Farm Credit of Central Florida, ACA

THIRD QUARTER 2019

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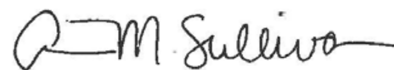
CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2019 quarterly report of Farm Credit of Central Florida, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Reginald T. Holt
Chief Executive Officer



Anne M. Sullivan
Chief Financial Officer

David A. Mereness
Chairman of the Audit committee

November 8, 2019

Farm Credit of Central Florida, ACA

Report on Internal Control Over Financial Reporting

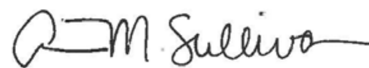
The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides 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.

Internal control over financial reporting 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 September 30, 2019. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of September 30, 2019, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2019.

Reginald T. Holt
Chief Executive Officer



Anne M. Sullivan
Chief Financial Officer

November 8, 2019

Farm Credit of Central Florida, ACA

Management's Discussion and Analysis of Financial Condition and Results of Operations

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Farm Credit of Central Florida, ACA, (Association) for the period ended September 30, 2019. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2018 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including horticulture, fruits/vegetables, citrus, and cattle. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, reduces the level of dependency on a given commodity.

September 30, 2019 compared to December 31, 2018

Loan volume of the Association as of September 30, 2019, was $523,684, a decrease of $15,315 as compared to $538,999 at December 31, 2018. Net loans outstanding at September 30, 2019, were $521,314 as compared to $ 535,729 at December 31, 2018. The short-term portfolio, which is heavily influenced by operating loans, normally reaches a peak balance between October and December and declines between January and June as strawberry and other winter vegetable growers pay down their loans using proceeds from the sale of their crops. The result of this normal seasonal lending activity causes net loan volume to decrease on revolving credit lines.

The Association has investment securities that are classified as held to maturity in the amount of $5,758 at September 30, 2019, as compared to $7,913 at December 31, 2018. Net loans and investment securities accounted for 96.98 percent of total assets at September 30, 2019, as compared to 96.50 percent of total assets at December 31, 2018.

The Association's total servicing portfolio has increased to $941,621 as compared to $919,166 at December 31, 2018, due to new money closings exceeding run-off and liquidations during the year.

September 30, 2019 compared to September 30, 2018

Loan volume of the Association as of September 30, 2019, was $523,684, an increase of $1,236 as compared to $522,448 at September 30, 2018. Net loans outstanding at September 30, 2019, were $521,314 as compared to $519,182 at September 30, 2018. The Association has investment securities that are classified as held to maturity in the amount of $5,758 at September 30, 2019, as compared to $8,779 at September 30, 2018. Net loans and investment securities accounted for 96.98 percent of total assets at September 30, 2019, as compared to 97.33 percent of total assets at September 30, 2018.

The Association's total servicing portfolio has increased to $941,621 as compared to $902,012 at September 30, 2018, due to increased new money closings which exceeded run-off and liquidations over the past twelve months.

ASSET QUALITY AND LOAN LOSS RESERVES

There is an inherent risk in the extension of any type of credit. Portfolio credit quality has improved from September 2018 and from year end as a result of a decrease in substandard assets. Acceptable and OAEM credit quality as a percentage of total loan portfolio was 98.24% as of September 30, 2019, compared to 97.72% at December 31, 2018 and 97.07% at September 30, 2018. Substandard credit quality was 1.76% as of September 30, 2019, compared to 2.28% at December 31, 2018 and 2.93% at September 30, 2018. The actual substandard asset volume has decreased by $3.1 million from year-end December 31, 2018. Nonaccrual loan volume was $7,702 at September 30, 2019, compared to $12,903 at December 31, 2018 and $8,233 at September 30, 2018, a decrease of $5,201 and $531, respectively. The majority of the loan assets in nonaccrual are in the strawberry and blueberry industries.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at September 30, 2019, was $2,370 or 0.45% of total loans compared to $3,270 or 0.61% of total loans at December 31, 2018, and $3,266 or 0.63% of total loans at September 30, 2018, and is considered by management to be adequate to cover possible losses. The allowance for loan loss is broken down between specific

reserves assigned to an individual loan and general reserves which are available for the possible losses within the entire portfolio. The current allowance for loan loss at September 30, 2019, contains $331 in specific reserves and $2,039 in general reserves, of which $358 is allocated to the citrus portfolio and $1,302 is allocated to the nonfarm income and nursery portfolio. The following outlines the allowance for loan loss activity as of September 30, 2019.

Allowance for Loan Losses Activity:	YTD 2019
Balance at beginning of period	$ 3,270
Charge-offs	(23)
Recoveries	227
Provisions/(Reversals)-General	(80)
Provisions/(Reversals)–Specifics	(1,024)
Balance at end of period	$ 2,370

The decrease in allowance for loan losses compared to December 2018 was a direct result of an allowance reversals and recoveries during 2019 within the fruits and vegetable and nursery industries. Chargeoffs are funded through the allowance from previous and/or current increases in the provision for loan losses.

RESULTS OF OPERATIONS

For the three months ended September 30, 2019

Net income for the three months ended September 30, 2019, totaled $2,251, as compared to $3,650 for the same period in 2018. The decrease of $1,399 for the period is associated directly with decreased net interest income and decreased reversal of allowance for loan loss.

Net interest income was $3,501 for the three months ended September 30, 2019, as compared to $4,187 for the same period in 2018. The decrease is a result of decreased interest income on nonaccrual loans compared to the same period prior year. Net interest income for the three months ending September 30, 2019, is shown in the following table:

	For the three months ended September 30,			
Net Interest Income	2019	2018	$ change	% change
Investment Interest Income	$ 36	$ 64	$ (28)	(43.75)%
Loan Interest Income	6,967	7,538	(571)	(7.57)
Total Interest Income	7,003	7,602	(599)	(7.88)
Total Interest Expense	3,502	3,415	87	2.55
Net Interest Income	$ 3,501	$ 4,187	$ (686)	(16.38)%

Allowance for loan loss activity for the quarter consisted of $350 reversal for the period compared to a reversal of $1,060 for the same period prior year. Provisions for loan losses for the three months ending September 30, 2019 are shown in the following table:

	For the three months ended September 30,			
Provisions/(Reversals) for Loan Losses	2019	2018	$ change	% change
General Reserves	$ 20	$ (71)	$ 91	(128.17)%
Specific Reserves	(370)	(989)	619	(62.59)
Total Provisions/(Reversals)	$ (350)	$ (1,060)	$ 710	(66.98)%

Noninterest income for the three months ended September 30, 2019, totaled $1,327, as compared to $1,279 for the same period of 2018, an increase of $48. The increase is primarily the result of increased loan fees and fees from financially related services and increased gains on other transactions offset by decreased patronage refunds from other Farm Credit institutions. Noninterest income for the three months ending September 30, 2019, is shown in the following table:

	For the three months ended September 30,			
Noninterest Income	2019	2018	$ change	% change
Loan fees	$ 145	$ 119	$ 26	21.85%
Fees for financially related services	69	3	66	2200.00
Patronage refunds from other Farm Credit Institutions	990	1,050	(60)	(5.71)
Gains (losses) on sales of rural home loans, net	96	93	3	3.23
Gains (losses) on other transactions	25	14	11	78.57
Other noninterest income	2	–	2	100.00
Total noninterest income	$ 1,327	$ 1,279	$ 48	3.75%

Noninterest expense for the three months ended September 30, 2019, increased $51 compared to the same period of 2018, primarily due to increased salaries and employee benefits and occupancy and equipment. Salaries and employee benefits increased $67 or 3.49% during the period due to increased employee head count. The primary reason for the increase occupancy and equipment expense is increased depreciation expense on the new Brooksville office. The Association Insurance Fund premiums were the same as prior year.

Noninterest expense for the three months ending September 30, 2019 is shown in the following table:

	For the three months ended September 30,			
Noninterest Expense	2019	2018	$ change	% change
Salary and employee benefits	$ 1,986	$ 1,919	$ 67	3.49%
Occupancy and equipment	187	179	8	4.47
Insurance Fund Premium	92	92	–	–
(Gains) losses on other property owned, net	(2)	–	(2)	(100.00)
Other operating expenses	664	686	(22)	(3.21)
Total noninterest expense	$ 2,927	$ 2,876	$ 51	1.77%

For the nine months ended September 30, 2019

Net income for the nine months ended September 30, 2019, totaled $7,896 as compared to $8,841 for the same period in 2018. The decrease of $945 for the period is associated with decreased noninterest income, increased operating expenses as well as a lower reversal in the allowance for loan loss.

Net interest income increased $255 or 2.39% for the nine months ended September 30, 2019, as compared to the same period in 2018. The primary reason for the increase in net interest income is increases in both rate and volume of loanable funds. Net interest income for the nine months ending September 30, 2018 is shown in the following table:

	For the nine months ended September 30,			
Net Interest Income	**2019**	**2018**	**$ change**	**% change**
Investment Interest Income	$ 147	$ 160	$ (13)	(8.13)%
Loan Interest Income	21,554	20,322	1,232	6.06
Total Interest Income	21,701	20,482	1,219	5.95
Total Interest Expense	10,764	9,800	964	9.84
Net Interest Income	$10,937	$ 10,682	$ 255	2.39 %

The effects of changes in average volume and interest rates on net interest income over the past nine months are presented in the following table:

Change in Net Interest Income:	**Volume**	**Rate**	**Non-accrual**	**Amortization**	**Total**
			(dollars in thousands)		
Change in NII	$ 20	$ 466	$ (330)	$ 98	$ 254

Allowance for loan loss activity consisted of a $1,104 reversal, as compared to a $1,775 reversal for the same period last year. The decrease in allowance for loan losses compared to December 2018 was a direct result of an allowance reversals during 2019 within the fruits and vegetable, strawberry and nursery industries. The reversals are due to improved asset quality since December 2018. Provisions for loan losses for the nine months ending September 30, 2019 are shown in the following table:

	For the nine months ended September 30,			
Provisions for Loan Losses	**2019**	**2018**	**$ change**	**% change**
General Reserves	$ (80)	$ (79)	$ (1)	1.27 %
Specific Reserves	(1,024)	(1,696)	672	(39.62)
Total Provisions/(Reversals)	$ (1,104)	$ (1,775)	$ 671	(37.80)%

Noninterest income for the nine months ended September 30, 2019, totaled $4,392, as compared to $4,645 for the same period of 2018, a decrease of $253. The decrease is primarily a result of decreased patronage refunds from other Farm Credit institutions, a lower refund from the Farm Credit System Insurance Corporation, decreased loan fees offset by increased fees from financially related services. During the first quarter of 2019, the Association recorded $116 of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the system's debt obligations. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act. Noninterest income for the nine months ending September 30, 2019 is shown in the following table:

	For the nine months ended September 30,			
Noninterest Income	**2019**	**2018**	**$ change**	**% change**
Loan fees	$ 423	$ 468	$ (45)	(9.62)%
Fees for financially related services	519	331	188	56.80
Patronage refunds from other Farm Credit institutions	3,023	3,298	(275)	(8.34)
Gains (losses) on sales of rural home loans, net	268	256	12	4.69
Gains (losses) on other Transactions	39	18	21	116.67
Insurance Fund refund	116	272	(156)	(57.35)
Other noninterest income	4	2	2	100.00
Total noninterest income	$ 4,392	$ 4,645	$ (253)	(5.45)%

Noninterest expense for the nine months ended September 30, 2019 increased $276 compared to the same period of 2018. The increase is related to increases in salaries and employee benefits and other operating expenses. Salaries and employee benefits increased $189 or 3.44% during the period due to increased employee head count. The primary reason for the increase in other operating expense is increased purchased services, guarantee fees and training expenses. The Association Insurance Fund premiums are only $5 more than prior year. This is because the Farm Credit System Insurance Corporation (FCSIC) has set the premium to 9 basis points on adjusted insured debt outstanding with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans for the past two years. Noninterest expense for the nine months ending September 30, 2019 is shown in the following table:

	For the nine months ended September 30,			
Noninterest Expense	**2019**	**2018**	**$ change**	**% change**
Salary and employee benefits	$ 5,679	$ 5,490	$ 189	3.44%
Occupancy and equipment	545	528	17	3.22
Insurance Fund Premium	282	277	5	1.81
(Gains) losses on other property owned, net	(2)	–	(2)	(100.00)
Other operating expenses	2,033	1,966	67	3.41
Total noninterest expense	$ 8,537	$ 8,261	$ 276	3.34%

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2019, was $420,769 as compared to $442,646 at December 31, 2018. The decrease is attributable to pay downs on loans received during the normal course of business being greater than borrowings to fund new loan advances.

CAPITAL RESOURCES

Total members' equity at September 30, 2019, increased to $115,800 from the December 31, 2018, total of $109,100. The increase is primarily attributed to the increase in unallocated surplus resulting from net income.

Total capital stock and participation certificates were $928 on September 30, 2019, compared to $882 on December 31, 2018. This increase is attributed to the issuance of stock and participation certificates in the normal course of business.

FCA sets minimum regulatory capital requirements with a capital conservation buffer for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios.

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of September 30, 2019
Risk-adjusted ratios:				
CET1 Capital	4.5%	1.875%	6.375%	20.38%
Tier 1 Capital	6.0%	1.875%	7.875%	20.38%
Total Capital	8.0%	1.875%	9.875%	20.88%
Permanent Capital Ratio	7.0%	0.0%	7.0%	20.49%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	20.10%
UREE Leverage Ratio	1.5%	0.0%	1.5%	16.91%

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

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

REGULATORY MATTERS

On April 3, 2019, the Farm Credit Administration issued a proposed rule that would clarify the factors that System institutions should consider when categorizing high-risk loans and placing them in nonaccrual status. The rule would also revise the criteria by which loans are reinstated to accrual status, and would revise the application of the criteria to certain loans in nonaccrual status to distinguish between the types of risk that cause loans to be placed in nonaccrual status. The public comment period ended on June 3, 2019.

On September 18, 2019, the Farm Credit Administration issued a proposed rule to amend its investment regulations to allow System associations to purchase and hold the portion of certain loans that non-System lenders originate and sell in the secondary market, and that the USDA unconditionally guarantees or insures as to timely payment of principal and interest. The rule would authorize associations to buy investments to augment the liquidity of rural credit markets, reduce the capital burden on community banks and other non-System lenders who choose to sell their USDA guaranteed portions of loans, and to enhance the ability of associations to manage risk. The public comment period ends on November 18, 2019.

On September 23, 2019, the Farm Credit Administration issued a proposed rule that would ensure the System's capital requirements, including certain regulatory disclosures, reflect the current expected credit losses methodology, which revises the accounting for credit losses under U.S. generally accepted accounting principles. The proposed rule identifies which credit loss allowances under CECL are eligible for inclusion in a System institution's regulatory capital. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-

maturity debt securities would be included in a System institution's Tier 2 capital up to 1.25% of the System institution's total risk weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not be eligible for inclusion in a System institution's Tier 2 capital. In addition, the proposed regulation does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution's regulatory capital ratios. The public comment period ends on November 22, 2019.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2018 Annual Report to Shareholders for recently issued accounting pronouncements. Additional information is provided in the table below.

The following Accounting Standards Update (ASU) was issued by the Financial Accounting Standards Board (FASB) but has not yet been adopted:

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to an expected loss model. • The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.	• Implementation efforts have begun by establishing a cross-discipline governance structure. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. • The new guidance is expected to result in an increase in allowance for credit losses due to several factors, including: 1. The allowance related to loans and commitments will most likely increase to cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on any debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of the increase is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts at the adoption date. • The guidance is expected to be adopted in first quarter 2021.

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-533-2773, or writing Anne M. Sullivan, CFO, Farm Credit of Central Florida, ACA, P.O. Box 8009, Lakeland, FL 33802, or accessing the website, *www.farmcreditcfl.com.* The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Farm Credit Of Central Florida, ACA

Consolidated Balance Sheets

(dollars in thousands)	September 30, 2019	December 31, 2018
	(unaudited)	*(audited)*
Assets		
Cash	**$ 162**	$ 189
Investments in debt securities:		
Held to maturity (fair value of $5,703 and $7,865, respectively)	**5,758**	7,913
Loans	**523,684**	538,999
Allowance for loan losses	**(2,370)**	(3,270)
Net loans	**521,314**	535,729
Loans held for sale	**198**	—
Accrued interest receivable	**2,356**	2,412
Equity investments in other Farm Credit institutions	**6,614**	6,568
Premises and equipment, net	**2,445**	1,747
Other property owned	**3**	—
Accounts receivable	**3,380**	8,055
Other assets	**1,245**	735
Total assets	**$ 543,475**	$ 563,348
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 420,769**	$ 442,646
Accrued interest payable	**1,122**	1,243
Patronage refunds payable	**232**	6,352
Accounts payable	**606**	1,521
Other liabilities	**4,946**	2,486
Total liabilities	**427,675**	454,248
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	**928**	882
Retained earnings		
Allocated	**21,637**	22,907
Unallocated	**93,645**	85,772
Accumulated other comprehensive income (loss)	**(410)**	(461)
Total members' equity	**115,800**	109,100
Total liabilities and members' equity	**$ 543,475**	$ 563,348

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

Farm Credit Of Central Florida, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	**For the Three Months Ended September 30, 2019**	**2018**	**For the Nine Months Ended September 30, 2019**	**2018**
Interest Income				
Loans	**$ 6,967**	$ 7,538	**$ 21,554**	$ 20,322
Investments	**36**	64	**147**	160
Total interest income	**7,003**	7,602	**21,701**	20,482
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**3,502**	3,415	**10,764**	9,800
Net interest income	**3,501**	4,187	**10,937**	10,682
Provision for (reversal of allowance for) loan losses	**(350)**	(1,060)	**(1,104)**	(1,775)
Net interest income after provision for (reversal of allowance for) loan losses	**3,851**	5,247	**12,041**	12,457
Noninterest Income				
Loan fees	**145**	119	**423**	468
Fees for financially related services	**69**	3	**519**	331
Patronage refunds from other Farm Credit institutions	**990**	1,050	**3,023**	3,298
Gains (losses) on sales of rural home loans, net	**96**	93	**268**	256
Gains (losses) on other transactions	**25**	14	**39**	18
Insurance Fund refunds	**—**	—	**116**	272
Other noninterest income	**2**	—	**4**	2
Total noninterest income	**1,327**	1,279	**4,392**	4,645
Noninterest Expense				
Salaries and employee benefits	**1,986**	1,919	**5,679**	5,490
Occupancy and equipment	**187**	179	**545**	528
Insurance Fund premiums	**92**	92	**282**	277
(Gains) losses on other property owned, net	**(2)**	—	**(2)**	—
Other operating expenses	**664**	686	**2,033**	1,966
Total noninterest expense	**2,927**	2,876	**8,537**	8,261
Net income	**$ 2,251**	$ 3,650	**$ 7,896**	$ 8,841

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

Farm Credit Of Central Florida, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended September 30, 2019	For the Three Months Ended September 30, 2018	For the Nine Months Ended September 30, 2019	For the Nine Months Ended September 30, 2018
Net income	**$ 2,251**	$ 3,650	**$ 7,896**	$ 8,841
Other comprehensive income net of tax				
Employee benefit plans adjustments	**17**	19	**51**	56
Comprehensive income	**$ 2,268**	$ 3,669	**$ 7,947**	$ 8,897

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

Farm Credit Of Central Florida, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2017	$ 900	$ 24,588	$ 77,821	$ (570)	$ 102,739
Comprehensive income			8,841	56	8,897
Capital stock/participation certificates issued/(retired), net	(8)				(8)
Retained earnings retired		(1,681)			(1,681)
Balance at September 30, 2018	$ 892	$ 22,907	$ 86,662	$ (514)	$ 109,947
Balance at December 31, 2018	**$ 882**	**$ 22,907**	**$ 85,772**	**$ (461)**	**$ 109,100**
Cumulative effect of change in accounting principle			**(23)**		**(23)**
Comprehensive income			**7,896**	**51**	**7,947**
Capital stock/participation certificates issued/(retired), net	**46**				**46**
Retained earnings retired		**(1,270)**			**(1,270)**
Balance at September 30, 2019	**$ 928**	**$ 21,637**	**$ 93,645**	**$ (410)**	**$ 115,800**

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

Farm Credit of Central Florida, ACA

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements

Organization
The accompanying financial statements include the accounts of Farm Credit of Central Florida, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2018, are contained in the 2018 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation
In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair statement of results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The results of any interim period are not necessarily indicative of those to be expected for a full year.

Significant Accounting Policies
The Association's accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the financial statements, income and expenses during the reporting period, and the related disclosures. Although these estimates contemplate current conditions and expectations of change in the future, it is reasonably possible that actual conditions may be different than anticipated, which could materially affect results of operations and financial condition.

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

For further details of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, from the latest Annual Report.

Accounting Standards Updates (ASUs) Issued During the Period
The following ASUs were issued by the Financial Accounting Standards Board (FASB) since the most recent year end:

- In May 2019, the FASB issued ASU 2019-05 Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief. The amendments in this Update provide entities with an option to irrevocably elect the fair value option applied on an instrument-by-instrument basis for certain financial assets upon the adoption of Topic 326. The fair value option election does not apply to held-to-maturity debt securities. For entities that have not yet adopted the amendments in ASU 2016-13, the effective date and transition methodology for the amendments in this Update are the same as in that Update. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

- In April 2019, the FASB issued ASU 2019-04 Codification Improvements to Topic 326 Financial Instruments—Credit Losses, Topic 815 Derivatives and Hedging, and Topic 825 Financial Instruments. The amendments in this Update clarify, correct, and improve various aspects of the guidance in the following Updates related to financial instruments: ASU 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities, ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and ASU 2017-12 Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The items addressed generally are not expected to have a significant effect on current accounting practice or to create a significant administrative cost for most entities. For entities that have not yet adopted the amendments in ASU 2016-13, the effective dates and transition requirements for the amendments related to this Update are the same as the effective dates and transition requirements in ASU 2016-13. The transition adjustment includes adjustments made as a result of an entity developing or amending its accounting policy upon adoption of the amendments in this Update for determining when accrued interest receivables are deemed

uncollectible and written off. For entities that have adopted the amendments in ASU 2017-12 as of the issuance date of this Update, the effective date is as of the beginning of the first annual period beginning after the issuance date of this Update. For those entities, early adoption is permitted, including adoption on any date on or after the issuance of this Update. The amendments in this Update related to ASU 2016-01 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim period following the issuance of this Update as long as the entity has adopted all of the amendments in ASU 2016-01. The amendments in this Update should be applied on a modified-retrospective transition basis by means of a cumulative-effect adjustment to the opening retained earnings balance in the statement of financial position as of the date an entity adopted all of the amendments in ASU 2016-01. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

- In March 2019, the FASB issued ASU 2019-01 Leases (Topic 842): Codification Improvements. The Update addresses potential implementation issues that could arise as organizations implement Topic 842. The amendments in the Update include the following items brought to the Board's attention through interactions with stakeholders: 1. Determining the fair value of the underlying asset by lessors that are not manufacturers or dealers; 2. Presentation on the statement of cash flows—sales-type and direct financing leases; 3. Transition disclosures related to Topic 250, Accounting Changes and Error Corrections. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

ASUs Pending Effective Date
For a detailed description of the ASUs below, see the latest Annual Report.

Potential effects of ASUs issued in previous periods:

- In August 2018, the FASB issued ASU 2018-15 Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this Update. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period, for all entities. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

- In August 2018, the FASB issued ASU 2018-13 Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments are part of the FASB's disclosure framework project. The project's objective and primary focus are to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by GAAP that is most important to users of each entity's financial statements. The amendments remove, modify or add certain disclosures contained in the financial statement footnotes related to fair value. Additionally, the guidance is intended to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Certain amendments should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance. Entities are permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. The removed disclosures were adopted effective with the 2018 Annual Report. Evaluation of any possible effects the additional and modified disclosures guidance may have on the statements of financial condition and results of operations is in progress.

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

will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 31, 2018. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

Accounting Standards Effective During the Period

There were no changes in the accounting principles applied from the latest Annual Report, other than any discussed below.

No recently adopted accounting guidance issued by the FASB had a significant effect on the current period reporting. See the most recent Annual Report for a detailed description of each of the standards below:

- In February 2018, the FASB issued ASU 2018-02 Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and are intended to improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The Update also requires certain disclosures about stranded tax effects. The guidance was effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Adoption of this guidance had no impact on the statements of financial condition and results of operations.

- In March 2017, the FASB issued ASU 2017-08 Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The guidance relates to certain callable debt securities and shortens the amortization period for any premium to the earliest call date. The Update was effective for interim and annual periods beginning after December 15, 2018 for public business entities. Adoption of this guidance had no impact on the statements of financial condition and results of operations.

- In February 2016, the FASB issued ASU 2016-02 Leases (Topic 842). This Update, and subsequent clarifying guidance issued, requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. Lessor accounting activities are largely unchanged from existing lease accounting. The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification. The amendments were effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for public business entities.

  Transition Information

  - The guidance was adopted using the optional modified retrospective method and practical expedients for transition. Under this transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.
  - The package of practical expedients was elected, which allowed existing leases to be largely accounted for consistent with current guidance, except for the incremental balance sheet recognition for lessees.
  - There will not be a material change to the timing of future expense recognition.
  - Upon adoption, a cumulative-effect adjustment to equity of approximately $(23) was recorded. In addition, a Right of Use Asset in the amount of $784 and Lease Liability in the amount of $807 were recognized.
  - Given the limited changes to lessor accounting, there were no material changes to recognition or measurement.

Note 2 — Loans and Allowance for Loan Losses

The Association maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified. See Note 3, *Loans and Allowance for Loan Losses*, from the latest Annual Report for further discussion.

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

A summary of loans outstanding at period end follows:

	September 30, 2019	December 31, 2018
Real estate mortgage	$ 309,941	$ 298,982
Production and intermediate-term	120,080	143,163
Loans to cooperatives	2,701	3,359
Processing and marketing	54,180	54,447
Farm-related business	6,615	6,330
Communication	11,506	14,938
Power and water/waste disposal	3,740	3,738
Rural residential real estate	8,487	8,206
International	6,434	5,836
Total loans	$ 523,684	$ 538,999

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

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

	September 30, 2019							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 22,208	$ 53,029	$ –	$ 33,559	$ –	$ –	$ 22,208	$ 86,588
Production and intermediate-term	19,917	24,350	–	2,000	–	–	19,917	26,350
Loans to cooperatives	2,711	–	–	–	–	–	2,711	–
Processing and marketing	36,593	9,359	–	8,605	–	–	36,593	17,964
Farm-related business	685	–	–	–	–	–	685	–
Communication	11,545	–	–	–	–	–	11,545	–
Power and water/waste disposal	3,748	–	–	–	–	–	3,748	–
International	6,446	–	–	–	–	–	6,446	–
Total	$ 103,853	$ 86,738	$ –	$ 44,164	$ –	$ –	$ 103,853	$ 130,902

	December 31, 2018							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 14,496	$ 44,247	$ –	$ 14,532	$ –	$ –	$ 14,496	$ 58,779
Production and intermediate-term	16,394	58,833	–	1,709	–	–	16,394	60,542
Loans to cooperatives	3,372	–	–	–	–	–	3,372	–
Processing and marketing	32,613	15,081	–	7,728	–	–	32,613	22,809
Communication	15,006	–	–	–	–	–	15,006	–
Power and water/waste disposal	3,748	–	–	–	–	–	3,748	–
International	5,841	–	–	–	–	–	5,841	–
Total	$ 91,470	$ 118,161	$ –	$ 23,969	$ –	$ –	$ 91,470	$ 142,130

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

	September 30, 2019			
	Due Less Than 1 Year	Due 1 Through 5 Years	Due After 5 Years	Total
Real estate mortgage	$ 4,002	$ 49,011	$ 256,928	$ 309,941
Production and intermediate-term	21,867	56,946	41,267	120,080
Loans to cooperatives	–	2,074	627	2,701
Processing and marketing	3,289	20,676	30,215	54,180
Farm-related business	88	1,973	4,554	6,615
Communication	1,390	3,573	6,543	11,506
Power and water/waste disposal	–	3,740	–	3,740
Rural residential real estate	24	291	8,172	8,487
International	–	604	5,830	6,434
Total loans	$ 30,660	$ 138,888	$ 354,136	$ 523,684
Percentage	5.86%	26.52%	67.62%	100.00%

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

The following table shows the recorded investment of loans, classified under the FCA Uniform Loan Classification System, as a percentage of the recorded investment of total loans by loan type as of:

	September 30, 2019	December 31, 2018
Real estate mortgage:		
Acceptable	98.63%	98.29%
OAEM	0.14	0.28
Substandard/doubtful/loss	1.23	1.43
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	94.97%	93.05%
OAEM	1.22	1.74
Substandard/doubtful/loss	3.81	5.21
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	84.22%	100.00%
OAEM	15.78	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	99.34%	100.00%
OAEM	–	–
Substandard/doubtful/loss	0.66	–
	100.00%	100.00%
Farm-related business:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	September 30, 2019	December 31, 2018
Communication:		
Acceptable	100.00%	79.28%
OAEM	–	20.72
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Power and water/waste disposal:		
Acceptable	–%	100.00%
OAEM	100.00	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	93.70%	92.73%
OAEM	0.28	0.32
Substandard/doubtful/loss	6.02	6.95
	100.00%	100.00%
International:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	97.08%	96.52%
OAEM	1.16	1.20
Substandard/doubtful/loss	1.76	2.28
	100.00%	100.00%

The following tables provide an aging analysis of the recorded investment of past due loans as of:

	September 30, 2019				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 2,292	$ –	$ 2,292	$ 309,181	$ 311,473
Production and intermediate-term	2,375	1	2,376	118,227	120,603
Loans to cooperatives	–	–	–	2,703	2,703
Processing and marketing	–	–	–	54,319	54,319
Farm-related business	–	–	–	6,647	6,647
Communication	–	–	–	11,508	11,508
Power and water/waste disposal	–	–	–	3,742	3,742
Rural residential real estate	132	301	433	8,097	8,530
International	–	–	–	6,460	6,460
Total	$ 4,799	$ 302	$ 5,101	$ 520,884	$ 525,985

	December 31, 2018				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 232	$ 2,064	$ 2,296	$ 298,161	$ 300,457
Production and intermediate-term	590	348	938	142,855	143,793
Loans to cooperatives	–	–	–	3,369	3,369
Processing and marketing	–	–	–	54,591	54,591
Farm-related business	–	–	–	6,345	6,345
Communication	–	–	–	14,940	14,940
Power and water/waste disposal	–	–	–	3,742	3,742
Rural residential real estate	141	353	494	7,745	8,239
International	–	–	–	5,863	5,863
Total	$ 963	$ 2,765	$ 3,728	$ 537,611	$ 541,339

Nonperforming assets (including related accrued interest as applicable) and related credit quality statistics at period end were as follows:

	September 30, 2019	December 31, 2018
Nonaccrual loans:		
Real estate mortgage	$ 3,155	$ 4,830
Production and intermediate-term	4,120	7,500
Rural residential real estate	427	573
Total	$ 7,702	$ 12,903
Accruing restructured loans:		
Real estate mortgage	$ 4,845	$ 5,100
Production and intermediate-term	3,282	3,599
Rural residential real estate	250	178
Total	$ 8,377	$ 8,877
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 16,079	$ 21,780
Other property owned	3	–
Total nonperforming assets	$ 16,082	$ 21,780
Nonaccrual loans as a percentage of total loans	1.47%	2.39%
Nonperforming assets as a percentage of total loans and other property owned	3.07%	4.04%
Nonperforming assets as a percentage of capital	13.89%	19.96%

The following table presents information related to the recorded investment of impaired loans at period end. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

	September 30, 2019	December 31, 2018
Impaired nonaccrual loans:		
Current as to principal and interest	$ 5,112	$ 10,022
Past due	2,590	2,881
Total	$ 7,702	$ 12,903
Impaired accrual loans:		
Restructured	$ 8,377	$ 8,877
90 days or more past due	–	–
Total	$ 8,377	$ 8,877
Total impaired loans	$ 16,079	$ 21,780
Additional commitments to lend	$ –	$ –

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

	September 30, 2019			Three Months Ended September 30, 2019		Nine Months Ended September 30, 2019	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:							
Real estate mortgage	$ 1,564	$ 1,771	$ 89	$ 1,372	$ 17	$ 1,730	$ 107
Production and intermediate-term	3,595	3,658	147	3,152	39	3,976	247
Rural residential real estate	496	625	95	435	5	549	34
Total	$ 5,655	$ 6,054	$ 331	$ 4,959	$ 61	$ 6,255	$ 388
With no related allowance for credit losses:							
Real estate mortgage	$ 6,436	$ 6,491	$ –	$ 5,643	$ 70	$ 7,118	$ 441
Production and intermediate-term	3,807	4,201	–	3,339	41	4,211	261
Rural residential real estate	181	250	–	158	2	200	12
Total	$ 10,424	$ 10,942	$ –	$ 9,140	$ 113	$ 11,529	$ 714
Total impaired loans:							
Real estate mortgage	$ 8,000	$ 8,262	$ 89	$ 7,015	$ 87	$ 8,848	$ 548
Production and intermediate-term	7,402	7,859	147	6,491	80	8,187	508
Rural residential real estate	677	875	95	593	7	749	46
Total	$ 16,079	$ 16,996	$ 331	$ 14,099	$ 174	$ 17,784	$ 1,102

Impaired loans:	December 31, 2018 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2018 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 2,082	$ 2,180	$ 114	$ 1,777	$ 162
Production and intermediate-term	5,907	6,695	932	5,043	458
Rural residential real estate	671	801	104	573	52
Total	$ 8,660	$ 9,676	$ 1,150	$ 7,393	$ 672
With no related allowance for credit losses:					
Real estate mortgage	$ 7,848	$ 8,070	$ –	$ 6,700	$ 609
Production and intermediate-term	5,192	5,386	–	4,432	404
Rural residential real estate	80	149	–	68	6
Total	$ 13,120	$ 13,605	$ –	$ 11,200	$ 1,019
Total impaired loans:					
Real estate mortgage	$ 9,930	$ 10,250	$ 114	$ 8,477	$ 771
Production and intermediate-term	11,099	12,081	932	9,475	862
Rural residential real estate	751	950	104	641	58
Total	$ 21,780	$ 23,281	$ 1,150	$ 18,593	$ 1,691

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:								
Balance at June 30, 2019	$ 1,191	$ 1,166	$ 89	$ 17	$ 5	$ 104	$ 2	$ 2,574
Charge-offs	–	(4)	–	–	–	(1)	–	(5)
Recoveries	49	80	–	–	–	22	–	151
Provision for loan losses	(94)	(275)	15	3	16	(15)	–	(350)
Balance at September 30,	$ 1,146	$ 967	$ 104	$ 20	$ 21	$ 110	$ 2	$ 2,370
Balance at December 31,	$ 1,255	$ 1,749	$ 100	$ 37	$ 5	$ 122	$ 2	$ 3,270
Charge-offs	(8)	(4)	–	–	–	(11)	–	(23)
Recoveries	77	91	–	–	–	59	–	227
Provision for loan losses	(178)	(869)	4	(17)	16	(60)	–	(1,104)
Balance at September 30,	$ 1,146	$ 967	$ 104	$ 20	$ 21	$ 110	$ 2	$ 2,370
Balance at June 30, 2018	$ 1,105	$ 1,927	$ 94	$ 56	$ 6	$ 194	$ 2	$ 3,384
Charge-offs	–	–	–	–	–	–	–	–
Recoveries	30	909	–	–	–	3	–	942
Provision for loan losses	(23)	(1,041)	13	(10)	–	1	–	(1,060)
Balance at September 30,	$ 1,112	$ 1,795	$ 107	$ 46	$ 6	$ 198	$ 2	$ 3,266
Balance at December 31,	$ 1,116	$ 2,833	$ 85	$ 48	$ 4	$ 96	$ 3	$ 4,185
Charge-offs	(6)	(95)	–	–	–	(1)	–	(102)
Recoveries	42	909	–	–	–	7	–	958
Provision for loan losses	(40)	(1,852)	22	(2)	2	96	(1)	(1,775)
Balance at September 30,	$ 1,112	$ 1,795	$ 107	$ 46	$ 6	$ 198	$ 2	$ 3,266
Allowance on loans evaluated for impairment:								
Individually	$ 89	$ 147	$ –	$ –	$ –	$ 95	$ –	$ 331
Collectively	1,057	820	104	20	21	15	2	2,039
Balance at September 30,	$ 1,146	$ 967	$ 104	$ 20	$ 21	$ 110	$ 2	$ 2,370
Individually	$ 114	$ 932	$ –	$ –	$ –	$ 104	$ –	$ 1,150
Collectively	1,141	817	100	37	5	18	2	2,120
Balance at December 31,	$ 1,255	$ 1,749	$ 100	$ 37	$ 5	$ 122	$ 2	$ 3,270
Recorded investment in loans evaluated for impairment:								
Individually	$ 8,000	$ 7,469	$ –	$ –	$ –	$ 677	$ –	$ 16,146
Collectively	303,473	113,134	63,669	11,508	3,742	7,853	6,460	509,839
Balance at September 30,	$ 311,473	$ 120,603	$ 63,669	$ 11,508	$ 3,742	$ 8,530	$ 6,460	$ 525,985
Individually	$ 9,931	$ 11,100	$ –	$ –	$ –	$ 751	$ –	$ 21,782
Collectively	290,526	132,693	64,305	14,940	3,742	7,488	5,863	519,557
Balance at December 31,	$ 300,457	$ 143,793	$ 64,305	$ 14,940	$ 3,742	$ 8,239	$ 5,863	$ 541,339

**Includes the loan types: Loans to cooperatives, Processing and marketing, and Farm-related business.*

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. There were no new TDRs that occurred during the three or nine month periods ended September 30, 2019 and September 30, 2018.

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

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

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

	Total TDRs		Nonaccrual TDRs	
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
Real estate mortgage	$ 4,986	$ 5,280	$ 141	$ 180
Production and intermediate-term	3,776	4,864	494	1,265
Rural residential real estate	250	256	–	78
Total loans	$ 9,012	$ 10,400	$ 635	$ 1,523
Additional commitments to lend	$ –	$ –		

The following table presents information as of period end:

	September 30, 2019
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	$ –
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ 301

Note 3 — Investments

Investments in Debt Securities

The Association's investments consist primarily of asset-backed securities (ABSs). These ABSs are issued through the Small Business Administration and are guaranteed by the full faith and credit of the United States government. They are held for managing short-term surplus funds and reducing interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

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

September 30, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
ABSs	$ 5,758	$ 18	$ (73)	$ 5,703	5.04%

December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
ABSs	$ 7,913	$ 31	$ (79)	$ 7,865	4.84%

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

September 30, 2019	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ 79	$ 79	5.67%
After one year through five years	1,467	1,459	4.75
After five years through ten years	208	200	4.45
After ten years	4,004	3,965	5.16
Total	$ 5,758	$ 5,703	5.04%

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

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

September 30, 2019	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	$ 540	$ (2)	$ 3,504	$ (71)

	December 31, 2018			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	$ 4,723	$ (63)	$ 758	$ (16)

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

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

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

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

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

Substantially all of these investments were in U. S. government agency securities and the Association expects these securities would not be settled at a price less than their amortized cost. All securities continue to perform at period end.

Equity Investments in Other Farm Credit System Institutions

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

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 2.22 percent of the issued stock of the Bank as of September 30, 2019 net of any reciprocal investment. As of that date, the Bank's assets totaled $34.6 billion and shareholders' equity totaled $2.5 billion. The Bank's earnings were $192 million for the first nine months of 2019. In addition, the Association held investments of $585 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets. The contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

Changes in Accumulated Other Comprehensive Income by Component *(a)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Employee Benefit Plans:				
Balance at beginning of period	$ (427)	$ (533)	$ (461)	$ (570)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	17	19	51	56
Net current period other comprehensive income	17	19	51	56
Balance at end of period	$ (410)	$ (514)	$ (410)	$ (514)

Reclassifications Out of Accumulated Other Comprehensive Income *(b)*

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2019	**2018**	**2019**	**2018**	**Income Statement Line Item**
Defined Benefit Pension Plans:					
Periodic pension costs	$ (17)	$ (19)	$ (51)	$ (56)	See Note 7.
Net amounts reclassified	$ (17)	$ (19)	$ (51)	$ (56)	

(a) Amounts in parentheses indicate debits to AOCI.
(b) Amounts in parentheses indicate debits to profit/loss.

Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see the latest Annual Report to Shareholders.

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

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

	September 30, 2019				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 679	$ 679	$ –	$ –	$ 679
Recurring Assets	$ 679	$ 679	$ –	$ –	$ 679
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 5,324	$ –	$ –	$ 5,324	$ 5,324
Other property owned	3	–	–	3	3
Nonrecurring Assets	$ 5,327	$ –	$ –	$ 5,327	$ 5,327
Other Financial Instruments					
Assets:					
Cash	$ 162	$ 162	$ –	$ –	$ 162
Investments in debt securities, held-to-maturity	5,758	–	5,703	–	5,703
Loans	516,188	–	–	515,002	515,002
Other Financial Assets	$ 522,108	$ 162	$ 5,703	$ 515,002	$ 520,867
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 420,769	$ –	$ –	$ 421,373	$ 421,373
Other Financial Liabilities	$ 420,769	$ –	$ –	$ 421,373	$ 421,373

	December 31, 2018				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 654	$ 654	$ –	$ –	$ 654
Recurring Assets	$ 654	$ 654	$ –	$ –	$ 654
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 7,510	$ –	$ –	$ 7,510	$ 7,510
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 7,510	$ –	$ –	$ 7,510	$ 7,510
Other Financial Instruments					
Assets:					
Cash	$ 189	$ 189	$ –	$ –	$ 189
Investments in debt securities, held-to-maturity	7,913	–	7,865	–	7,865
Loans	528,219	–	–	517,372	517,372
Other Financial Assets	$ 536,321	$ 189	$ 7,865	$ 517,372	$ 525,426
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 442,646	$ –	$ –	$ 437,279	$ 437,279
Other Financial Liabilities	$ 442,646	$ –	$ –	$ 437,279	$ 437,279

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

inputs are interrelated with one another), which may counteract or magnify the fair value impact.

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 5,327	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

Note 7 — Employee Benefit Plans

The following is a table of retirement and other postretirement benefit expenses for the Association:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Pension	$ 197	$ 232	$ 555	$ 697
401(k)	97	87	331	298
Other postretirement benefits	40	38	122	120
Total	$ 334	$ 357	$ 1,008	$ 1,115

The following is a table of retirement and other postretirement benefit contributions for the Association:

	Actual YTD Through 9/30/19	Projected Contributions For Remainder of 2019	Projected Total Contributions 2019
Pension	$ 16	$ 600	$ 616
Other postretirement benefits	122	37	159
Total	$ 138	$ 637	$ 775

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2019.

Further details regarding employee benefit plans are contained in the 2018 Annual Report to Shareholders.

Note 8 — Commitments and Contingent Liabilities

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

Note 9 — Subsequent Events

The Association evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through November 8, 2019, which was the date the financial statements were issued.

On October 21, 2019, AgFirst's Board of Directors indicated an intention to declare, in December 2019, a special patronage distribution. The Association will receive between approximately $1,809 and $2,050 which will be recorded as patronage refunds from other Farm Credit institutions.