a percentage of average earning assets	**2.5%**	2.6%	2.5%	2.5%	2.7%
Net charge-offs (recoveries) as a percentage of average loans	**0.0%**	(0.0%)	0.0%	0.0%	(0.0%)
At Year End					
Members' equity as a percentage of total assets	**20.0%**	20.2%	20.1%	19.8%	19.6%
Allowance for loan losses as a percentage of loans	**0.4%**	0.4%	0.4%	0.4%	0.5%
Capital ratios effective beginning January 1, 2017:					
Common equity tier 1 ratio	**18.0%**	18.4%	18.2%	N/A	N/A
Tier 1 capital ratio	**18.0%**	18.4%	18.2%	N/A	N/A
Total capital ratio	**18.4%**	18.8%	18.6%	N/A	N/A
Permanent capital ratio	**18.1%**	18.5%	18.3%	N/A	N/A
Tier 1 leverage ratio	**19.1%**	19.3%	19.1%	N/A	N/A
Capital ratios effective prior to 2017:					
Permanent capital ratio	**N/A**	N/A	N/A	17.5%	17.5%
Total surplus ratio	**N/A**	N/A	N/A	17.2%	17.2%
Core surplus ratio	**N/A**	N/A	N/A	17.2%	17.2%
Net Income Distributed					
For the Year					
Patronage distributions:					
Cash	**$24,007**	$21,756	$12,512	$12,512	$10,016
Loans serviced for AgriBank, FCB	**10**	--	26	50	89

MANAGEMENT'S DISCUSSION AND ANALYSIS

FCS Financial, ACA

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

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

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

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

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

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

FORWARD-LOOKING INFORMATION

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

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

AGRICULTURAL AND ECONOMIC CONDITIONS

The 2019 crop season came to a close with mixed results across the Association's territory. Our farmers reported a wide range of production results, including significant prevent-plant acres, with overall yields across the state expected to be better than the drought-impacted levels of 2018, but still below optimal yields for many producers.

Much of the rest of the Corn Belt also experienced planting challenges in 2019 with record prevent-plant acreage. While this had an adverse impact on overall 2019 U.S. production yields, as noted by United States Department of Agriculture (USDA), an adequate world market grain supply continues. As such, corn prices experienced downward pressures most of the year, while soybean prices are generally stable from levels of a year ago although below current levels for much of 2019. Depending on production levels, continued low market prices will again result in tight operating margins from 2019 operations.

Cattle prices demonstrated resiliency through 2019, ending the year up considerably from lower levels seen earlier in the year as reported by the Chicago Mercantile Exchange. Feeder cattle markets demonstrated significant volatility during the year ending above the average price level for the year. Cattle producers had to contend with poor weather conditions early in 2019 coupled with limited and costly feed supply which resulted in challenged cash flows for many cattle producers. Pasture and hay supplies which were very short early in the year rebounded during the year which will mitigate some of the adverse conditions in early 2019.

Much of Missouri's swine and poultry production has contract arrangements associated with these operations, partially mitigating a lower price environment for the overall protein complex. Overall, increased domestic meat production, coupled with global supply and trade concerns will continue to challenge profitability for livestock producers.

Farmland prices have again remained relatively stable over the past year across the Association's territory. Demand for crop land tracts has generally moderated over the past couple years across our territory. During the same time, the availability of crop land tracts for sale has also moderated. These two factors together have kept overall crop land prices near equilibrium. With the favorable general economy and a low interest rate environment, demand remains strong for rural housing and recreational tracts, especially in southern Missouri.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $4.4 billion at December 31, 2019, an increase of $288.6 million from December 31, 2018.

Components of Loans

(in thousands)

As of December 31	**2019**	2018	2017
Accrual loans:			
Real estate mortgage	**$2,579,626**	$2,338,607	$2,120,112
Production and intermediate-term	**662,676**	669,777	753,494
Agribusiness	**835,295**	818,184	750,074
Other	**275,696**	241,515	187,077
Nonaccrual loans	**11,221**	7,850	8,751
Total loans	**$4,364,514**	$4,075,933	$3,819,508

The other category is primarily composed of rural infrastructure related loans and other diversified industries in our capital markets portfolio.

The increase in total loans from December 31, 2018, was primarily due to continued demand for mortgage loans across most segments of the portfolio and a slower repayment rate.

We have sold to AgriBank participation interests in certain loans as part of pool programs. The total outstanding participation interests in these programs were $89.3 million, $88.2 million, and $108.1 million at December 31, 2019, 2018, and 2017, respectively.

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

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

Portfolio Distribution

We are chartered to serve 102 counties in Missouri. Approximately 90.8% of our total loan portfolio was in the state of Missouri at December 31, 2019.

Agricultural Concentrations

As of December 31	**2019**	2018	2017
Cash grains	**36.3%**	37.0%	37.5%
Livestock	**26.8%**	25.6%	26.3%
Agribusiness	**9.4%**	10.5%	10.4%
Poultry and eggs	**6.2%**	5.2%	5.1%
Landlords	**5.1%**	5.2%	5.3%
Rural utilities	**4.1%**	4.0%	3.8%
Other	**12.1%**	12.5%	11.6%
Total	**100.0%**	100.0%	100.0%

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

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2018. Adversely classified loans increased to 3.3% of the portfolio at December 31, 2019, from 2.1% of the portfolio at December 31, 2018. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. At December 31, 2019, $254.9 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands)

As of December 31	**2019**	2018	2017
Loans:			
Nonaccrual	**$11,221**	$7,850	$8,751
Accruing restructured	**3,081**	1,151	1,310
Accruing loans 90 days or more past due	**--**	--	--
Total risk loans	**14,302**	9,001	10,061
Other property owned	**--**	258	--
Total risk assets	**$14,302**	$9,259	$10,061
Total risk loans as a percentage of total loans	**0.3%**	0.2%	0.3%
Nonaccrual loans as a percentage of total loans	**0.3%**	0.2%	0.2%
Current nonaccrual loans as a percentage of total nonaccrual loans	**88.8%**	91.8%	69.3%
Total delinquencies as a percentage of total loans	**0.2%**	0.1%	0.1%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2018, but have remained at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans were well within our established risk management guidelines.

The increase in nonaccrual loans was primarily due to the net effect of two loans from the commercial farmer segment that transferred to nonaccrual, offset by paydowns and payoffs. Nonaccrual loans remained at an acceptable level at December 31, 2019, 2018, and 2017.

The increase in accruing restructured loans was primarily due to the addition of one loan in the agribusiness category being restructured in 2019.

Allowance for Loan Losses

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

Allowance Coverage Ratios

As of December 31	**2019**	2018	2017
Allowance as a percentage of:			
Loans	**0.4%**	0.4%	0.4%
Nonaccrual loans	**151.6%**	203.4%	181.9%
Total risk loans	**119.0%**	177.4%	158.2%
Net charge-offs (recoveries) as a percentage of average loans	**0.0%**	(0.0%)	0.0%
Adverse assets to total regulatory capital	**17.8%**	10.8%	13.6%

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

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

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands)

For the year ended December 31	**2019**	2018	2017
Net income	**$81,969**	$81,721	$70,142
Return on average assets	**1.9%**	2.0%	1.8%
Return on average members' equity	**9.2%**	9.9%	9.0%

Changes in the chart above relate directly to:

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

Changes in Significant Components of Net Income

(in thousands)	For the year ended December 31 2019	2018	2017	Increase (decrease) in net income 2019 vs 2018	2018 vs 2017
Net interest income	**$105,350**	$99,033	$93,708	**$6,317**	$5,325
Provision for loan losses	**2,000**	--	--	**(2,000)**	--
Non-interest income	**30,603**	29,826	26,441	**777**	3,385
Non-interest expense	**51,296**	47,010	48,033	**(4,286)**	1,023
Provision for income taxes	**688**	128	1,974	**(560)**	1,846
Net income	**$81,969**	$81,721	$70,142	**$248**	$11,579

Net Interest Income

Changes in Net Interest Income

(in thousands) For the year ended December 31	2019 vs 2018	2018 vs 2017
Changes in volume	**$7,364**	$4,968
Changes in interest rates	**(855)**	216
Changes in nonaccrual income and other	**(192)**	141
Net change	**$6,317**	$5,325

Net interest income included income on nonaccrual loans that totaled $561 thousand, $752 thousand, and $612 thousand in 2019, 2018, and 2017, respectively. Nonaccrual income is recognized when received in cash, collection of the recorded investment is fully expected, and prior charge-offs have been recovered.

Net interest margin (net interest income as a percentage of average earning assets) was 2.5%, 2.6%, and 2.5% in 2019, 2018, and 2017, respectively. Our net interest margin is sensitive to interest rate changes and competition.

Provision for Loan Losses

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

Non-Interest Income

The change in non-interest income was primarily due to an increase in patronage income, partially offset by a decrease in Allocated Insurance Reserve Accounts (AIRA) distribution.

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

Patronage Income

(in thousands) For the year ended December 31	2019	2018	2017
Wholesale patronage	**$19,080**	$17,067	$15,733
Pool program patronage	**2,219**	2,969	3,272
AgDirect partnership distribution	**1,006**	661	159
Other Farm Credit Institution patronage	**20**	15	16
Total patronage income	**$22,325**	$20,712	$19,180
Form of patronage distributions:			
Cash	**$13,328**	$20,712	$19,180
Stock	**8,997**	--	--
Total patronage income	**$22,325**	$20,712	$19,180

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

We have participated in pool programs in which we sell participation interests in certain loans to AgriBank. As part of these programs, we received patronage income in an amount that approximated the net earnings of the loans, less certain expenses. Net earnings represents the net interest income associated with these loans adjusted for certain fees and costs specific to the related loans as well as adjustments deemed appropriate by AgriBank related to the credit performance of the loans, as applicable. The patronage recorded in 2019 and 2018 included $28 thousand and $89 thousand, respectively, of our share of distributions from the AIRA related to the participations sold to AgriBank. The AIRA was established by the FCSIC when premiums collected increased the level of the Insurance Fund beyond the required secured base amount of 2.0% of insured debt. There were no AIRA distributions in 2017.

We also received a partnership distribution resulting from our participation in the AgDirect trade credit financing program. The AgDirect trade credit financing program is facilitated by another AgriBank District association through a limited liability partnership (AgDirect, LLP), in which we are a partial owner. AgriBank purchases a 100% participation interest in the program loans from AgDirect, LLP. Patronage distributions are paid to AgDirect, LLP, which in turn pays partnership distributions to the participating associations. We received a partnership distribution in an amount that approximated our share of the net earnings of the loans in the program, adjusted for required return on capital and servicing and origination fees.

The fluctuation in AIRA was due to our share of distributions from AIRA of $879 thousand and $2.1 million in 2019 and 2018, respectively. The AIRA was established by the FCSIC when premiums collected increased the level of the Insurance Fund beyond the required secured base amount of 2.0% of insured debt. There were no AIRA distributions in 2017.

Non-Interest Expense

Components of Non-interest Expense

(dollars in thousands)

For the year ended December 31	2019	2018	2017
Salaries and employee benefits	**$29,530**	$27,962	$27,992
Other operating expense:			
Purchased and vendor services	**7,849**	5,851	5,372
Communications	**889**	1,000	1,037
Occupancy and equipment	**3,627**	3,556	3,514
Advertising and promotion	**1,881**	1,583	1,624
Examination	**1,155**	1,069	1,022
Farm Credit System insurance	**3,042**	2,796	4,453
Other	**3,320**	3,193	2,977
Other non-interest expense	**3**	--	42
Total non-interest expense	**$51,296**	$47,010	$48,033
Operating rate	**1.2%**	1.2%	1.3%

Provision for Income Taxes

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

FUNDING AND LIQUIDITY

We borrow from AgriBank, under a note payable, in the form of a line of credit, as described in Note 6 to the accompanying Consolidated Financial Statements. This line of credit is our primary source of liquidity and is used to fund operations and meet current obligations. At December 31, 2019, we had $502.9 million available under our line of credit. We generally apply excess cash to this line of credit. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

Note Payable Information

(dollars in thousands)

For the year ended December 31	2019	2018	2017
Average balance	**$3,413,081**	$3,154,474	$3,022,871
Average interest rate	**2.8%**	2.5%	2.1%

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

CAPITAL ADEQUACY

Total members' equity was $913.6 million, $859.2 million, and $801.8 million at December 31, 2019, 2018, and 2017, respectively. Total members' equity increased $54.4 million from December 31, 2018, primarily due to net income for the year partially offset by patronage distribution accruals.

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

Regulatory Capital Requirements and Ratios

As of December 31	**2019**	2018	2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:						
Common equity tier 1 ratio	**18.0%**	18.4%	18.2%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**18.0%**	18.4%	18.2%	6.0%	2.5%*	8.5%
Total capital ratio	**18.4%**	18.8%	18.6%	8.0%	2.5%*	10.5%
Permanent capital ratio	**18.1%**	18.5%	18.3%	7.0%	N/A	7.0%
Non-risk-adjusted:						
Tier 1 leverage ratio	**19.1%**	19.3%	19.1%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**19.8%**	19.9%	19.6%	1.5%	N/A	1.5%

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

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

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

In addition to these regulatory requirements, we establish an optimum total capital target. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. Our optimum total capital target is to remain above 13.5%, as defined in our 2020 capital plan.

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

RELATIONSHIP WITH AGRIBANK

Borrowing

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

The components of cost of funds under the GFA include:

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

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

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

Investment

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

We are also required to hold additional investment in AgriBank based on contractual agreements under pool programs.

As an AgDirect, LLP association partial owner, we are required to purchase stock in AgDirect, which purchases an equivalent amount of stock in AgriBank. Specifically, the AgDirect trade credit financing program is required to own stock in AgriBank in the amount of 6.0% of the AgDirect program's outstanding participation loan balance at quarter end plus 6.0% of the expected balance to be originated during the following quarter.

Patronage

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

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

- wholesale patronage which includes patronage on our note payable with AgriBank
- pool program patronage based on the net earnings of loan participation interests sold to AgriBank
- distributions based on our share of the net earnings of the loans in the AgDirect trade credit financing program, adjusted for required return on capital and servicing and origination fees

Purchased Services

We purchase various services from AgriBank and SunStream Business Services (SunStream), a division of AgriBank. The services include certain financial and retail systems, financial reporting services, tax reporting services, technology services, and insurance services. The total cost of services we purchased from AgriBank was $1.3 million, $1.3 million, and $1.2 million in 2019, 2018, and 2017, respectively. In January 2020, the FCA provided regulatory approval for the formation of a separate service entity, SunStream. Subsequent to the formation of SunStream, effective April 1, 2020, we will be a partial owner and continue to purchase services from SunStream.

Impact on Members' Investment

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

OTHER RELATIONSHIPS AND PROGRAMS

Relationships with Other Farm Credit Institutions

Capital Markets Group: We participate in the Capital Markets Group (CMG) with two other AgriBank District associations. The CMG focuses on generating revenue and loan volume for the financial benefit of all three participating associations. Management for each association has direct decision-making authority over the loans purchased and serviced for their respective association. The business arrangement provides additional means for diversifying each participant's portfolio, helps reduce concentration risk, and positions the participants for continued growth.

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

CoBank, ACB: We have a relationship with CoBank, ACB (CoBank), a System bank, which involves purchasing and selling participation interests in loans. As part of this relationship, our equity investment in CoBank was $355 thousand at December 31, 2019, 2018, and 2017, respectively.

Farm Credit Foundations: We have a relationship with Farm Credit Foundations (Foundations), a System service corporation, which involves purchasing human resource information systems, and benefit, payroll, and workforce management services. As of December 31, 2019, 2018, and 2017, our investment in Foundations was $32 thousand. The total cost of services we purchased from Foundations was $216 thousand, $195 thousand, and $187 thousand in 2019, 2018, and 2017, respectively.

Rural Business Investment Company: We and other Farm Credit Institutions are among the limited partners for Rural Business Investment Companies (RBICs). Refer to Note 5 to the accompanying Consolidated Financial Statements for further discussion.

Unincorporated Business Entities (UBEs)

In certain circumstances we may establish separate entities to acquire and manage complex collateral, primarily for legal liability purposes.

AgDirect, LLP: We participate in the AgDirect trade credit financing program, which includes origination and refinancing of agriculture equipment loans through independent equipment dealers. The program is facilitated by another AgriBank District association through a limited liability partnership in which we are a partial owner. Our investment in AgDirect, LLP, was $7.8 million, $6.7 million, and $6.2 million at December 31, 2019, 2018, and 2017, respectively.

Programs

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

AgDirect: We participate in the AgDirect trade credit financing program. Refer to the UBEs section for further discussion on this program.

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

REGULATORY MATTERS

Investment Securities Eligibility

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

REPORT OF MANAGEMENT

FCS Financial, ACA

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

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

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

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

Kenneth Bergmann
Chairperson of the Board
FCS Financial, ACA

David D. Janish
Chief Executive Officer
FCS Financial, ACA

Starla Harper
Chief Financial Officer
FCS Financial, ACA

March 11, 2020

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

FCS Financial, ACA

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2019. In making the assessment, management used the 2013 framework in Internal Control — Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2019, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2019.

David D. Janish
Chief Executive Officer
FCS Financial, ACA

Starla Harper
Chief Financial Officer
FCS Financial, ACA

March 11, 2020

REPORT OF AUDIT COMMITTEE

FCS Financial, ACA

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

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

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

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

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

Troy D. Norton
Chairperson of the Audit Committee
FCS Financial, ACA

Additional Audit Committee members:
Mark C. DeShon
David Meneely
Beth Schnitker
David Wright

March 11, 2020

pwc

Report of Independent Auditors

To the Board of Directors of FCS Financial, ACA,

We have audited the accompanying Consolidated Financial Statements of FCS Financial, ACA and its subsidiaries (the Association), which comprise the consolidated statements of condition as of December 31, 2019, 2018, and 2017, and the related consolidated statements of income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of FCS Financial, ACA and its subsidiaries as of December 31, 2019, 2018, and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 11, 2020

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

CONSOLIDATED STATEMENTS OF CONDITION

FCS Financial, ACA

(in thousands)

As of December 31	**2019**	2018	2017
ASSETS			
Loans	**$4,364,514**	$4,075,933	$3,819,508
Allowance for loan losses	**17,013**	15,966	15,915
Net loans	**4,347,501**	4,059,967	3,803,593
Investment in AgriBank, FCB	**98,909**	83,006	79,125
Accrued interest receivable	**49,869**	45,027	40,380
Other property owned	**--**	258	--
Deferred tax assets, net	**553**	1,028	955
Other assets	**65,380**	64,602	60,085
Total assets	**$4,562,212**	$4,253,888	$3,984,138
LIABILITIES			
Note payable to AgriBank, FCB	**$3,577,406**	$3,330,133	$3,131,564
Accrued interest payable	**23,294**	21,775	16,523
Patronage distribution payable	**27,510**	24,010	21,763
Other liabilities	**20,399**	18,795	12,533
Total liabilities	**3,648,609**	3,394,713	3,182,383
Contingencies and commitments (Note 11)			
MEMBERS' EQUITY			
Protected members' equity	**6**	8	8
Capital stock and participation certificates	**11,901**	11,933	12,231
Unallocated surplus	**901,696**	847,234	789,516
Total members' equity	**913,603**	859,175	801,755
Total liabilities and members' equity	**$4,562,212**	$4,253,888	$3,984,138

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

CONSOLIDATED STATEMENTS OF INCOME

FCS Financial, ACA

(in thousands)

For the year ended December 31	**2019**	2018	2017
Interest income	**$200,385**	$178,403	$156,490
Interest expense	**95,035**	79,370	62,782
Net interest income	**105,350**	99,033	93,708
Provision for loan losses	**2,000**	--	--
Net interest income after provision for loan losses	**103,350**	99,033	93,708
Non-interest income			
Patronage income	**22,325**	20,712	19,180
Financially related services income	**4,269**	4,216	4,261
Fee income	**2,898**	2,575	2,587
Allocated Insurance Reserve Accounts distribution	**879**	2,136	--
Other non-interest income	**232**	187	413
Total non-interest income	**30,603**	29,826	26,441
Non-interest expense			
Salaries and employee benefits	**29,530**	27,962	27,992
Other operating expense	**21,763**	19,048	19,999
Other non-interest expense	**3**	--	42
Total non-interest expense	**51,296**	47,010	48,033
Income before income taxes	**82,657**	81,849	72,116
Provision for income taxes	**688**	128	1,974
Net income	**$81,969**	$81,721	$70,142

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

FCS Financial, ACA

(in thousands)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance as of December 31, 2016	$8	$12,598	$741,134	$753,740
Net income	--	--	70,142	70,142
Unallocated surplus designated for patronage distributions	--	--	(21,760)	(21,760)
Capital stock and participation certificates issued	--	858	--	858
Capital stock and participation certificates retired	--	(1,225)	--	(1,225)
Balance as of December 31, 2017	8	12,231	789,516	801,755
Net income	--	--	81,721	81,721
Unallocated surplus designated for patronage distributions	--	--	(24,003)	(24,003)
Capital stock and participation certificates issued	--	877	--	877
Capital stock and participation certificates retired	--	(1,175)	--	(1,175)
Balance as of December 31, 2018	8	11,933	847,234	859,175
Net income	**--**	**--**	**81,969**	**81,969**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(27,507)**	**(27,507)**
Capital stock and participation certificates issued	**--**	**1,018**	**--**	**1,018**
Capital stock and participation certificates retired	**(2)**	**(1,050)**	**--**	**(1,052)**
Balance as of December 31, 2019	**$6**	**$11,901**	**$901,696**	**$913,603**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

FCS Financial, ACA

(in thousands)

For the year ended December 31	**2019**	2018	2017
Cash flows from operating activities			
Net income	**$81,969**	$81,721	$70,142
Depreciation on premises and equipment	**1,507**	1,530	1,601
Gain on sale of premises and equipment, net	**(10)**	(30)	(159)
Amortization of premiums on loans	**48**	115	72
Provision for loan losses	**2,000**	--	--
Stock patronage received from AgriBank, FCB	**(8,997)**	--	--
Gain on other property owned, net	**(52)**	--	(14)
Changes in operating assets and liabilities:			
Increase in accrued interest receivable	**(8,438)**	(7,675)	(5,128)
Increase in other assets	**(275)**	(5,187)	(4,096)
Increase in accrued interest payable	**1,519**	5,252	2,751
Increase (decrease) in other liabilities	**2,582**	6,262	(5,438)
Net cash provided by operating activities	**71,853**	81,988	59,731
Cash flows from investing activities			
Increase in loans, net	**(286,568)**	(253,591)	(158,810)
Purchases of investment in AgriBank, FCB, net	**(6,906)**	(3,881)	(1,946)
Purchases of investment in other Farm Credit Institutions, net	**(1,089)**	(516)	(1,529)
Proceeds from sales of other property owned	**310**	--	1,081
Purchases of premises and equipment, net	**(435)**	(387)	(21)
Net cash used in investing activities	**(294,688)**	(258,375)	(161,225)
Cash flows from financing activities			
Increase in note payable to AgriBank, FCB, net	**247,273**	198,569	114,495
Patronage distributions paid	**(24,007)**	(21,756)	(12,512)
Capital stock and participation certificates retired, net	**(431)**	(426)	(489)
Net cash provided by financing activities	**222,835**	176,387	101,494
Net change in cash	**--**	--	--
Cash at beginning of year	**--**	--	--
Cash at end of year	**$ --**	$ --	$ --
Supplemental schedule of non-cash activities			
Stock financed by loan activities	**$979**	$834	$824
Stock applied against loan principal	**579**	703	699
Stock applied against loan interest	**3**	3	3
Interest transferred to loans	**3,593**	3,025	2,126
Loans transferred to other property owned	**--**	258	--
Patronage distributions payable to members	**27,510**	24,010	21,763
Exchange of non-cash assets or liabilities	**(978)**	--	--
Supplemental information			
Interest paid	**$93,516**	$74,118	$60,031
Taxes paid, net	**171**	321	543

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FCS Financial, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

Farm Credit System and District

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

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

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

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

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

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

Association

FCS Financial, ACA (the Association) and its subsidiaries, FCS Financial, FLCA and FCS Financial, PCA (subsidiaries) are lending institutions of the System. We are a customer-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in 102 counties in the state of Missouri.

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

We offer credit life, term life, credit disability, crop hail, and multi-peril crop insurance to borrowers and those eligible to borrow. We also offer fee appraisals. In addition, we offer leasing through Farm Credit Leasing Services Corporation.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Reporting Policies

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

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

Principles of Consolidation

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

Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

Other Investments: The carrying amount of the investments in the Rural Business Investment Companies, in which we are a limited partner and hold a non-controlling interest, are at cost and are included in "Other assets" in the Consolidated Statements of Condition. The investments are assessed for impairment. If impairment exists, losses are included in "Net income" in the Consolidated Statements of Income in the year of impairment. Income on the investments are limited to distributions received. In circumstances when distributions exceed our share of earnings after the date of the investment, these distributions are applied to reduce the carrying value of the investment and are not recognized as income.

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

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

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

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

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

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

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

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

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

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

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

Off-Balance Sheet Credit Exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. Any reserve for unfunded lending commitments and unexercised letters of credit is based on management’s best estimate of losses inherent in these instruments, but the commitments have not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement are utilized in determining a reserve, if needed. Based on our assessment, any reserve would be recorded in “Other liabilities” in the Consolidated Statements of Condition and a corresponding loss would be recorded in “Provision for credit losses” in the Consolidated Statements of Income. However, no such reserve was necessary as of December 31, 2019, 2018, or 2017.

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

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

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

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

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

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

Recently Issued or Adopted Accounting Pronouncements

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

Standard and effective date	Description	Adoption status and financial statement impact
In February 2016, the FASB issued Accounting Standards Updated (ASU) 2016-02 "Leases." In July 2018, the FASB issued ASU 2018-11 "Leases (Topic 842): Targeted Improvements." The guidance was effective for public business entities in its first quarter of 2019 and early adoption was permitted.	The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases. Upon adoption, a liability for lease obligations and a corresponding right-of-use asset is recognized on the Consolidated Statements of Condition for all lease arrangements spanning more than 12 months. The guidance includes an optional transition method where an entity is permitted to apply the guidance as of the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings.	We adopted this guidance on January 1, 2019. The adoption of this guidance did not have a material impact on our financial condition, results of operations, and financial statement disclosures, and had no impact on cash flows.
In August 2018, the FASB issued ASU 2018-15 "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract." The guidance is effective for our first quarter of 2020 and early adoption is permitted.	The guidance clarifies that implementation costs incurred in a hosting arrangement that is a service contract should be accounted for in the same manner as implementation costs incurred to develop or obtain internal-use software.	We adopted this guidance on January 1, 2020. Based on our analysis, this new guidance is not expected to have a material impact on our financial condition, results of operations, cash flows, and financial statement disclosures.
In June 2016, the FASB issued ASU 2016-13 "Financial Instruments - Credit Losses." The guidance was originally effective for non-U.S. Securities Exchange Commission filers for our first quarter of 2021. In November 2019, the FASB issued ASU 2019-10 which amends the mandatory effective date for this guidance for certain institutions. We have determined we qualify for the deferral of the mandatory effective date. As a result of the change, the standard is effective for our first quarter of 2023 and early adoption is permitted.	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	We are evaluating the deferral and have not yet determined if we will early adopt the standard. We have reviewed the accounting standard, selected and substantially completed development and testing of our system, and are in the process of drafting disclosures. Significant implementation matters yet to be addressed include drafting of accounting policies and designing processes and controls. We are currently unable to estimate the impact on our financial statements.

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)	**2019**		2018		2017	
As of December 31	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$2,586,551**	**59.3%**	$2,342,822	57.5%	$2,126,626	55.7%
Production and intermediate-term	**666,736**	**15.3%**	671,044	16.5%	755,647	19.8%
Agribusiness	**835,355**	**19.1%**	820,552	20.1%	750,158	19.6%
Other	**275,872**	**6.3%**	241,515	5.9%	187,077	4.9%
Total	**$4,364,514**	**100.0%**	$4,075,933	100.0%	$3,819,508	100.0%

The other category is primarily composed of rural infrastructure related loans and other diversified industries in our capital markets portfolio.

Portfolio Concentrations

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

As of December 31, 2019, volume plus commitments to our ten largest borrowers totaled an amount equal to 4.7% of total loans and commitments.

Total loans plus any unfunded commitments represent a proportionate maximum potential credit risk. However, substantial portions of our lending activities are collateralized. Accordingly, the credit risk associated with lending activities is less than the recorded loan principal. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock. Long-term real estate loans are secured by the first liens on the underlying real property.

Participations

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

Participations Purchased and Sold

(in thousands)	AgriBank Participations	Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations	Total Participations	
As of December 31, 2019	Sold	Purchased	Sold	Purchased	Purchased	Sold
Real estate mortgage	**($89,127)**	**$218,636**	**($39,669)**	**$70,887**	**$289,523**	**($128,796)**
Production and intermediate-term	**--**	**3,718**	**(11,586)**	**--**	**3,718**	**(11,586)**
Agribusiness	**(176)**	**707,732**	**(114,415)**	**10,244**	**717,976**	**(114,591)**
Other	**--**	**251,790**	**--**	**--**	**251,790**	**--**
Total	**($89,303)**	**$1,181,876**	**($165,670)**	**$81,131**	**$1,263,007**	**($254,973)**

	AgriBank Participations	Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations	Total Participations	
As of December 31, 2018	Sold	Purchased	Sold	Purchased	Purchased	Sold
Real estate mortgage	($87,912)	$166,039	($17,972)	$31,897	$197,936	($105,884)
Production and intermediate-term	--	6,878	(9,901)	--	6,878	(9,901)
Agribusiness	(282)	696,932	(81,166)	--	696,932	(81,448)
Other	--	222,362	--	--	222,362	--
Total	($88,194)	$1,092,211	($109,039)	$31,897	$1,124,108	($197,233)

	AgriBank Participations	Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations	Total Participations	
As of December 31, 2017	Sold	Purchased	Sold	Purchased	Purchased	Sold
Real estate mortgage	($107,915)	$82,612	($19,906)	$21,243	$103,855	($127,821)
Production and intermediate-term	--	88,426	(7,487)	--	88,426	(7,487)
Agribusiness	(229)	659,992	(96,621)	--	659,992	(96,850)
Other	--	170,445	--	--	170,445	--
Total	($108,144)	$1,001,475	($124,014)	$21,243	$1,022,718	($232,158)

Credit Quality and Delinquency

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

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

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

Credit Quality of Loans

(dollars in thousands)	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2019	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$2,475,360**	**94.5%**	**$64,815**	**2.5%**	**$79,355**	**3.0%**	**$2,619,530**	**100.0%**
Production and intermediate-term	**591,027**	**87.0%**	**41,388**	**6.1%**	**47,168**	**6.9%**	**679,583**	**100.0%**
Agribusiness	**810,682**	**96.6%**	**10,151**	**1.2%**	**18,118**	**2.2%**	**838,951**	**100.0%**
Other	**271,510**	**98.3%**	**1,746**	**0.6%**	**3,063**	**1.1%**	**276,319**	**100.0%**
Total	**$4,148,579**	**94.0%**	**$118,100**	**2.7%**	**$147,704**	**3.3%**	**$4,414,383**	**100.0%**

As of December 31, 2018	Acceptable Amount	%	Special Mention Amount	%	Substandard/ Doubtful Amount	%	Total Amount	%
Real estate mortgage	$2,286,684	96.5%	$45,429	1.9%	$38,176	1.6%	$2,370,289	100.0%
Production and intermediate-term	610,546	89.2%	43,483	6.4%	30,038	4.4%	684,067	100.0%
Agribusiness	805,250	97.7%	2,596	0.3%	16,837	2.0%	824,683	100.0%
Other	236,186	97.7%	5,630	2.3%	105	0.0%	241,921	100.0%
Total	$3,938,666	95.5%	$97,138	2.4%	$85,156	2.1%	$4,120,960	100.0%

As of December 31, 2017	Acceptable Amount	%	Special Mention Amount	%	Substandard/ Doubtful Amount	%	Total Amount	%
Real estate mortgage	$2,051,451	95.4%	$41,025	1.9%	$58,691	2.7%	$2,151,167	100.0%
Production and intermediate-term	669,611	87.3%	63,232	8.2%	34,637	4.5%	767,480	100.0%
Agribusiness	742,748	98.6%	3,901	0.5%	6,910	0.9%	753,559	100.0%
Other	187,570	99.9%	--	0.0%	112	0.1%	187,682	100.0%
Total	$3,651,380	94.6%	$108,158	2.8%	$100,350	2.6%	$3,859,888	100.0%

Note: Accruing loans include accrued interest receivable.

Aging Analysis of Loans

(in thousands) **As of December 31, 2019**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total
Real estate mortgage	**$4,300**	**$23**	**$4,323**	**$2,615,207**	**$2,619,530**
Production and intermediate-term	**2,106**	**929**	**3,035**	**676,548**	**679,583**
Agribusiness	**--**	**17**	**17**	**838,934**	**838,951**
Other	**--**	**--**	**--**	**276,319**	**276,319**
Total	**$6,406**	**$969**	**$7,375**	**$4,407,008**	**$4,414,383**

As of December 31, 2018	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total
Real estate mortgage	$1,349	$180	$1,529	$2,368,760	$2,370,289
Production and intermediate-term	1,278	175	1,453	682,614	684,067
Agribusiness	252	--	252	824,431	824,683
Other	224	--	224	241,697	241,921
Total	$3,103	$355	$3,458	$4,117,502	$4,120,960

As of December 31, 2017	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total
Real estate mortgage	$1,887	$1,113	$3,000	$2,148,167	$2,151,167
Production and intermediate-term	1,324	959	2,283	765,197	767,480
Agribusiness	--	85	85	753,474	753,559
Other	112	--	112	187,570	187,682
Total	$3,323	$2,157	$5,480	$3,854,408	$3,859,888

Note: Accruing loans include accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest at December 31, 2019, 2018, or 2017.

Risk Loans

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

Risk Loan Information

(in thousands) As of December 31	**2019**	2018	2017
Nonaccrual loans:			
Current as to principal and interest	**$9,964**	$7,204	$6,066
Past due	**1,257**	646	2,685
Total nonaccrual loans	**11,221**	7,850	8,751
Accruing restructured loans	**3,081**	1,151	1,310
Accruing loans 90 days or more past due	**--**	--	--
Total risk loans	**$14,302**	$9,001	$10,061
Volume with specific allowance	**$2,280**	$2,547	$1,141
Volume without specific allowance	**12,022**	6,454	8,920
Total risk loans	**$14,302**	$9,001	$10,061
Total specific allowance	**$705**	$874	$648

For the year ended December 31	**2019**	2018	2017
Income on accrual risk loans	**$62**	$61	$65
Income on nonaccrual loans	**561**	752	612
Total income on risk loans	**$623**	$813	$677
Average risk loans	**$11,838**	$8,192	$10,003

Note: Accruing loans include accrued interest receivable.

Nonaccrual Loans by Loan Type

(in thousands) As of December 31	**2019**	2018	2017
Real estate mortgage	**$6,927**	$4,216	$6,514
Production and intermediate-term	**4,060**	1,267	2,152
Agribusiness	**59**	2,367	85
Other	**175**	--	--
Total	**$11,221**	$7,850	$8,751

Additional Impaired Loan Information by Loan Type

	As of December 31, 2019			**For the year ended December 31, 2019**	
(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	**$ --**	**$ --**	**$ --**	**$ --**	**$ --**
Production and intermediate-term	**2,263**	**2,495**	**617**	**2,140**	**--**
Agribusiness	**17**	**302**	**88**	**13**	**--**
Other	**--**	**--**	**--**	**--**	**--**
Total	**$2,280**	**$2,797**	**$705**	**$2,153**	**$ --**
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	**$7,664**	**$8,453**	**$ --**	**$5,881**	**$290**
Production and intermediate-term	**2,192**	**3,847**	**--**	**2,073**	**332**
Agribusiness	**1,991**	**3,733**	**--**	**1,599**	**1**
Other	**175**	**202**	**--**	**132**	**--**
Total	**$12,022**	**$16,235**	**$ --**	**$9,685**	**$623**
Total impaired loans:					
Real estate mortgage	**$7,664**	**$8,453**	**$ --**	**$5,881**	**$290**
Production and intermediate-term	**4,455**	**6,342**	**617**	**4,213**	**332**
Agribusiness	**2,008**	**4,035**	**88**	**1,612**	**1**
Other	**175**	**202**	**--**	**132**	**--**
Total	**$14,302**	**$19,032**	**$705**	**$11,838**	**$623**

	As of December 31, 2018			For the year ended December 31, 2018	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$87	$87	$4	$104	$ --
Production and intermediate-term	209	226	167	229	--
Agribusiness	2,251	2,284	703	408	--
Other	--	--	--	--	--
Total	$2,547	$2,597	$874	$741	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$4,655	$5,307	$ --	$5,526	$639
Production and intermediate-term	1,683	3,561	--	1,845	174
Agribusiness	116	1,321	--	80	--
Other	--	43	--	--	--
Total	$6,454	$10,232	$ --	$7,451	$813
Total impaired loans:					
Real estate mortgage	$4,742	$5,394	$4	$5,630	$639
Production and intermediate-term	1,892	3,787	167	2,074	174
Agribusiness	2,367	3,605	703	488	--
Other	--	43	--	--	--
Total	$9,001	$12,829	$874	$8,192	$813

	As of December 31, 2017			For the year ended December 31, 2017	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ --	$ --	$ --	$ --	$ --
Production and intermediate-term	1,059	1,252	591	1,185	--
Agribusiness	82	79	57	78	--
Other	--	--	--	--	--
Total	$1,141	$1,331	$648	$1,263	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$7,065	$8,258	$ --	$6,666	$484
Production and intermediate-term	1,852	4,540	--	2,071	193
Agribusiness	3	3,389	--	3	--
Other	--	43	--	--	--
Total	$8,920	$16,230	$ --	$8,740	$677
Total impaired loans:					
Real estate mortgage	$7,065	$8,258	$ --	$6,666	$484
Production and intermediate-term	2,911	5,792	591	3,256	193
Agribusiness	85	3,468	57	81	--
Other	--	43	--	--	--
Total	$10,061	$17,561	$648	$10,003	$677

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

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

We did not have any material commitments to lend additional money to borrowers whose loans were classified as risk loans at December 31, 2019.

Troubled Debt Restructurings (TDRs)

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

TDR Activity

(in thousands)

For the year ended December 31	**2019**		2018		2017	
	Pre-modification	Post-modification	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	**$2,238**	**$2,238**	$746	$746	$861	$868
Production and intermediate-term	**2,081**	**2,078**	126	126	671	664
Agribusiness	**1,955**	**1,947**	82	82	--	--
Total	**$6,274**	**$6,263**	$954	$954	$1,532	$1,532

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

The primary types of modification included deferral of principal and extension of maturity.

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

TDRs Outstanding

(in thousands)

As of December 31	**2019**	2018	2017
Accrual status:			
Real estate mortgage	**$738**	$527	$551
Production and intermediate-term	**395**	624	759
Agribusiness	**1,949**	--	--
Total TDRs in accrual status	**$3,082**	$1,151	$1,310
Nonaccrual status:			
Real estate mortgage	**$3,246**	$1,725	$1,487
Production and intermediate-term	**2,578**	503	650
Agribusiness	**42**	116	--
Total TDRs in nonaccrual status	**$5,866**	$2,344	$2,137
Total TDRs:			
Real estate mortgage	**$3,984**	$2,252	$2,038
Production and intermediate-term	**2,973**	1,127	1,409
Agribusiness	**1,991**	116	--
Total TDRs	**$8,948**	$3,495	$3,447

There were no material commitments to lend to borrowers whose loans have been modified in a TDR at December 31, 2019.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands)

For the year ended December 31	**2019**	2018	2017
Balance at beginning of year	**$15,966**	$15,915	$16,428
Provision for loan losses	**2,000**	--	--
Loan recoveries	**283**	217	276
Loan charge-offs	**(1,236)**	(166)	(789)
Balance at end of year	**$17,013**	$15,966	$15,915

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

(in thousands)	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2018	**$4,011**	**$5,671**	**$5,413**	**$871**	**$15,966**
Provision for (reversal of) loan losses	**269**	**1,335**	**644**	**(248)**	**2,000**
Loan recoveries	**46**	**145**	**92**	**--**	**283**
Loan charge-offs	**(52)**	**(406)**	**(778)**	**--**	**(1,236)**
Balance as of December 31, 2019	**$4,274**	**$6,745**	**$5,371**	**$623**	**$17,013**
Ending balance: individually evaluated for impairment	**$ --**	**$617**	**$88**	**$ --**	**$705**
Ending balance: collectively evaluated for impairment	**$4,274**	**$6,128**	**$5,283**	**$623**	**$16,308**
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2019	**$2,619,530**	**$679,583**	**$838,951**	**$276,319**	**$4,414,383**
Ending balance: individually evaluated for impairment	**$7,664**	**$4,455**	**$2,008**	**$175**	**$14,302**
Ending balance: collectively evaluated for impairment	**$2,611,866**	**$675,128**	**$836,943**	**$276,144**	**$4,400,081**

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2017	$3,771	$7,615	$3,826	$703	$15,915
Provision for (reversal of) loan losses	181	(1,957)	1,608	168	--
Loan recoveries	74	139	4	--	217
Loan charge-offs	(15)	(126)	(25)	--	(166)
Balance as of December 31, 2018	$4,011	$5,671	$5,413	$871	$15,966
Ending balance: individually evaluated for impairment	$4	$167	$703	$ --	$874
Ending balance: collectively evaluated for impairment	$4,007	$5,504	$4,710	$871	$15,092
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2018	$2,370,289	$684,067	$824,683	$241,921	$4,120,960
Ending balance: individually evaluated for impairment	$4,742	$1,892	$2,367	$ --	$9,001
Ending balance: collectively evaluated for impairment	$2,365,547	$682,175	$822,316	$241,921	$4,111,959

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2016	$3,907	$8,057	$3,673	$791	$16,428
Provision for (reversal of) loan losses	46	(66)	108	(88)	--
Loan recoveries	46	167	63	--	276
Loan charge-offs	(228)	(543)	(18)	--	(789)
Balance as of December 31, 2017	$3,771	$7,615	$3,826	$703	$15,915
Ending balance: individually evaluated for impairment	$ --	$591	$57	$ --	$648
Ending balance: collectively evaluated for impairment	$3,771	$7,024	$3,769	$703	$15,267
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2017	$2,151,167	$767,480	$753,559	$187,682	$3,859,888
Ending balance: individually evaluated for impairment	$7,065	$2,911	$85	$ --	$10,061
Ending balance: collectively evaluated for impairment	$2,144,102	$764,569	$753,474	$187,682	$3,849,827

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

NOTE 4: INVESTMENT IN AGRIBANK

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

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

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

NOTE 5: OTHER INVESTMENTS

We and other Farm Credit Institutions are among the limited partners for Rural Business Investment Companies (RBICs). Our total commitment is $10.0 million, with varying commitment end dates through November 2023. Certain commitments may have an option to extend under certain circumstances. Our investment in the RBICs totaled $2.2 million, $555 thousand, and $180 thousand at December 31, 2019, 2018, and 2017, respectively.

The investments were evaluated for impairment. For the years ended December 31, 2019, 2018, and 2017, we have not recognized any impairment on these investments.

NOTE 6: NOTE PAYABLE TO AGRIBANK

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

Note Payable Information

(dollars in thousands) As of December 31	**2019**	2018	2017
Line of credit	**$4,100,000**	$3,500,000	$3,500,000
Outstanding principal under the line of credit	**3,577,406**	3,330,133	3,131,564
Interest rate	**2.6%**	2.7%	2.2%

Our note payable is scheduled to mature on December 31, 2021. The note payable will be renegotiated no later than the maturity date.

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

NOTE 7: MEMBERS' EQUITY

Capitalization Requirements

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

Protection Mechanisms

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

Regulatory Capitalization Requirements

Regulatory Capital Requirements and Ratios

As of December 31	**2019**	2018	2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:						
Common equity tier 1 ratio	**18.0%**	18.4%	18.2%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**18.0%**	18.4%	18.2%	6.0%	2.5%*	8.5%
Total capital ratio	**18.4%**	18.8%	18.6%	8.0%	2.5%*	10.5%
Permanent capital ratio	**18.1%**	18.5%	18.3%	7.0%	N/A	7.0%
Non-risk-adjusted:						
Tier 1 leverage ratio	**19.1%**	19.3%	19.1%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**19.8%**	19.9%	19.6%	1.5%	N/A	1.5%

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

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

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

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

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

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

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

Description of Equities

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

	Number of Shares		
As of December 31	**2019**	2018	2017
Class A common stock (protected)	**1,243**	1,636	1,641
Class C common stock (at-risk)	**2,328,265**	2,340,417	2,406,587
Participation certificates (at-risk)	**51,986**	46,236	39,496
Series 1 participation certificates (protected)	**8**	8	8

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

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

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

In the event of our liquidation or dissolution, according to our bylaws, any remaining assets after payment or retirement of all liabilities will be distributed to holders of Class F preferred stock and then pro rata to holders of all common stock and participation certificates.

In the event of impairment, losses will be absorbed first by all classes common stock and participation certificates and then by preferred stock; however, protected stock will be retired at par value regardless of impairment.

All classes of common stock and participation certificates are transferable to other customers who are eligible to hold such class as long as we meet the regulatory minimum capital requirements.

Patronage Distributions

We accrued patronage distributions of $27.5 million, $24.0 million, and $21.8 million at December 31, 2019, 2018, and 2017, respectively. Generally, the patronage distributions are paid in cash during the first quarter after year end. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements.

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

NOTE 8: INCOME TAXES

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

Provision for Income Taxes

Provision for Income Taxes

(dollars in thousands) For the year ended December 31	**2019**	2018	2017
Current:			
Federal	**$213**	$201	$597
Total current	**$213**	$201	$597
Deferred:			
Federal	**$475**	($73)	$1,377
Total deferred	**475**	(73)	1,377
Provision for income taxes	**$688**	$128	$1,974
Effective tax rate	**0.8%**	0.2%	2.7%

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

(in thousands) For the year ended December 31	**2019**	2018	2017
Federal tax at statutory rates	**$17,358**	$17,188	$24,520
Patronage distributions	**(949)**	(1,256)	(494)
Effect of non-taxable entity	**(16,115)**	(15,768)	(22,754)
Change in statutory tax rates due to the Tax Cuts and Jobs Act	**--**	--	715
Other	**394**	(36)	(13)
Provision for income taxes	**$688**	$128	$1,974

Deferred Income Taxes

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

Deferred Tax Assets and Liabilities

(in thousands) As of December 31	**2019**	2018	2017
Allowance for loan losses	**$1,854**	$1,890	$1,887
Postretirement benefit accrual	**164**	175	190
Accrued incentive	**254**	214	221
Accrued patronage income not received	**(231)**	--	(292)
AgriBank 2002 allocated stock	**(317)**	(317)	(317)
Accrued pension asset	**(972)**	(745)	(581)
Other assets	**2**	12	47
Other liabilities	**(201)**	(201)	(200)
Deferred tax assets, net	**$553**	$1,028	$955
Gross deferred tax assets	**$2,274**	$2,291	$2,345
Gross deferred tax liabilities	**($1,721)**	($1,263)	($1,390)

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

We have not provided for deferred income taxes on patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. Our total permanent investment in AgriBank is $24.2 million. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $816.4 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

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

NOTE 9: EMPLOYEE BENEFIT PLANS

Pension and Post-Employment Benefit Plans

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

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

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

AgriBank District Retirement Plan Information

(in thousands)

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

For the year ended December 31	**2019**	2018	2017
Total plan expense	**$36,636**	$51,900	$44,730
Our allocated share of plan expenses	**1,830**	2,659	2,363
Contributions by participating employers	**90,000**	90,000	90,000
Our allocated share of contributions	**4,748**	4,768	4,935

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

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

Benefits paid to participants in the District were $68.8 million in 2019. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total District employer contributions expected to be paid into the pension plan during 2020 is $90.0 million. Our allocated share of these pension contributions is expected to be $4.7 million. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the District financial statements.

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

Retiree Medical Plan Information

(in thousands)

For the year ended December 31	**2019**	2018	2017
Postretirement benefit (income) expense	**($17)**	($45)	$109
Our cash contributions	**120**	143	131

The 2019 and 2018 postretirement benefit income is due to an actuarial gain. Postretirement benefit (income) expense is included in "Salaries and employee benefits" in the Consolidated Statements of Income. Our cash contributions are equal to the benefits paid.

Defined Contribution Plans

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

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

Employer contribution expenses for the defined contribution plan, included in “Salaries and employee benefits” in the Consolidated Statements of Income, were $1.5 million, $1.3 million, and $1.3 million in 2019, 2018, and 2017, respectively. These expenses were equal to our cash contributions for each year.

NOTE 10: RELATED PARTY TRANSACTIONS

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

Related Party Loans Information

(in thousands)

As of December 31	**2019**	2018	2017
Total related party loans	**$19,394**	$17,149	$16,061
For the year ended December 31	**2019**	2018	2017
Advances to related parties	**$14,667**	$11,934	$10,541
Repayments by related parties	**12,936**	10,935	8,721

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

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

Total patronage received from AgriBank, which includes a partnership distribution from AgDirect, LLP, was $22.3 million, $20.7 million, and $19.2 million in 2019, 2018, and 2017, respectively. Patronage income for 2019 was paid in cash and AgriBank stock. Patronage income for 2018 and 2017 was paid in cash.

In addition, we received compensation from AgriBank for servicing loans of $164 thousand, $194 thousand, and $237 thousand in 2019, 2018, and 2017, respectively.

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

We purchase various services from AgriBank and SunStream Business Services (SunStream), a division of AgriBank. The services include certain financial and retail systems, financial reporting services, tax reporting services, technology services, and insurance services. The total cost of services we purchased from AgriBank was $1.3 million, $1.3 million, and $1.2 million in 2019, 2018, and 2017, respectively. In January 2020, the FCA provided regulatory approval for the formation of a separate service entity, SunStream. Effective April 1, 2020, we will be a partial owner and continue to purchase services from SunStream.

We also purchase human resource information systems, benefit, payroll, and workforce management services from Farm Credit Foundations (Foundations). As of December 31, 2019, 2018, and 2017, our investment in Foundations was $32 thousand. The total cost of services purchased from Foundations was $216 thousand, $195 thousand, and $187 thousand in 2019, 2018, and 2017, respectively.

NOTE 11: CONTINGENCIES AND COMMITMENTS

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

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

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk that may be recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2019, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $884.5 million. Additionally, we had $9.3 million of issued standby letters of credit as of December 31, 2019.

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

We are among the limited partners in RBICs. Refer to Note 5 for additional discussion regarding these commitments.

NOTE 12: FAIR VALUE MEASUREMENTS

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

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

Non-Recurring

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

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)

As of December 31, 2019	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	**$ --**	**$ --**	**$1,654**	**$1,654**
Other property owned	**--**	**--**	**--**	**--**

As of December 31, 2018	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ --	$1,757	$1,757
Other property owned	--	--	268	268

As of December 31, 2017	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ --	$518	$518
Other property owned	--	--	--	--

Valuation Techniques

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

Other property owned: Represents the fair value of foreclosed assets measured based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the property and other matters, they are classified as Level 3.

NOTE 13: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 11, 2020, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our 2019 Consolidated Financial Statements or disclosure in the Notes to Consolidated Financial Statements.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

FCS Financial, ACA
(Unaudited)

Description of Business

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

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

Description of Property

Property Information

Location	Description	Usage
Jefferson City	Owned	Headquarters
Jefferson City	Leased	Corporate
Cameron	Owned	Branch
Chillicothe	Owned	Branch
Columbia	Owned	Branch
Farmington	Leased	Branch
Hannibal	Owned	Branch
Harrisonville	Owned	Branch
Higginsville	Owned	Branch
Jefferson City	Owned	Branch
Joplin	Owned	Branch
Lebanon	Leased	Branch
Macon	Owned	Branch
Marshall	Owned	Branch
Maryville	Owned	Branch
Mexico	Owned	Branch
Nevada	Owned	Branch
O'Fallon	Owned	Branch
St. Joseph	Owned	Branch
Sedalia	Owned	Branch
Springfield	Owned	Branch
Union	Leased	Branch
West Plains	Leased	Branch

Legal Proceedings

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

Additional Regulatory Capital Disclosure

Regulatory Capital Ratios Pursuant to FCA Regulation 620.5

As of December 31	2014	2013	2012
Permanent capital ratio	17.3%	16.2%	17.1%
Total surplus ratio	16.9%	15.8%	16.6%
Core surplus ratio	16.9%	15.8%	16.6%

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

Description of Capital Structure

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

Description of Liabilities

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

Selected Financial Data

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

Management's Discussion and Analysis

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

Board of Directors

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

Name	Term	Principal occupation and other business affiliations
Kenneth Bergmann Chairperson Service Began: 2010	2019-2023	**Principal occupation:** Self-employed grain and livestock farmer Corporate Sales Manager: S&H Farm Supply
Michael L. Cook Outside Director Service Began: 1990	2017-2020	**Principal occupation:** Professor: Department of Agricultural and Applied Economics, Division of Applied Social Sciences, University of Missouri-Columbia
Glen Cope Service Began: 2018	2018-2021	**Principal occupation:** Self-employed cattle farmer **Other business affiliations:** Board Member: MFA Oil
Mark C. DeShon Service Began: 2006	2018-2021	**Principal occupation:** Self-employed livestock and grain farmer
Dan Devlin Service Began: 2009	2018-2021	**Principal occupation:** Self-employed grain farmer **Other business affiliations:** Member: Knox County Soil and Water Conservation District Board Member: MU Greenley Research Center Advisory Board Member: St. Joseph Church Finance Committee Advisory Committee: FCS Financial Rural Community and Agriculture Foundation
Sherry Jones Service Began: 2012	2017-2020	**Principal occupation:** Self-employed grain and livestock farmer **Other business affiliations:** Member: Missouri State Fair Commission Member: Missouri Agricultural and Small Business Development Authority Board of Directors Member: Livingston County Farm Bureau, Vice President Member: Calvary Baptist Church Finance Committee
David Meneely Outside Director Service Began: 1990	2018-2021	**Principal occupation:** County Executive Director: Livingston County Farm Service Agency - retired 2015
Troy D. Norton Outside Director Service Began: 2013	2019-2023	**Principal occupation:** CPA: member-owner of Williams-Keepers, LLC **Other business affiliations:** Board member: Heart of Missouri United Way
Mark Pierce Vice Chairperson Service Began: 2003	2019-2022	**Principal occupation:** Self-employed grain and livestock farmer Dealer: Asgrow/DeKalb Monsanto Seed **Other business affiliations:** Board Member: Buchanan County Farm Bureau Advisor: Regional Development Disability Advisory Council Advisory Committee: FCS Financial Rural Community and Agriculture Foundation Member: AgriBank District Farm Credit Council Member: Farm Credit Council Member: AgriBank Nominating Committee
Rick Rehmeier Service Began: 2011	2017-2020	**Principal occupation:** Self-employed grain and livestock farmer **Other business affiliations:** Advisory Committee: FCS Financial Rural Community and Agriculture Foundation, President Advisor/Investor: Heritage Community Bank

Name	Term	Principal occupation and other business affiliations
Dale Ridder	2019-2023	**Principal occupation:**
		Self-employed grain and livestock farmer
		Other business affiliations:
		President: Hermann Area District Hospital Board of Directors
		President: Three Rivers' Helping Hands Community Foundation Board of Trustees
		Member: Hermann Area Chamber of Commerce Board of Directors
Service Began: 2019		Vice Chairman: Gasconade County Industrial Development Authority
Beth Schnitker	2018-2021	**Principal occupation:**
		Self-employed grain and livestock farmer
		Agent: New York Life Insurance Company
		Other business affiliations:
		Member: Audrain County Cattlemen's Association
Service Began: 2018		Member: AgriBank Nominating Committee
David Stubblefield	2017-2020	**Principal occupation:**
		Self-employed livestock farmer
		Other business affiliations:
Service Began: 2017		Member: Oregon County Soil and Water Conservation District Board, Chair
Jared Wareham	2017-2020	**Principal occupation:**
		Self-employed cow-calf farmer
		General Manager: Top Dollar Angus, Inc., Angus genetics certification
		Other business affiliations:
Service Began: 2017		Drovers magazine columnist
David Wright	2019-2023	**Principal occupation:**
		Self-employed grain and livestock farmer
		Other business affiliations:
		President: Missouri Rural Electric Cooperative Board of Directors
Service Began: 2019		Vice President: Northeast Power Electric Cooperative Board of Directors

Pursuant to our bylaws, directors are paid an annual retainer of $8,000 for attendance at board meetings, committee meetings, or other special assignments. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or assignments. The Board of Directors has adopted a rate of $600 per day. The directors are also compensated $0.50 per mile honorarium for travel time. In recognition of the additional duties and responsibilities, the Chairperson and Vice Chairperson received an additional annual retainer of $3,000 and $1,750, respectively. Committee chairpersons are paid an additional annual retainer of $1,200. All retainers are paid biannually in January and July.

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

	Number of Days Served		Compensation Paid for Service on a Board Committee		
Name	Board Meetings	Other Official Activities		Name of Committee	Total Compensation Paid in 2019
Kenneth Bergmann	11.0	28.0	$5,700	Governance & Compensation ($2,400); Executive ($3,300)	$30,094
Michael L. Cook	9.0	3.0	1,200	Governance & Compensation	16,863
Glen Cope	10.0	20.0	6,900	Legislative	28,843
Mark C. DeShon	10.0	15.5	6,300	Legislative ($5,700); Audit ($600)	30,126
Dan Devlin	10.0	14.0	3,600	Legislative	25,249
Daniel Hulse[1]	3.0	9.0	2,700	Audit	12,340
Sherry Jones	10.0	23.5	5,400	Legislative	32,843
David Meneely	11.0	13.0	3,000	Audit	25,516
Troy D. Norton	10.0	11.0	4,500	Audit ($2,700); Executive ($1,800)	22,448
Mark Pierce	11.0	27.0	5,700	Governance & Compensation ($2,400); Executive ($3,300)	35,855
Rick Rehmeier	11.0	16.5	5,400	Governance & Compensation ($4,800); Executive ($600)	26,781
Dale Ridder[2]	7.0	14.0	2,700	Legislative	17,258
Beth Schnitker	9.0	28.0	3,000	Audit	32,161
Charles Steck[1]	4.0	16.5	4,800	Legislative ($3,300); Audit ($1,500)	16,829
David Stubblefield	11.0	10.5	2,400	Governance & Compensation	23,788
Jared Wareham	9.0	13.0	2,700	Legislative	24,252
David Wright[2]	6.0	7.0	1,500	Audit	13,202
					$414,448

[1]Term expired May 2019

[2]Term commenced June 2019

Senior Officers

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

Name and Position	Business experience and other business affiliations
David D. Janish Chief Executive Officer	**Business experience:** Chief Executive Officer from August 2013 to present **Other business affiliations:** Board member of Agriculture Leaders of Tomorrow Board member of College of Agriculture, Food and Natural Resources Foundation Advisory Committee: FCS Financial Rural Community and Agriculture Foundation Board member of SunStream Interim Board
John Bandy General Counsel	**Business experience:** General Counsel from August 2016 to present Principal at Bandy Law Firm from October 2014 to July 2016 General Counsel at Cabot Norit Americas, Inc. from September 2008 to September 2014
Starla Harper Chief Financial Officer	**Business experience:** Chief Financial Officer from October 2019 to present Vice President, Accounting and Finance from 2016 to September 2019 Director, Loan Accounting Operations from 2005 to 2015
Steve Harrington Executive Vice President, Administration	**Business experience:** Executive Vice President, Administration from October 2019 to present Chief Financial Officer from 2001 to September 2019 **Other business affiliations:** Advisory Committee: FCS Financial Rural Community and Agriculture Foundation, Treasurer Trust Committee: Farm Credit Foundations
Jeff Houts Executive Vice President, Operations	**Business experience:** Executive Vice President, Operations from 2010 to present **Other business affiliations:** Executive committee member of Missouri Farmers Care Director of Missouri Farm Bureau Foundation for Agriculture Manager of Houts Bayview Farms, LLC
Dennis Hunsberger Executive Vice President, Chief Information Officer	**Business experience:** Executive Vice President, Chief Information Officer from March 2016 to present Senior Vice President, AgVantis, Inc. from 2003 to February 2016
Steve Iversen Executive Vice President, Risk Management	**Business experience:** Executive Vice President, Risk Management from 2010 to present

Senior Officer Compensation

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

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

Base Salary: The CEO and senior officers base salaries reflect the officer's experience and level of responsibility. Base salaries are subject to review and approval by the Governance and Compensation Committee of our Board of Directors and are subject to adjustment based on changes in responsibilities or competitive market conditions.

Annual Incentive Plan: The CEO and senior officers incentives are paid annually based on performance criteria established by our Board of Directors. The criteria related to the overall association performance include return on assets, loan volume, and credit quality. Additionally, performance criteria related to personal performance include attainment of personal objectives and performance ratings serve as qualifiers to be eligible to participate annually. We calculate the incentives after the end of the plan year (the plan year is the calendar year). We pay out the incentives within 90 days of year end.

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

Other Components of Compensation: Additionally, compensation associated with any company-paid vehicles, group term life insurance premiums, disability insurance premiums, or other taxable reimbursements may be made available to the CEO and senior officers based on job criteria or similar plans available to all employees.

Compensation to the CEO and Senior Officers

(in thousands) Name	Year	Salary	Bonus	Deferred/ Perquisites	Other	Total
David D. Janish, CEO	**2019**	**$421**	**$126**	**$5**	**$53**	**$605**
David D. Janish, CEO	2018	401	168	5	51	625
David D. Janish, CEO*	2017	386	154	4	50	594
Aggregate Number of Senior Officers, excluding CEO						
Six**	**2019**	**$1,127**	**$265**	**$12**	**$1,697**	**$3,101**
Five	2018	972	324	10	19	1,325
Five	2017	947	302	9	975	2,233

*Certain reclassifications of compensation amounts have been made to conform to current year presentation. Previously, elective deferrals of salary were classified as Deferred/Perquisites. These amounts are now classified as salary.

**Includes a full year of compensation for one individual that became a Senior Officer in October 2019.

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

The amount in the “Other” category in the preceding table primarily includes:

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

No tax reimbursements are made to the CEO and senior officers.

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

Pension Benefits Attributable to the Senior Officers

(dollars in thousands) **2019** Name	Plan	Years of Credited Service	Present Value of Accumulated Benefits	Payments Made During the Reporting Period
Aggregate Number of Senior Officers				
Four	AgriBank District Retirement Plan	**33.3**	**$6,848**	**$ --**

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

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

Transactions with Senior Officers and Directors

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

Travel, Subsistence, and Other Related Expenses

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

1934 East Miller Street
Jefferson City, MO 65101
(573) 635-7956
www.myfcsfinancial.com
jeffersoncitymo@myfcsfinancial.com

The total directors’ travel, subsistence, and other related expenses were $135 thousand, $120 thousand, and $98 thousand in 2019, 2018, and 2017, respectively.

Involvement in Certain Legal Proceedings

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

Member Privacy

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

Relationship with Qualified Public Accountant

There were no changes in independent auditors since the last Annual Report to members and we are in agreement with the opinion expressed by the independent auditors. The total financial statement audit fees paid during 2019 were $64 thousand. Our engagement letter commits to reimbursing the external auditor for reasonable out-of-pocket expenses as incurred for travel.

Financial Statements

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

Young, Beginning, and Small Farmers and Ranchers

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

YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

FCS Financial, ACA

(Unaudited)

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

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

Demographics*

We have used the 2017 United States Department of Agriculture (USDA) Ag Census as our source of demographic data for Young, Beginning, and Small Farmers. We have 89,916 farmers in our 102 county territory. Of these farmers, 12.7%, or 11,454, are young farmers, 28.5%, or 25,577, are beginning farmers, and 92.8%, or 83,474, are small farmers. The census data is as of 2017 whereas our portfolio data is based on the number of loans in the current year.

Mission Statement

Our Young, Beginning, and Small Farmer's mission is to be the lender of choice by providing industry leading financial services, agricultural expertise, and cooperative educational opportunities to help them succeed in the marketplace.

Quantitative Goals

We will strive to maintain a portfolio mix of young, beginning, and small farmers that matches the marketplace based on recent USDA Ag Census data.

Related services continue to be offered and sold to young, beginning, and small farmers on a statewide basis through our normal delivery channels. We are also a participating lender for the Missouri Linked Deposit Program which offers, among others, a program for beginning farmers. Additionally, we participate in the financial assistance program for beginning farmers that is administered through the Missouri Department of Agriculture's Agricultural and Small Business Development Authority. Special educational meetings are held periodically for promotional and educational purposes.

New Customers	2019 Goals	2019 Actual
New young farmer customers:	320	367
New beginning farmer customers:	460	545
New small farmer customers:	560	724

Portfolio Goals (dollars in millions)	2019 Goals	2019 Actual
Number of young farmer customers:	3,350	3,383
Number of beginning farmer customers:	4,850	4,888
Number of small farmer customers:	9,500	9,380
Young farmer volume:	$656	$693
Beginning farmer volume:	$805	$834
Small farmer volume:	$1,270	$1,339
Young farmers with guaranteed loans:	572	590
Beginning farmers with guaranteed loans:	567	584
Small farmers with guaranteed loans:	660	679
Guaranteed young farmer volume:	$127	$136
Guaranteed beginning farmer volume:	$126	$137
Guaranteed small farmer volume:	$138	$146

Outreach Program

The FCS Financial *Connect* and *Heartland Heroes* programs continue to provide a benefit to those involved in the programs. Through four key areas of credit standards, cooperative representation, communication and knowledge sharing, *Connect* helps participants realize their full potential to find success. *Heartland Heroes* was launched in 2017 based on the *Connect* program. It combines credit, communication, a resource team and knowledge sharing to help veteran farmers realize their full potential. Current farmers who are FCS Financial member-owners are volunteering their time and expertise to serve as a resource for *Heartland Heroes* participants. *Heartland Heroes* strives to serve veterans who are aspiring agricultural entrepreneurs, those returning to a family farm or those who want to live a rural lifestyle.

In 2019, FCS Financial conducted a Young, Beginning seminar and several local educational seminars to provide timely information to members and prospects. In addition to these programs, FCS Financial enhanced its social media presence on Facebook, Twitter and YouTube to reach the young, beginning and small farmer segments. The Association's website features a designated page for young, beginning and small producers with links to special programs, opportunities and educational content.

We continue to host programs and seminars for Vo-Ag classes, young farmers, and other organizations. All promotional information and brochures targeted to the YBS Program offer related services as part of the materials. We incorporate specific advertising campaigns in our media plan that target YBS publications. Additionally, we provide content in one issue of our customer magazine, *HeartBeat*, specific to YBS as well as e-newsletters for this segment. A grant program for eligible 4-H and FFA chapters to improve their communities, academic scholarships, and Ag Youth Funding program for 4-H and FFA members continue to play a role in our YBS strategies. Additionally in 2018, FCS Financial expanded its social media presence by adding Facebook to its current platforms of Twitter and YouTube.

We conduct advisory stockholder meetings annually. One stockholder committee meeting consists of YBS customers only to address the needs of this segment. We continue to evaluate options for providing joint educational programs with other agribusiness and academia associates in the state. The goal for 2019 was to continue working with educational groups that already have strong agricultural education programs. Funds were allocated in 2019 towards enhancement of current public relations and educational events with existing relationships.

Safety and Soundness of the Program

On June 20, 2002, we approved a policy that directed the establishment of programs to provide credit and closely related services to young, beginning, and small farmers, ranchers, or producers or harvesters of aquatic products. Implementation of this policy supported the availability of sound, adequate, and constructive credit and related services for YBS. On September 1, 2002, we implemented our YBS program. Our YBS policy was approved in November 2005. We monitor this program on an ongoing quarterly basis. The overall results of our YBS program have been favorable since implementation. We review its performance on an annual basis and make any necessary changes.

*There are several differences in the methods by which the demographic and FCA Young, Beginning, and Small Farmer data is presented: Young farmers are defined by the FCA as 35 years old or less. The USDA demographic stratification breaks at 34 years. Beginning farmers are defined by the FCA as having 10 years or less farming experience. There is no measurement matching this definition in the USDA Census; however, the census does identify farmers on their current farm less than 10 years. That statistic may include beginning farmers, but may also include experienced farmers who have recently changed farmsteads. The FCA Small Farmer definition matches closely with the USDA delineation. The USDA Census of Agriculture is the best source of demographic information within the Association local service area. Even though the statistical results of the census do not match the FCA definitions exactly, they do provide a consistent source of measurement with which to assess Association targets and goals.

FUNDS HELD PROGRAM

FCS Financial, ACA
(Unaudited)

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

Payment Application

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

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

Account Maximum

The amount in Funds Held may not exceed the lesser of two times the estimated annual payment or the unpaid balance of the related loan(s).

Interest Rate

Interest will accrue on Funds Held at a simple rate of interest that may be changed by the Association from time to time. The interest rate may never exceed the interest rate charged on the related loan. The interest rate paid is the Federal Funds Target rate plus 0.50%.

Interest rates are currently reported on each borrower’s year end loan statement.

Withdrawals

Money in Funds Held may be withdrawn for the following items, depending on the borrower’s loan program:

- Borrowers with real estate loans and intermediate-term loans closed under the loan programs may use Funds Held for future installments, insurance, or real estate taxes on collateral for the respective loan, as well as for other eligible loan purposes.

Association Options

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

Uninsured Account

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

Questions: Please direct any questions regarding Funds Held to your local FCS Financial representative.

FCS FINANCIAL ACA
1934 E MILLER ST
JEFFERSON CITY MO 65101

FCS FINANCIAL

Growing Relationships. Creating Opportunities.™

A FARM CREDIT COOPERATIVE

Find an FCS Financial office near you:

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