2019 ANNUAL REPORT

FRONTIER FARM CREDIT

Financial Information

$2.0
BILLION in Loans

$479.9
MILLION in Members' Equity

$45.6
MILLION in Net Income

$17.7
MILLION in
Cash-Back Dividends (Estimated)

Financial Highlights	2019	2018	2017
Loans	$2.0 billion	$2.0 billion	$1.9 billion
Members' Equity	$479.9 million	$451.4 million	$420.1 million
Net Income	$45.6 million	$46.4 million	$43.6 million
Cash-Back Dividends	$17.7 million (estimated)	$15.7 million (estimated)	$11.5 million

As your financial cooperative, Frontier Farm Credit has a singular mission – to be a reliable source of credit for rural communities and agriculture.

To fulfill our mission, we must continually grow our financial strength, especially today when agriculture needs the certainty of a dependable lender. I am pleased to report that for the year ended December 31, 2019, Frontier Farm Credit's net income was $45.6 million, and members' equity increased 6.3 percent to $479.9 million.

While a solid financial performance is important to our mission, it isn't our only measure of success. Just as important is how we use our financial strength for the benefit of agricultural producers and rural communities. Our cash-back dividend is one way we make a difference. In 2019, we returned more than $17 million of our net income to eligible customer-owners. This was equal to 1 percent of an eligible customer-owner's average daily loan balance, a record level of return that reflects our ongoing commitment to share our cooperative's success with you.

At the same time, we continued our investment in tools and technology that make it easy to do business with us. We introduced Rural 1st® to streamline the country home loan process. We began testing a new online channel that enables users to start the application process for real estate loans from anywhere, anytime, and seamlessly connect to the expertise of our financial officers. And our crop insurance agents began using a new tool, Optimum, that equips them with deeper insights to help customers assess their risk management needs with greater confidence.

America's farmers remain the most productive in the world. As agriculture evolves, it will take strong production *and* strong financial management skills to grow and sustain successful operations. Our goal is to provide the financial tools, insights and expertise that will help you thrive.

Just as technology is transforming agriculture, it also is changing how producers prefer to do business with us. We are working hard every day to deliver personalized service through a growing number of channels to meet our customer-owners where and when you need the expertise of a trusted financial partner. The investments we made in 2019 reflect our value proposition to share our success and advance the future of agriculture and rural communities by helping producers build strong and sustainable operations.

On behalf of all of us at Frontier Farm Credit, I thank you for your business. We look forward to serving you for many years to come.

Mark Jensen
President and CEO

As producers, we all understand the risks inherent in agriculture. That doesn't make our industry's current challenges any easier. But as 2019 proved, a financial cooperative that exists solely to serve agriculture can provide the reliability producers need to operate, not only for today but also for the future.

At a time when some lenders pulled back from agriculture, Frontier Farm Credit leaned in, using its financial strength for the benefit of our customer-owners. In the aftermath of volatile spring weather, for example, crop insurance customers benefited from the prevented plant expertise of our agents. Our Disaster Assistance Program offered flexible loan options at a time when flood-impacted producers needed a lender that understood it takes time and capital to rebuild. And throughout the year, financial officers proactively reached out to customers whose loans qualified for a reduced interest rate as a result of 2019's favorable rate environment.

Just as important was the more than $17 million that Frontier Farm Credit put directly into the pockets of eligible customer-owners in January, two months earlier than in the past. The Association has been sharing a portion of its profits for each of the past 16 years. Our cash-back dividend for 2019 was our largest to date, a reflection of the Association's commitment to share its financial success with customers. It is the intention of the Board to return a cash-back dividend equal to 100 basis points for the foreseeable future.

It is difficult to overstate the collective impact of our cash-back dividend program. Since 2004, the Association has returned a total of $114 million to farmers and ranchers to invest in their operations, families and communities. At the same time, Frontier Farm Credit has invested in the future of agriculture.

This year, the first participants of our Development Fund graduated from the program. Designed specifically for young and beginning producers, the Development Fund has provided capital to both new and growing operations. Many participants also have taken advantage of our annual Side by Side conference to learn more about managing the financial side of their operation. Supporting young and beginning producers is a priority for the Board, and it has been gratifying for all the Directors to follow the evolution of the Development Fund and its participants. It also is a source of hope for the future of our industry.

Even in these difficult times, U.S. agriculture remains a global leader in the production of safe and affordable food. The investments we make today in our operations will help ensure this legacy endures. The investments your financial cooperative is making, including our support for the next generation of producers, will help ensure the industry has a lender it can consistently depend on.

On behalf of your Board of Directors, I thank you for your business and wish you a successful 2020.

Shane Tiffany
2019 Board Chair

Frontier Farm Credit, ACA Directors

Kathy Brick / Overland Park, Kansas
An appointed Director, Brick has a background in finance, accounting, internal controls, risk management regulatory compliance, strategic planning and process improvement. She consults through Kathy Brick, LLC and serves as managing director of Prairie View Holdings, LLC, a family farming operation in Missouri. She previously served as a certified public accountant and as the chief financial officer of a wholesale financial institution. She was appointed to the Frontier Farm Credit Board in 2014; her current term ends March 31, 2021.

Ronald Dunbar / Princeton, Kansas*
Dunbar is president of Dunbar Farms, Inc., a family operation that includes a variety of crops and hay, a beef cow herd, and backgrounding and finishing cattle. He is a partner in Rabnud, LLC, an agricultural land company. He serves on the Franklin County Conservation District Board and is chairman of Richmond United Methodist Church Administrative Council and the Richmond Cemetery Board. He was elected to the Frontier Farm Credit Board in 2003.

Jennifer Gehrt / Alma, Kansas*
Gehrt is majority partner of G & W Ranch, LLC, president of Gehrt Farm, Inc. and an agricultural landowner. She recently retired as associate director of information systems at Kansas State University, where she previously served as project director in the information services office and director of human resource services. She also serves on the Wabaunsee County Historical Society and Museum Board of Directors. Gehrt was appointed to the Frontier Farm Credit Board in 2011 and was elected to the Board in 2016.

Bill Miller / Council Grove, Kansas*
Miller is president of ABCD2 Cattle Co., LLC, a cattle feeding business, and co-owner of Miller Ranch, where he and his wife have commercial Angus cows. Additionally, he provides communications consulting to U.S. Premium Beef, LLC, where he previously served as vice president of communications. Miller is a member of the CoBank Nominating Committee, the CoBank District Farm Credit Council, the Morris County Hospital Board and the Council Grove High School Mentoring Board. He was elected to the Frontier Farm Credit Board in 2006.

Lee Mueller / Hiawatha, Kansas*
Mueller is president of Laus Creek Farm, Inc., and raises corn and soybeans. He also owns Laus Creek Trucking LLC. He serves on the Highland Community College Precision Ag Department Advisory Committee. Mueller was elected to the Frontier Farm Credit Board in 2015.

Steve Powers / Chanute, Kansas*
Powers owns and operates a farm and ranch that includes wheat, corn, soybeans, brood cows and stocker cattle. He serves on the Eastern Kansas Royalty Owners Association Board, Thayer Christian Church Board, Hidden Haven Church Camp Board and Thayer Cemetery Board. Powers was elected to the Frontier Farm Credit Board in 2010.

Shane Tiffany / Allen, Kansas*
Tiffany is president of Tiffany Cattle Co., Inc., a custom cattle feeding operation, Tiffany Holdings, LLC, an agricultural land holding company, and Tiffany Enterprises, LLC, a real estate investment company. He is vice president of Tiffany Family Farms, LLC, a farming operation raising primarily corn and wheat. He is also president of Medicine Man Pharms LLC, a farming operation, and an owner of Elevate Ag, LLC, an ag company that produces biological stimulants, and has a minority ownership interest in OWNX, LLC, a gold and silver investment company. Tiffany served as mayor of Alta Vista, Kansas, from 2014 to 2017 and was president of Alta Vista Grocers, Inc., a small-town grocery store, until 2017. He is an elder of High View Church. Tiffany was elected to the Frontier Farm Credit Board in 2017.

*Effective April 1, 2020, the Frontier Farm Credit Board of Directors will be downsizing to three (3) stockholder-elected and one (1) appointed Director. The current term for all elected Directors will end on March 31, 2020. With the exception of Ronald Dunbar, who is not a candidate for re-election due to the term limit of sixteen (16) consecutive years of service, the current stockholder-elected Directors are candidates for re-election with terms beginning on April 1, 2020. The initial terms for those Board positions will be staggered to allow for the annual election of at least one Director in future years.

Frontier Farm Credit, ACA

Consolidated Five-Year Summary of Selected Financial Data

(Dollars in thousands)

	2019	2018	2017	2016	2015
Balance Sheet Data					
Loans	**$2,042,932**	$1,979,557	$1,919,313	$1,898,181	$1,835,021
Less allowance for loan losses	**9,600**	8,800	6,100	7,500	4,300
Net loans	**2,033,332**	1,970,757	1,913,213	1,890,681	1,830,721
Investment in CoBank, ACB	**65,069**	64,015	63,816	63,797	59,520
Investment in AgDirect, LLP	**4,420**	4,201	4,696	4,889	4,829
Cash	**–**	–	–	–	4,675
Other property owned	**–**	279	279	–	–
Other assets	**72,504**	75,800	72,880	64,455	50,172
Total assets	**$2,175,325**	$2,115,052	$2,054,884	$2,023,822	$1,949,917
Obligations with maturities of one year or less	**$ 37,456**	$ 26,990	$ 24,032	$ 21,660	$ 89,595
Obligations with maturities greater than one year	**1,657,977**	1,636,637	1,610,787	1,616,091	1,503,100
Total liabilities	**1,695,433**	1,663,627	1,634,819	1,637,751	1,592,695
At-risk capital stock	**$ 8,532**	$ 8,258	$ 7,675	$ 5,786	$ 5,213
Accumulated other comprehensive loss	**–**	(193)	(246)	(298)	(119)
Retained earnings	**471,360**	443,360	412,636	380,583	352,128
Total members' equity	**479,892**	451,425	420,065	386,071	357,222
Total liabilities and members' equity	**$2,175,325**	$2,115,052	$2,054,884	$2,023,822	$1,949,917
Statement of Income Data					
Net interest income	**$55,329**	$53,975	$52,249	$50,982	$45,717
Provision for (reversal of) credit losses	**833**	3,157	466	3,481	(37)
Noninterest income	**13,262**	15,336	12,994	13,143	12,899
Noninterest expense	**22,170**	19,773	21,227	23,193	27,207
Provision for income taxes	**–**	17	–	–	237
Net income	**$45,588**	$46,364	$43,550	$37,451	$31,209
Comprehensive income	**$45,781**	$46,417	$43,602	$37,272	$31,191
Key Financial Ratios					
For the year					
Return on average assets	**2.17%**	2.28%	2.18%	1.89%	1.67%
Return on average total members' equity	**9.66%**	10.52%	10.76%	10.03%	8.95%
Net interest income as a percentage of average earning assets	**2.81%**	2.82%	2.78%	2.72%	2.62%
Net charge-offs (recoveries) as a percentage of average loans	**–**	0.02%	0.10%	0.02%	(0.01)%
At year-end					
Members' equity as a percentage of total assets	**22.06%**	21.34%	20.44%	19.08%	18.32%
Allowance for loan losses as a percentage of total loans	**0.47%**	0.44%	0.32%	0.40%	0.23%
Capital ratios effective beginning January 1, 2017:					
Permanent capital ratio	**18.61%**	17.66%	16.65%	N/A	N/A
Common equity Tier 1 ratio	**18.52%**	17.58%	16.57%	N/A	N/A
Tier 1 capital ratio	**18.52%**	17.58%	16.57%	N/A	N/A
Total capital ratio	**18.95%**	18.00%	17.00%	N/A	N/A
Tier 1 leverage ratio	**20.27%**	19.23%	17.97%	N/A	N/A
Capital ratios effective prior to January 1, 2017:					
Permanent capital ratio	**N/A**	N/A	N/A	15.94%	15.05%
Total surplus ratio	**N/A**	N/A	N/A	15.68%	14.79%
Core surplus ratio	**N/A**	N/A	N/A	15.68%	14.79%
Other					
Cash patronage distribution payable to members	**$17,700**	$15,700	$11,500	$9,000	$7,500

Frontier Farm Credit, ACA

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

The following commentary reviews the consolidated financial condition and consolidated results of operations of Frontier Farm Credit, ACA (Frontier Farm Credit) and its subsidiaries, Frontier Farm Credit, FLCA and Frontier Farm Credit, 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 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 Farm Credit System consisted of three Farm Credit Banks, one Agricultural Credit Bank and 68 customer-owned cooperative lending institutions (associations). The Farm Credit 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 Farm Credit System serves – the American farmer and rancher.

CoBank, ACB, a Farm Credit System bank, its affiliated associations and AgVantis are collectively referred to as the District. Frontier Farm Credit is one of the affiliated associations in the District.

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

To request a free copy of our annual or quarterly reports, contact us at PO Box 2409, Omaha, NE 68103-2409, (800) 531-3905, via email to $sr@frontierfarmcredit.com or view them on our website, frontierfarmcredit.com. The annual report is available on our website no later than 75 days after the end of the calendar year, and shareholders are provided a copy of the 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.

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 that may be beyond our control. These risks and uncertainties include, but are not limited to:

- political (including trade policies), legal, regulatory, financial markets, economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, international and farm-related business sectors;
- unfavorable weather, disease and other adverse climatic or biological conditions that periodically occur and impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the Farm Credit System as a government-sponsored enterprise (GSE), as well as investor and rating-agency actions relating to events involving the United States government, other GSEs 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;
- industry outlooks for agricultural conditions.

2019 Highlights

Frontier Farm Credit continued to build its financial strength in the year ended December 31, 2019. A strong balance sheet and solid earnings provide a firm foundation for 2020. Highlights include:

- In December, the Board declared a cash-back dividend of 1.0 percent of a customer's average daily balance of eligible loans outstanding for an approximate total of $17.7 million distribution under the 2019 patronage program.
- Loan volume increased 3.2 percent to $2.0 billion.
- Total members' equity increased 6.3 percent to $479.9 million after recording a liability for the estimated $17.7 million cash-back dividend payment.
- Net income for the year was $45.6 million compared to $46.4 million for 2018, a decrease of 1.7 percent.

Frontier Farm Credit, ACA

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

Commodity Review and Outlook

Farm sector profits in the United States were up in 2019. Nationally, cash receipts project to modestly increase with crop receipts growing by 1.0 percent and livestock crop receipts up 0.3 percent. United States net farm income is forecast to increase 10.2 percent to $92.5 billion.

Profits varied widely by commodity and location across Frontier Farm Credit's lending territory. Cash grain and dairy profitability improved while hog, cattle and ethanol margins remained challenging, and wheat and egg producers experienced more significant negative margins. Wet spring conditions limited planting in several areas and helped push corn and soybean prices higher, and while wheat yields were up, prices fell. Protein supplies were abundant, and continued trade barriers limited exports, even in the face of growing global protein shortages caused by African swine fever outbreaks in China and neighboring Asian countries. Soybean producers and, to a lesser extent, hog producers, received United States Department of Agriculture Market Facilitation Program (MFP) payments to help offset losses from trade disruptions.

The average December monthly prices received by farmers and ranchers for the past five years are reflected in the table below:

	Averages for the Month of December:				
Commodity	**2019**	2018	2017	2016	2015
Corn	**$3.71**	$3.54	$3.23	$3.33	$3.65
Soybeans	**$8.70**	$8.57	$9.30	$9.64	$8.76
Wheat	**$4.64**	$5.28	$4.51	$3.91	$4.75
Beef cattle (all)	**$118.00**	$117.00	$118.00	$111.00	$122.00
Hogs (all)	**$47.30**	$43.40	$48.60	$43.10	$42.80

We monitor, compile and report real estate sales information for the 41 counties in our territory in eastern Kansas. We also monitor seven benchmark farms in eastern Kansas, which are updated each January and July.

For 2019, there was an overall decrease of 4.1 percent in the benchmark values and a decrease of 1.2 percent in the last six months of 2019. Farmland prices were relatively steady or down slightly across the Association's territory compared to a year ago. The average quality of land sold remained stable during this time and has not changed substantially over the past few years.

Crops: Profit margins improved in 2019 for corn producers as prices were higher and total input costs were relatively flat compared to a year earlier. The Omaha average cash corn price increased $0.20 per bushel to $3.77 per bushel. The trading range also increased as corn prices peaked at $4.62 per bushel in July before falling to a post-harvest low at $3.47 per bushel in November. The corn price increased to $3.82 per bushel at year-end, up $0.25 per bushel versus year-end 2018.

The 2019 United States corn production was 13.7 billion bushels, down 5.0 percent from 2018 as lower yields more than offset 206,000 additional harvested acres. United States year-end corn stocks were down 5.0 percent at 11.4 billion bushels with carryover forecast modestly higher at 1.89 billion bushels. National average yields were down 8.4 bushels per acre to 168 bushels per acre. Kansas production was up 24.6 percent as yields modestly improved to 133 bushels per acre on 1.04 million additional acres.

Soybeans were generally profitable in 2019 as a result of prices rebounding from lower production and receipt of U.S. Department of Agriculture MFP payments. Prices ended the year at $9.10 per bushel compared to $8.28 per bushel at year-end 2018, nearly recovering the $0.92 per bushel drop in 2018. The increase was largely driven by a 20.0 percent drop in United States production to 3.56 billion bushels after the record 4.54 billion bushels in 2018. National yields decreased 3.2 bushels per acre to 47.4 bushels per acre and harvested acres decreased 14.4 percent. The reduced production resulted in United States–stored soybeans falling 13.5 percent to 3.25 billion bushels with an estimated carryout of 475 million bushels, down considerably from a year ago. Kansas production was down 7.6 percent based on 200,000 fewer harvested acres along with a 1.5 bushel per acre yield decline to 41.5 bushels per acre.

United States wheat production was up for the second consecutive year to 1.92 billion bushels based on an average yield of 51.7 bushels per acre, up from 47.6 bushels per acre a year ago. Kansas winter wheat production was up 21.8 percent due to more favorable weather conditions with average yields increasing by 14 bushels per acre to 52 bushels per acre on 800,000 fewer harvested acres. Nationally, at year-end all wheat stocks were down 9.0 percent to 1.83 billion bushels with ending stocks projected to be marginally down to 965 million bushels. The all-wheat price dropped by nearly $1 per bushel year over year, limiting profitability. Planted acres are likely to be reduced significantly moving into the next crop year.

Beef: All sectors of the beef industry were profitable except for cattle feeders which, on average, lost approximately $30 per head. Profit margins in 2019 narrowed for cow/calf and stocker operators from roughly $100 and $40 per head in 2018 to $75 and $25 per head, respectively. The packing sector continued to capitalize on plentiful beef supply, maintaining a historic margin of nearly $200 per head. Consumer demand for beef was solid with per capita beef consumption the highest since 2012. Globally, reduced lean-beef supply from drought-stricken areas of Australia, along with increased Asian purchases to partially replace African swine fever–driven protein shortages, positively impacted exports. The increased domestic and export demand, along with reduced United States carcass weights due to the severe winter, helped offset increased domestic supply and hold up fed cattle prices.

The beef cow herd is expected to expand by 50,000 head in 2020, continuing a slower growth pace. Forage supply and moisture levels across the United States are currently adequate to support herd additions. It is anticipated that leverage will remain with the packing sector, which is presently running at a historic pace with available processing capacity below slaughter supply. Strong domestic and export demand is helping hold up beef prices, but projected 2020 producer margins remain narrow.

Pork: Swine producers experienced an up-and-down year in 2019 resulting in widely variable profitability across a growing industry with average losses of approximately $5 per head. The United States swine industry has been in growth mode since the second half of 2014, including nearly 5.0 percent this past year. The large supply and thawing but unresolved trade issues loomed over the market as we entered 2019, leading to greater than $20 per head losses in the first quarter. The losses reversed in the second quarter as prices shot higher in anticipation of tightening supply due to the spread of African swine fever in China and neighboring Asian countries. The price rally quickly dissipated as trade barriers continued to limit an expected uptick in exports, leading to a break-even third quarter and heavy losses in the fourth quarter.

Cash hog prices averaged $46 per cwt. for the year, an increase of $1.50 per cwt. over 2018. Input costs were modestly higher as well. While domestic demand remained solid, prices were held back by ample United States supply. The year-end United States Department of Agriculture Quarterly Hog and Pigs report reflected the breeding inventory at 6.46 million head, up 2.0 percent from a year ago; market hog inventory was up 3.0 percent from last year. Sow production, measured by pigs saved per litter, was reported at a record high at 11.09, impacted by continued genetic improvement as well as reduced disease impact.

Producers remain cautiously optimistic that they will see price improvement in 2020 as new trade agreements have been reached, resulting in an increase in exports recently. Current commodity futures prices reflect good profit margins. The African swine fever that continues to ravage China (at least 50.0 percent of the sow herd is impacted) and several other Asian countries is spreading in Europe, potentially further reducing world pork supply. The United States exports nearly 25.0 percent of production, and with continued anticipated growth, it will be necessary to grow existing and tap new export markets to move product and improve prices. The threat of African swine fever breaking into the United States remains, and the industry continues to work with the government to limit potential exposure.

Ethanol: Ethanol prices in 2019 rebounded slightly following a downward trend a year earlier. The average price rose $0.05 per gallon compared to 2018. The industry continued to produce an oversupply of ethanol most of the year with production decreasing in the fourth quarter. Industry profits were challenged as corn basis along with ethanol basis impacted crush margins. The impact of the local corn basis forced several plants to temporarily shut down while other plants reduced production due to negative margins.

During 2018, the Trump administration announced its support for a waiver to allow year-round E15 (15.0 percent ethanol blend). Following the president's directive, the United States Environmental Protection Agency signed the final action on May 31, 2019, just prior to the summer driving season. This is leading retailers to install additional E15 pumps, and it is estimated that demand for ethanol will increase over a billion gallons over the next five years. However, the United States Environmental Protection Agency also granted 31 new small-refinery exemptions on August 9, 2019, leading to diminished internal demand and continued oversupply. In addition, ethanol exports fell by 300 million gallons compared to the 2018 record level of 1.8 billion gallons; exports are a critical component to balance domestic supply and demand to support prices.

United States ethanol producers are anticipating challenges in 2020. Total production is predicted to be slightly lower than 2019; however, domestic ethanol usage is anticipated to be lower as well. Efficient plants located in areas of abundant corn supply with the ability to produce low-carbon ethanol mandating a price premium should continue to provide reasonable returns.

Frontier Farm Credit, ACA

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

Loan Portfolio

Our loan volume experienced another year of growth and increased $63.4 million during 2019, an increase of 3.2 percent.

We have no single customer or group of related customers who comprise more than 10.0 percent of our volume or who would have a material effect if they no longer did business with us.

Counties with more than 5.0 percent of total loan volume include Douglas with 6.36 percent and Nemaha with 5.40 percent.

The following table summarizes risk asset and delinquency information (amounts are in thousands):

	December 31,		
	2019	2018	2017
Risk loans:			
Nonaccrual	**$14,515**	$10,402	$5,597
Restructured	**728**	369	390
90 days past due still accruing interest*	**–**	–	59
Total risk loans	**15,243**	10,771	6,046
Other property owned, net	**–**	279	279
Total risk assets	**$15,243**	$11,050	$6,325
Risk loans as a percentage of total loans	**0.74%**	0.54%	0.31%
Nonaccrual loans as a percentage of total loans	**0.70%**	0.52%	0.29%
Current nonaccrual loans as a percentage of total nonaccrual loans	**51.5%**	45.1%	48.9%
Total delinquencies as a percentage of total loans	**0.48%**	0.55%	0.59%

**Accruing loans include accrued interest receivable.*

Total risk loans have increased since the end of 2018. The increase in nonaccrual loans is primarily due to accounts in the grain and landlords/investors industries. There was an increase in restructured loans and no change in loans 90 days past due still accruing interest. It is our practice to transfer accruing loans that are past due 90 days or more into nonaccrual unless they are adequately secured and in the process of collection. Risk loans as a percentage of total loans remain at acceptable levels.

Our adversely classified assets ended the year at 6.6 percent of the portfolio compared to 6.7 percent of the portfolio at December 31, 2018. Adversely classified assets are assets 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.

The allowance for loan losses is an estimate of losses on loans 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.

Comparative allowance coverage of various loan categories follows:

	December 31,		
	2019	2018	2017
Allowance as a percentage of:			
Total loans	**0.47%**	0.44%	0.32%
Nonaccrual loans	**66.14%**	84.60%	108.99%
Total risk loans	**62.98%**	81.70%	100.89%
Net charge-offs as a percentage of average loans	**–**	0.02%	0.10%
Adverse assets to risk funds*	**32.59%**	34.43%	21.20%

**Risk funds include permanent capital and allowance for loan losses.*

In our opinion, the allowance for loan losses at December 31, 2019, is adequate to provide for probable and estimable losses in the loan portfolio.

Investment in Rural Business Investment Company

We and other Farm Credit System institutions are among the limited partners invested in two Rural Business Investment Companies (RBICs). The RBICs facilitate equity and debt investments in agriculture-related businesses that create growth and job opportunities in rural America. Our total current commitment is $7 million with varying commitment end dates through December 2029. Certain commitments may have an option to extend under specific circumstances. As of December 31, 2019, we have not yet funded a capital call.

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

Results of Operations

The following table provides profitability information:

	December 31,		
	2019	2018	2017
Net income (in thousands)	**$45,588**	$46,364	$43,550
Return on average assets	**2.17%**	2.28%	2.18%
Return on average members' equity	**9.66%**	10.52%	10.76%

Changes to our return on average assets and return on average members' equity are related directly to the changes in income as described below, the changes in assets discussed in the "Loan Portfolio" section and the changes in members' equity discussed in the "Members' Equity" section.

Major components of the changes in net income for 2019, 2018 and 2017 are outlined in the following table (in thousands):

	December 31,		
	2019	2018	2017
Net income prior year	**$46,364**	$43,550	$37,451
Increase (decrease) in net income attributable to changes in:			
Net interest income	**1,354**	1,726	1,267
Provision for credit losses	**2,324**	(2,691)	3,015
Noninterest income	**(2,074)**	2,342	(149)
Noninterest expense	**(2,397)**	1,454	1,966
Provision for income taxes, net	**17**	(17)	–
Net income for the year	**$45,588**	$46,364	$43,550

The effects on net interest income from changes in average volumes and rates are presented in the following table (in thousands):

	2019 vs. 2018	2018 vs. 2017
Change in volume	**$2,168**	$1,325
Change in rates	**(299)**	388
Change in nonaccrual income	**(515)**	13
Net change	**$1,354**	$1,726

The average lending rate was 4.98 percent for 2019 compared to 4.83 percent for 2018. The average cost of debt was 2.74 percent for 2019 compared to 2.51 percent for 2018. The net interest margin was 2.81 percent in 2019 compared to 2.82 percent in 2018.

Net interest income included income on nonaccrual loans that totaled $65 thousand in 2019, $538 thousand in 2018 and $33 thousand in 2017. Nonaccrual income is recognized when:

- received in cash,
- collection of the recorded investment is fully expected, and
- prior charge-offs have been recovered.

We recorded a $0.8 million provision for credit losses for 2019 compared to a $3.2 million provision for credit losses for 2018. The provision for credit losses includes the provision for loan losses and the provision for unfunded lending commitments. Credit quality minimally improved over year-end 2018, reversing a four-year trend of credit deterioration. Of the industries in the portfolio that did experience some credit deterioration, the cow/calf industry experienced more than the other industries.

The reserve for unfunded lending commitments balance at December 31, 2019, was $800 thousand compared to $700 thousand in 2018 and 2017. The reserve for unfunded lending commitments is based on our best estimate of losses inherent in lending commitments made to customers but not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement were utilized in determining this contingency.

We recorded net recoveries of charge-offs of $67 thousand in 2019 (0.00 percent of average loans). We recorded net charge-offs of $0.5 million in 2018 (0.02 percent of average loans) and net charge-offs of $2.0 million in 2017 (0.10 percent of average loans).

The decrease in noninterest income is primarily due to the lower refund from the Farm Credit System Insurance Corporation as compared to 2018 and a decrease in CoBank, ACB patronage, which is more fully described under "CoBank, ACB Patronage Income" later in this section of the annual report.

The increase in noninterest expense is primarily due to the sharing of expenses with Farm Credit Services of America (FCSAmerica) as part of the strategic alliance.

Patronage Program

Our Board adopted a patronage program for eligible customers in 2019. The patronage program has been in place for more than a decade. The 2019 program is based on each customer's average daily balance of eligible loans outstanding during the year. The patronage program is a qualified (cash) distribution referred to as cash-back dividends. The Board declared a cash-back dividend of 1.0 percent of a customer's average daily balance of eligible loans outstanding to be distributed no later than April 30, 2020. We recorded an estimated patronage liability of $17.7 million in December 2019.

The 2018 and 2017 patronage programs were also based on each customer's average daily balance of eligible loans outstanding during the year. The Board declared a cash-back dividend of 0.90 percent for an approximate total of $15.7 million at its December 2018 meeting, and the Board declared a cash-back dividend of $11.5 million at its December 2017 meeting to be distributed no later than April 30 of the following respective years. We recorded a patronage liability of $15.7 million in December 2018 and $11.5 million in December 2017.

Our Board also has adopted a patronage program for 2020. The 2020 patronage program will once again be based on each customer's average daily balance of eligible loans outstanding during 2020.

Frontier Farm Credit, ACA

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

CoBank, ACB Patronage Income

We receive patronage from CoBank, ACB at the discretion of CoBank, ACB's Board of Directors. Patronage is paid in cash and stock.

We received patronage income based on the average balance of our note payable to CoBank, ACB. We recorded patronage income of $6.5 million in 2019, $8.1 million in 2018 and $7.1 million in 2017. Changes in our note payable to CoBank, ACB caused the variance in the patronage income amounts in addition to a 2018 special all-cash patronage distribution in 2018 of $1.0 million.

Funding and Liquidity

Our approach to sustaining sufficient liquidity to fund operations and meet current obligations is to maintain an adequate line of credit with CoBank, ACB. As of December 31, 2019, we had a $1.9 billion revolving line of credit with CoBank, ACB. We generally apply excess cash to this line of credit.

As described in Note 8 to the consolidated financial statements, "Notes Payable," this line of credit is governed by a General Financing Agreement and is collateralized by a pledge of substantially all our assets and is also subject to regulatory borrowing limits. The line of credit will be renegotiated periodically. We expect this line of credit to be sufficient to fund our operations. The note payable related to this line of credit reprices monthly.

At December 31, 2019, the direct loan balance was $1.7 billion compared to $1.6 billion at the end of 2018 and $1.6 billion at the end of 2017.

The interest rate risk inherent in our loan portfolio is substantially mitigated through this funding relationship. CoBank, ACB manages interest rate risk through its direct loan pricing and asset/liability management processes. The direct loan pricing mechanism simulates matching the cost of underlying debt with substantially the same terms as the anticipated terms of our loans to customers. The primary risks we manage include pipeline risk and basis risk. Pipeline risk occurs when we commit a fixed interest rate to a customer in advance of the loan's closing date and is effectively mitigated through the use of rate-lock agreements. Basis risk occurs when the interest rate on a loan reprices according to one index, while the debt supporting that loan reprices according to another index.

However, we maintain some exposure to interest rates, including London Inter-bank Offered Rate (LIBOR), primarily from loans to customers that may not have a component of our line of credit with an exact repricing attribute. Regulators in the United States 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 work group to provide leadership in addressing the LIBOR phase out across system entities. While many factors can impact our net interest income, we expect that financial performance will remain relatively consistent under most interest rate environments over the next 12 months.

We provide financing to eligible customers with various interest rate programs. New loans are priced with consideration given to local competitive conditions, the cost of debt that will be incurred to fund the loan, the individual risk elements of the loan and profit objectives. Interest on real estate loans is generally paid in full annually, while interest on agricultural production loans is generally paid in full at the annual renewal date of the loan.

We offer variable-rate loan products that include variable-rate loans repriced at our discretion, as dictated by market conditions, and market-indexed variable-rate loans that provide customers with the option of indexing their interest rate to external market indices such as LIBOR or the prime rate.

We also offer fixed-rate operating loans for up to 14.99 months, fixed-rate installment loans for up to 10 years and fixed-rate mortgage loans in yearly increments from five to 35 years.

Additionally, we offer real estate adjustable-rate loans that are indexed to one-, three- or five-year United States Department of the Treasury rates. The loans reprice at one-, three- or five-year intervals at a rate equal to the corresponding United States Department of the Treasury rate plus a contractual spread. The one-, three- or five-year adjustable-rate loans are generally subject to periodic caps ranging from 2.0–2.50 percent with a 6.0 percent life cap. The cost of debt supporting these loans is capped accordingly.

We also offer a prepayment-restricted loan product. This is a fixed-rate product with a prepayment penalty provision if prepayments are made during the initial three, five or seven years of the loan term. For agreeing to restricted prepayments, the customer receives a reduced interest rate that remains in effect for the entire loan term.

A breakdown of the loan portfolio by rate type, as a percentage of total volume at December 31, is shown in the following table:

	December 31,		
	2019	2018	2017
Variable rate	**40.9%**	41.0%	41.8%
Fixed rate	**58.7**	58.5	57.6
Adjustable rate	**0.4**	0.5	0.6
	100.0%	100.0%	100.0%

Our other source of lendable funds is unallocated surplus.

Members' Equity

Our equity structure is described in Note 9 to the consolidated financial statements, "Members' Equity."

Members' equity increased to $479.9 million at December 31, 2019, compared to $451.4 million at December 31, 2018, and $420.1 million at December 31, 2017. The increase in 2019 was due to net income recorded in 2019, the net capital stock issued and the change in other comprehensive income partially offset by patronage payable.

Members' equity as a percentage of total assets increased to 22.1 percent at December 31, 2019, compared to 21.3 percent at December 31, 2018. The increase in the members' equity-to-assets ratio was due to the growth rate of members' equity exceeding the growth rate of assets. The increase in members' equity is described in the previous paragraph. The increase in assets is primarily due to the increase in loan volume described in the "Loan Portfolio" section.

Effective January 1, 2017, the Farm Credit Administration 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 Farm Credit Administration requires us to maintain minimums for our non-risk-adjusted ratios of Tier 1 leverage and unallocated retained earnings and equivalents (UREE) leverage.

	As of December 31,			Regulatory Minimums	Capital Conservation Buffers	Total
	2019	2018	2017			
Risk-adjusted ratios:						
Common equity Tier 1	**18.52%**	17.58%	16.57%	**4.5%**	**2.5%***	**7.0%**
Tier 1 capital	**18.52%**	17.58%	16.57%	**6.0%**	**2.5%***	**8.5%**
Total capital	**18.95%**	18.00%	17.00%	**8.0%**	**2.5%***	**10.5%**
Permanent capital	**18.61%**	17.66%	16.65%	**7.0%**	**–**	**7.0%**
Non-risk-adjusted ratios:						
Tier 1 leverage	**20.27%**	19.23%	17.97%	**4.0%**	**1.0%**	**5.0%**
UREE leverage	**21.87%**	20.88%	19.71%	**1.5%**	**–**	**1.5%**

**The 2.5 percent capital conservation buffers over risk-adjusted ratio minimums was phased in over three years under the Farm Credit Administration capital requirements. The phase-in period ended December 31, 2019.*

Relationship with CoBank, ACB

We borrow from CoBank, ACB to fund our lending operations in accordance with the Farm Credit Act of 1971, as amended. Approval from CoBank, ACB is required for us to borrow elsewhere. A General Financing Agreement, as discussed in Note 8 to the consolidated financial statements, "Notes Payable," governs this lending relationship. The interest rate may be periodically adjusted by CoBank, ACB based on the terms and conditions of the General Financing Agreement.

We are required to own stock in CoBank, ACB to capitalize our notes payable balance and participation loans sold to CoBank, ACB. The current requirement for capitalizing the notes payable to CoBank, ACB is 4.0 percent of our prior year average notes payable balance. The 2019 requirement for capitalizing patronage-based participation loans sold to CoBank, ACB is 8.0 percent of our prior 10-year average balance of participations sold to CoBank, ACB. Under the current CoBank, ACB capital plan applicable to participations sold, patronage from CoBank, ACB related to these participations sold is paid 75.0 percent cash and 25.0 percent Class A stock. The capital plan is evaluated annually by CoBank, ACB's Board of Directors and management, and is subject to change.

In August 2017, CoBank, ACB announced changes to its capital plans and patronage programs for eligible customer-owners designed to address a number of marketplace challenges. The changes are intended to strengthen CoBank, ACB's long-term capacity to serve customers' borrowing needs, enhance the bank's ability to capitalize future customer growth, and ensure equitability among different customer segments. The new target patronage levels took effect in the 2018 calendar year and were reflected in patronage distributions made in March 2019. Affiliated associations will transition to their new target patronage levels over a multiyear period ending in 2020.

At December 31, 2019, our investment in CoBank, ACB is in the form of Class A stock with a par value of $100 per share.

CoBank, ACB may require the holders of its equities to subscribe for additional capital as may be needed to meet its capital requirements for its joint and several liability under the Farm Credit Act and regulations. In making such a capital call, CoBank, ACB shall take into account the financial condition of each such holder and such other considerations, as it deems appropriate.

We receive patronage income based on the annual average daily balance of our note payable to CoBank, ACB. CoBank, ACB's Board of Directors sets the patronage rates.

Due to the nature of our financial relationship with CoBank, ACB, the financial condition and results of operations of CoBank, ACB materially impact our stockholders' investment in Frontier Farm Credit. To request a free copy of the combined CoBank, ACB and affiliated associations' financial reports, contact us at PO Box 2409, Omaha, NE 68103-2409, (800) 531-3905 or via email to $sr@frontierfarmcredit.com. You may also obtain copies by accessing CoBank, ACB's website, cobank.com. Annual reports are available no later than 75 days after the end of the calendar year, and quarterly reports are available no later than 40 days after the end of each calendar quarter.

Frontier Farm Credit, ACA

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

Relationship With Farm Credit Services of America

A strategic alliance between Frontier Farm Credit and FCSAmerica was implemented on January 1, 2015. The alliance is designed to benefit the farmers and ranchers who own and support the two financial services cooperatives by ensuring that both Associations have the strength and capacity to serve agricultural customers' needs for years to come.

Frontier Farm Credit and FCSAmerica continue to exist as separate Associations while integrating their day-to-day business operations, technology systems and leadership teams. Each Association continues to have its own Board, with representatives participating in a coordinating committee to facilitate Board governance between the two organizations.

Under the alliance agreement, Frontier Farm Credit and FCSAmerica have agreed to share current-year income and expenses based generally on the average total assets of each entity for the prior calendar year. For the year ending December 31, 2019, pretax net income was shared on fixed percentages of 93.6 and 6.4 percent for FCSAmerica and Frontier Farm Credit, respectively. For the year ending December 31, 2019, Frontier Farm Credit recorded $14.4 million of net operating expenses under the income- and expense-sharing provisions of the alliance agreement primarily due to the salary and related expenses incurred by FCSAmerica for former Frontier Farm Credit employees added to the FCSAmerica payroll. The net operating expenses recorded by Frontier Farm Credit were $11.4 million for the year ended December 31, 2018, and $12.1 million for the year ended December 31, 2017. The net operating expenses specifically attributable to salaries and employee benefits, and occupancy and equipment expenses are recorded in their respective accounts on our Consolidated Statements of Comprehensive Income. The remainder of the allocation is a net recording to other operating expenses on our Consolidated Statements of Comprehensive Income. Depending on the activity in each Association, this allocation can result in the recording of an operating expense credit.

Frontier Farm Credit has $2.2 billion in assets and serves multiple counties in eastern Kansas. FCSAmerica has $31.3 billion in assets and serves the states of Iowa, Nebraska, South Dakota and Wyoming.

AgDirect®, LLP

We participate in the AgDirect® trade credit financing program, which includes origination and refinancing of agricultural equipment loans and leases through independent equipment dealers. The program is facilitated by FCSAmerica through a limited liability partnership (LLP) in which we are a partial owner. Our investment in AgDirect, LLP was $4.4 million at December 31, 2019, $4.2 million at December 31, 2018, and $4.7 million at December 31, 2017. The LLP is an unincorporated business entity.

Purchased Services

We purchase various services from AgriBank, FCB, including SunStream Business Services, a division of AgriBank, FCB. The services include tax-reporting services. The total cost of services we purchased from AgriBank, FCB was $13 thousand, $8 thousand and $8 thousand in 2019, 2018 and 2017, respectively.

Farm Credit Foundations

We purchase human resource information systems and benefit and payroll services from Farm Credit Foundations. The Farm Credit System entities using Farm Credit Foundations' services contributed an investment into the service corporation when it was formed as a separate service corporation. Our investment was $21 thousand at December 31, 2019, December 31, 2018, and December 31, 2017. The total cost of services purchased from Farm Credit Foundations was $97 thousand in 2019, $74 thousand in 2018 and $78 thousand in 2017.

Rural 1st®

In 2019, we entered into an agreement with Farm Credit Mid-America to offer home lending through Rural 1st. Rural 1st is a division of Farm Credit Mid-America offering a program that delivers specialized products and services to customers looking to make a move to rural living through recreation land and home purchases, and home-equity and construction projects. We receive noninterest income from Farm Credit Mid-America for loan volume originated in our territory via Rural 1st. During 2019, we received $147 thousand in noninterest income for these originations.

Regulatory Matters

On September 19, 2019, the Farm Credit Administration 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 United States Department of Agriculture unconditionally guarantees as to the timely payment of principal and interest. The comment period for this proposed rule-making ended on November 18, 2019, and the final regulation has not been issued. We currently do not have investment securities on our Consolidated Balance Sheets.

Frontier Farm Credit, ACA

Report of Management

We prepare the consolidated financial statements of Frontier Farm Credit, ACA (Association) and are responsible for their integrity and objectivity, including amounts that must be necessarily 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 generally accepted auditing standards 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 consult regularly with us and meet 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 that we have reviewed the Association's annual report and it has been prepared in accordance with all applicable statutory or regulatory requirements, and the information contained herein is true, accurate and complete to the best of our knowledge and belief.

Mark Jensen
President and CEO
March 3, 2020

Craig P. Kinnison
Executive Vice President – CFO
March 3, 2020

Shane Tiffany
Chairperson, Board of Directors
March 3, 2020

Frontier Farm Credit, ACA
Report on Internal Control Over Financial Reporting

Frontier Farm Credit, ACA's (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.

Mark Jensen
President and CEO
March 3, 2020

Craig P. Kinnison
Executive Vice President – CFO
March 3, 2020

Frontier Farm Credit, ACA

Report of Audit Committee

The consolidated financial statements of Frontier Farm Credit, ACA (Association) were prepared under the oversight of the Audit Committee. The Audit Committee is composed of six individuals from the Association Board of Directors. In 2019, the Audit Committee met four times. The Audit Committee oversees the scope of the Association's internal audit program, the approval and independence of PricewaterhouseCoopers LLP (PwC) as our independent auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action 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 its report based on its 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 Statements 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.

Kathy Brick
Chair, Audit Committee
Frontier Farm Credit, ACA
March 3, 2020

Audit Committee Members:
Ronald Dunbar
Jennifer Gehrt
Bill Miller
Lee Mueller
Steve Powers

pwc

Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of Frontier Farm Credit, ACA and its subsidiaries (the Association), which comprise the consolidated balance sheets as of December 31, 2019, 2018 and 2017, and the related consolidated statements of comprehensive income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Frontier Farm Credit, 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 3, 2020

PricewaterhouseCoopers LLP, 45 South Seventh Street, Suite 3400, Minneapolis, MN 55402
T: (612) 596 6000, F: (612) 373 7160, www.pwc.com

Frontier Farm Credit, ACA

Consolidated Balance Sheets

(Dollars in thousands)

	December 31,		
	2019	2018	2017
Assets			
Loans	**$2,042,932**	$1,979,557	$1,919,313
Less allowance for loan losses	**9,600**	8,800	6,100
Net loans	**2,033,332**	1,970,757	1,913,213
Accrued interest receivable	**28,489**	27,006	26,337
Investment in CoBank, ACB	**65,069**	64,015	63,816
Investment in AgDirect, LLP	**4,420**	4,201	4,696
Premises and equipment, net	**20,345**	20,902	21,795
Other property owned, net	**–**	279	279
Prepaid benefit expense	**3,584**	2,296	1,367
Other assets	**20,086**	25,596	23,381
Total assets	**$2,175,325**	$2,115,052	$2,054,884
Liabilities			
Notes payable to CoBank, ACB	**$1,657,977**	$1,636,637	$1,610,787
Accrued interest payable	**3,537**	3,784	2,974
Patronage payable	**17,700**	15,700	11,500
Reserve for unfunded lending commitments	**800**	700	700
Accrued benefits liability	**250**	538	813
Other liabilities	**15,169**	6,268	8,045
Total liabilities	**1,695,433**	1,663,627	1,634,819
Commitments and contingencies (Note 13)			
Members' Equity			
At-risk capital:			
Class B common stock	**8,299**	8,025	7,454
Class C common stock	**233**	233	221
Accumulated other comprehensive loss	**–**	(193)	(246)
Retained earnings	**471,360**	443,360	412,636
Total members' equity	**479,892**	451,425	420,065
Total liabilities and members' equity	**$2,175,325**	$2,115,052	$2,054,884

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

Frontier Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(Dollars in thousands)

	Year Ended December 31,		
	2019	2018	2017
Net Interest Income			
Interest income	**$99,537**	$93,796	$84,565
Interest expense	**44,208**	39,821	32,316
Net interest income	**55,329**	53,975	52,249
Provision for credit losses	**833**	3,157	466
Net interest income after provision for credit losses	**54,496**	50,818	51,783
Noninterest Income			
Patronage income from CoBank, ACB	**6,470**	8,106	7,116
Loan fees	**1,322**	1,451	1,508
Insurance services	**2,712**	2,526	2,528
FCSIC insurance refund	**490**	1,351	–
Mineral income	**1,232**	1,132	1,014
Other noninterest income	**1,036**	770	828
Total noninterest income	**13,262**	15,336	12,994
Noninterest Expense			
Salaries and employee benefits	**16,651**	17,305	14,066
Occupancy and equipment expense	**2,283**	2,076	2,136
Insurance fund premiums	**1,382**	1,359	2,244
Other operating expenses	**1,854**	(967)	2,781
Total noninterest expense	**22,170**	19,773	21,227
Income before income taxes	**45,588**	46,381	43,550
Provision for income taxes	**–**	17	–
Net income	**$45,588**	$46,364	$43,550
Comprehensive Income			
Actuarial gain (loss) in retirement obligation	**10**	5	(3)
Amortization of retirement costs	**183**	48	55
Total comprehensive income	**$45,781**	$46,417	$43,602

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

Frontier Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(Dollars in thousands)

	Accumulated Other Comprehensive Income (Loss)	At-Risk Capital		Total Members' Equity
		Capital Stock	Retained Earnings	
Balance at December 31, 2016	$(298)	$5,786	$380,583	$386,071
Net income			43,550	43,550
Patronage declared			(11,500)	(11,500)
Patronage accrual adjustment			3	3
Change in other comprehensive income	52			52
Capital stock:				
Issued		4,239		4,239
Retired		(2,350)		(2,350)
Balance at December 31, 2017	(246)	7,675	412,636	420,065
Net income			46,364	46,364
Patronage distribution accrued			(15,700)	(15,700)
Patronage accrual adjustment			60	60
Change in other comprehensive income	53			53
Capital stock:				
Issued		1,871		1,871
Retired		(1,288)		(1,288)
Balance at December 31, 2018	(193)	8,258	443,360	451,425
Net income			**45,588**	**45,588**
Patronage distribution accrued			**(17,700)**	**(17,700)**
Patronage accrual adjustment			**112**	**112**
Change in other comprehensive income	**193**			**193**
Capital stock:				
Issued		**1,119**		**1,119**
Retired		**(845)**		**(845)**
Balance at December 31, 2019	**$ 0**	**$8,532**	**$471,360**	**$479,892**

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

Frontier Farm Credit, ACA

Consolidated Statements of Cash Flows

(Dollars in thousands)

	Year Ended December 31,		
	2019	2018	2017
Cash Flows from Operating Activities:			
Net income	**$45,588**	$46,364	$43,550
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	**833**	3,157	466
Gain on sales of other property owned	**(15)**	–	–
(Gain) loss on sales of premises and equipment	**(65)**	–	149
Depreciation on premises and equipment	**764**	892	884
Increase in accrued interest receivable	**(1,483)**	(669)	(2,401)
(Decrease) increase in accrued interest payable	**(247)**	810	434
Increase in prepaid benefit expense	**(1,288)**	(929)	(774)
Decrease (increase) in other assets	**5,510**	(2,215)	(2,508)
Decrease in accrued benefits liability	**(95)**	(222)	(211)
Increase (decrease) in other liabilities	**8,901**	(1,777)	(200)
Total adjustments	**12,815**	(953)	(4,161)
Net cash provided by operating activities	**58,403**	45,411	39,389
Cash Flows from Investing Activities:			
Increase in loans, net	**(63,308)**	(60,701)	(23,377)
Increase in investment in CoBank, ACB	**(1,054)**	(199)	(19)
(Increase) decrease in investment in AgDirect, LLP	**(219)**	495	193
Purchases of premises and equipment, net	**(207)**	–	(4,230)
Proceeds from sales of other property owned	**294**	–	–
Proceeds from sales of premises and equipment	**65**	1	455
Net cash used in investing activities	**(64,429)**	(60,404)	(26,978)
Cash Flows from Financing Activities:			
Increase (decrease) in notes payable, net	**21,340**	25,850	(5,304)
At-risk capital stock issued	**1,119**	1,871	4,239
At-risk capital stock retired	**(845)**	(1,288)	(2,349)
Patronage paid in cash	**(15,588)**	(11,440)	(8,997)
Net cash provided by (used in) financing activities	**6,026**	14,993	(12,411)
Net increase (decrease) in cash	**–**	–	–
Cash at beginning of year	**–**	–	–
Cash at end of year	**$ –**	$ –	$ –
Supplemental Schedule of Non-Cash Investing and Financing Activities:			
Cash patronage distribution accrued/declared	**$17,700**	$15,700	$11,500
Loan amounts transferred to other property owned	**$ –**	$ –	$279
Change in accumulated other comprehensive income	**$193**	$53	$52
Supplemental Cash Flow Information:			
Interest paid on notes payable	**$44,455**	$39,011[1]	$31,882[1]
Income taxes paid (net of refunds)	**$(235)**	$(424)	$211

[1] The Association revised "Interest paid on notes payable" within the Supplemental Cash Flow Information section from $33,063 to $39,011 in 2018 and from $26,802 to $31,882 in 2017 to correct an immaterial error in the disclosure as originally presented in the prior years' (2018 and 2017) Supplemental Cash Flow Information section of the Consolidated Statements of Cash Flows.

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

Notes to Consolidated Financial Statements

Note 1 – Organization and Operations

Farm Credit System and District

Farm Credit System Lending Institutions

The Farm Credit 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 Farm Credit System consisted of three Farm Credit Banks, one Agricultural Credit Bank and 68 customer-owned cooperative lending institutions (associations). The Farm Credit System serves all 50 states, Washington, D.C., and Puerto Rico. This network of financial cooperatives is owned and operated by the rural customers the Farm Credit System serves – the American farmer and rancher.

CoBank, ACB, its related associations and AgVantis, Inc. (AgVantis) are collectively referred to as the District. CoBank, ACB provides the funding to associations within the District and is responsible for supervising certain activities of the District associations. AgVantis, which is owned by the entities it serves, provides technology and other operational services to certain associations and to CoBank, ACB. As of January 1, 2020, the CoBank District consisted of CoBank, ACB; 21 Agricultural Credit Associations (ACA), each of which have two wholly owned subsidiaries; a Federal Land Credit Association (FLCA) and a Production Credit Association (PCA); and AgVantis.

Federal Land Credit Associations are authorized to originate long-term real estate mortgage loans. Production Credit Associations are authorized to originate short-term and intermediate-term loans. Agricultural Credit Associations 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 also are authorized to purchase and hold certain types of investments, including mission-related investments.

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. Additionally, associations can participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a Farm Credit System lending institution but have operations that are functionally similar to the activities of eligible borrowers.

Farm Credit System Regulator

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

Farm Credit System Insurance Fund

The Farm Credit Act established the Farm Credit System Insurance Corporation to administer the Farm Credit System Insurance Fund. The Farm Credit System 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 Farm Credit System Insurance Corporation, the Farm Credit System Insurance Fund also is available to provide assistance to certain troubled Farm Credit System institutions and for the operating expenses of the Farm Credit System Insurance Corporation. Each Farm Credit System bank is required to pay premiums into the Farm Credit System Insurance Fund until the assets in the Farm Credit System Insurance Fund equal 2.0 percent 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 Farm Credit System Insurance Corporation, at its sole discretion, to a percentage it determines to be actuarially sound. The basis for assessing premiums is debt outstanding, with a surcharge assessed for nonaccrual loans and impaired investment securities, and deductions are made from the premium base for guaranteed loans and investment securities. CoBank, ACB, in turn, assesses premiums to its related associations each year based on similar factors.

Association

Frontier Farm Credit, ACA (ACA) and its subsidiaries, Frontier Farm Credit, FLCA (FLCA) and Frontier Farm Credit, PCA (PCA), collectively referred to as Frontier Farm Credit, are lending institutions of the Farm Credit System. We are a member-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Allen, Anderson, Atchison, Bourbon, Brown, Chase, Chautauqua, Cherokee, Clay, Coffey, Crawford, Dickinson, Doniphan, Douglas, Elk, Franklin, Geary, Greenwood, Jackson, Jefferson, Johnson, Labette, Leavenworth, Linn, Lyon, Marion, Marshall, Miami, Montgomery, Morris, Nemaha, Neosho, Osage, Pottawatomie, Riley, Shawnee, Wabaunsee, Washington, Wilson, Woodson and Wyandotte in the state of Kansas. We borrow from CoBank, ACB and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans and provides lease financing options in collaboration with Farm Credit Leasing Services Corporation (Farm Credit Leasing Services) and CoBank, ACB. The PCA makes short-term and intermediate-term loans for agricultural production or operating purposes and provides lease financing options in collaboration with Farm Credit Leasing Services and CoBank, ACB. We offer risk management services, including crop insurance and crop-hail insurance, for borrowers and those eligible to borrow.

Frontier Farm Credit, ACA

Notes to Consolidated Financial Statements

Relationship With Farm Credit Services of America

A strategic alliance between Frontier Farm Credit and Farm Credit Services of America (FCSAmerica) was implemented January 1, 2015. The alliance is designed to benefit the farmers and ranchers who own and support the two financial services cooperatives by ensuring that both Associations have the strength and capacity to serve agricultural customers' needs for years to come.

Frontier Farm Credit and FCSAmerica continue to exist as separate Associations while integrating their day-to-day business operations, technology systems and leadership teams. Each Association continues to have its own Board, with representatives participating in a coordinating committee to facilitate Board governance between the two organizations.

Under the alliance agreement, Frontier Farm Credit and FCSAmerica have agreed to share current-year income and expenses based generally on the average total assets of each entity for the prior calendar year. For the year ending December 31, 2019, pretax net income was shared on fixed percentages of 93.6 and 6.4 percent for FCSAmerica and Frontier Farm Credit, respectively. For the year ending December 31, 2019, Frontier Farm Credit recorded $14.4 million of net operating expenses under the income- and expense-sharing provisions of the alliance agreement primarily due to the salary and related expenses incurred by FCSAmerica for former Frontier Farm Credit employees added to the FCSAmerica payroll. The net operating expenses recorded by Frontier Farm Credit were $11.4 million for the year ended December 31, 2018, and $12.1 million for the year ended December 31, 2017. The net operating expenses specifically attributable to salaries and employee benefits, and occupancy and equipment expense are recorded in their respective accounts on our Consolidated Statements of Comprehensive Income. The remainder of the allocation is a net recording to other operating expenses on our Consolidated Statements of Comprehensive Income. Depending on the activity in each Association, this allocation can result in the recording of an operating expense credit.

Frontier Farm Credit has $2.2 billion in assets and serves multiple counties in eastern Kansas. FCSAmerica has $31.3 billion in assets and serves the states of Iowa, Nebraska, South Dakota and Wyoming.

Relationship with Rural 1st

In 2019, we entered into an agreement with Farm Credit Mid-America to offer home lending through Rural 1st. Rural 1st is a division of Farm Credit Mid-America offering a program that delivers specialized products and services to customers looking to make a move to rural living through recreation land and home purchases, and home-equity and construction projects. We receive noninterest income from Farm Credit Mid-America for loan volume originated in our territory via Rural 1st. During 2019, we received $147 thousand in noninterest income for these originations.

Note 2 – Summary of Significant Accounting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America and prevailing practices within the financial services industry.

Preparing financial statements in conformity with accounting principles generally accepted in the United States of America 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 as well as the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. We have reclassified certain amounts in prior years' financial statements to conform to current financial statement presentation. The consolidated financial statements present the consolidated financial results of Frontier Farm Credit, ACA (the parent), and Frontier Farm Credit, FLCA and Frontier Farm Credit, PCA (the subsidiaries), collectively referred to as Frontier Farm Credit. All material intercompany transactions and balances have been eliminated in consolidation.

The following are our significant accounting policies:

Loans

Mortgage loan terms range from five to 35 years at origination. Almost all commercial loans are made for agricultural production or operating purposes with original terms of 10 years or less.

Loans are carried at their principal amount outstanding net of any unearned income, cumulative charge-offs and unamortized premiums or discounts on purchased loans. Loan interest is accrued and credited to interest income based on the daily principal amount outstanding.

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 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. 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. Nonaccrual loans may be returned to accrual status when:

- principal and interest are current,
- prior charge-offs have been recovered,
- the ability of the borrower to fulfill the contractual repayment terms is fully expected, and
- the loan is not classified 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.

Loans are charged off at the time they are determined to be uncollectible.

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 has been surrendered and that all conditions have been met to be accounted for as a sale.

Allowance for Loan Losses and Reserve for Unfunded Lending Commitments

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as:

- loan loss history,
- changes in credit risk classifications,
- changes in collateral values,
- changes in risk concentrations, and
- changes in economic and environmental conditions.

Loans in our portfolio that are considered impaired are analyzed individually to establish a specific allowance for impaired loans or are analyzed on a pool basis if they have similar risk characteristics. A loan is impaired when it is probable that all amounts due under the contractual terms of the loan agreement will not be collected. We measure impairment based on the net realizable value of the collateral. All risk loans are considered to be impaired loans. Risk loans include:

- nonaccrual loans,
- formally restructured loans, and
- loans that are 90 days or more past due and still accruing interest.

We record a specific allowance to reduce the carrying amount of the risk loan to the lower of book value or the net realizable value of collateral. When collection is unlikely, 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.

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

The reserve for unfunded lending commitments is based on our best estimate of losses inherent in lending commitments made to customers but not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement were utilized in determining this contingency. Changes in the reserve for unfunded commitments consist of provision activity, recorded as "Provision for (reversal of) credit losses" on the Consolidated Statements of Comprehensive Income.

Investment in CoBank, ACB

Accounting for our investment in CoBank, ACB is on a cost plus allocated equities basis.

Investment in AgDirect, LLP

Accounting for the investment in AgDirect, LLP is on a cost basis.

Other Property Owned

We record other property owned, consisting of real and personal property acquired through a collection action, at fair value, less estimated selling costs at the time of 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 of the fair value, less estimated selling costs, are reported as adjustments to the carrying amount of the asset, provided that the adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations, carrying value adjustments and realized gains or losses on sales are recorded as "Loss (gain) on other property owned" on the Consolidated Statements of Comprehensive Income.

Investment in Rural Business Investment Company

The carrying amount of the investments in the Rural Business Investment Companies, in which we are a limited partner and hold noncontrolling interests, are accounted for under the equity method. The investments are assessed for impairment. If impairment exists, losses are included in other noninterest expense, net in the Consolidated Statements of Comprehensive Income in the year of impairment. As of December 31, 2019, we have not funded a capital call.

Premises and Equipment

The carrying amount of premises and equipment is at cost, less accumulated depreciation. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets, which are normally five to 40 years for building and improvements, and three to 10 years for furniture and equipment. Gains and losses on premises and equipment dispositions are reflected in current-year income. Maintenance and repairs are included in operating expense and improvements are capitalized.

Frontier Farm Credit, ACA

Notes to Consolidated Financial Statements

Leases

We operate under an agreement with CoBank, ACB where we purchase a participation in loans made by CoBank, ACB to Farm Credit Leasing Services to fund capital markets leases, agricultural equipment leases and agricultural facilities leases that we originate. Under provisions of this agreement, Farm Credit Leasing Services typically participates 50.0 percent funding for these leases to CoBank, ACB, and CoBank, ACB participates a similar amount to us. Lease participations purchased under this agreement are included in “Loans” on the Consolidated Balance Sheets.

Advance Conditional Payments

We are authorized under the Farm Credit Act to accept advance conditional payments from customers. We net the advance conditional payments against the customer’s related loan balance to the extent the real estate customer’s loan balance exceeds the advance payments. Real estate funds held balances under the program totaled $126 thousand at December 31, 2019, $263 thousand at December 31, 2018, and $27 thousand at December 31, 2017. The amount of commercial advance conditional payments accepted cannot exceed the commitment amount of the customer’s note. We classify commercial advance conditional payments as “Other liabilities” on the Consolidated Balance Sheets because the limit on commercial advance conditional payments is based on note commitments. Commercial advance conditional payments under the program totaled $895 thousand at December 31, 2019, $1.6 million at December 31, 2018, and $1.3 million at December 31, 2017. We pay interest on advance conditional payments and they are not insured.

Employee Benefit Plans

Our employees participate in a defined contribution plan and/or pension plan. Benefit plans are described in Note 10, “Employee Benefit Plans.” The costs of the defined contribution plan are funded as accrued. Additionally, we provide a retiree health care benefit to retired employees who met specific age and service requirements.

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 as declared by the Board of Directors, normally in December of each year. We pay the accrued patronage during the first quarter of each subsequent year. Cash patronage distributions are referred to as cash-back dividends.

Statement of Cash Flows

For purposes of reporting cash flow, cash includes cash on hand and on deposit at commercial banks.

Other Comprehensive Income

Other comprehensive income refers to revenue, expenses, gains and losses that under generally accepted accounting principles are recorded as an element of shareholders’ equity and comprehensive income but are excluded from net income. Accumulated other comprehensive income refers to the balance of these transactions. We record other comprehensive income associated with the liability under the Pension Restoration Plan.

Fair Value Measurement

The Financial Accounting Standards Board guidance on “Fair Value Measurements” describes three levels of inputs that may be used to measure fair value.

Level 1: 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 the following:

- 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, and
- 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 our own 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.

We currently have no material financial statement items required to be accounted for within the consolidated financial statements at fair value.

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 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 Farm Credit System institutions.

Standard and Effective Date	Description	Financial Statement Impact
In August 2018, the Financial Accounting Standards Board issued ASU 2018-15 "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is Considered a Service Contract." This guidance is effective for our first quarter 2020 and early adoption is permitted.	This 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 are in the process of reviewing the accounting standard. Based on our preliminary review and analysis, this new guidance is not expected to have a material impact on our financial condition, results of operations, cash flows or financial statement disclosures.
In August 2018, the Financial Accounting Standards Board issued ASU 2018-14 "Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans." This guidance is effective for years ending after December 15, 2020. Early adoption is permitted.	The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans.	The guidance is to be applied on a retrospective basis for all periods. We are in the process of reviewing the accounting standard. Based on our preliminary review and analysis, this new guidance will not impact our financial condition, results of operations or cash flows but may impact the employee benefit plan disclosures.

Frontier Farm Credit, ACA

Notes to Consolidated Financial Statements

Standard and Effective Date	Description	Financial Statement Impact
In June 2016, the Financial Accounting Standards Board issued ASU 2016-13 "Measurement of Credit Losses on Financial Instruments." The guidance was originally effective for non–United States Securities and Exchange Commission filers for our first quarter of 2021. In November 2019, the Financial Accounting Standards Board 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 of the effective date and have not yet determined if we will early adopt the guidance. We are currently assessing the impact this guidance will have on our financial statements upon adoption, which will be impacted by the composition of our portfolio and asset quality at the adoption date, as well as economic conditions and forecasts at the time of adoption. Implementation efforts are underway and include the development and testing of our system, data requirements, guidance interpretation and related accounting policy decisions, and consideration of relevant internal processes and controls. We are currently unable to estimate the impact on our financial statements.
In February 2016, the Financial Accounting Standards Board issued ASU 2016-02 "Leases." In July 2018, the Financial Accounting Standards Board issued ASU 2018-11 "Leases (Topic 842): Targeted Improvements." This 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 Balance Sheets 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 or financial statement disclosures, and had no impact on cash flows.

Note 3 – Loans and Allowance for Loan Losses

Loans, including participations purchased and nonaccruals, consisted of the following (in thousands):

	December 31,					
	2019		2018		2017	
	Amount	**Percentage**	Amount	Percentage	Amount	Percentage
Long-term agricultural mortgage	**$1,135,499**	**55.6%**	$1,100,562	55.6%	$1,075,693	56.0%
Production and intermediate term	**549,801**	**26.9**	536,273	27.0	510,759	26.6
Agribusiness	**216,970**	**10.6**	204,286	10.3	206,740	10.8
Rural residential real estate	**88,395**	**4.3**	92,346	4.7	83,653	4.4
Rural infrastructure	**46,671**	**2.3**	36,640	1.9	33,018	1.7
Agricultural export finance	**5,596**	**0.3**	9,450	0.5	9,450	0.5
Total loans	**$2,042,932**	**100.0%**	$1,979,557	100.0%	$1,919,313	100.0%

Frontier Farm Credit, ACA

Notes to Consolidated Financial Statements

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 Farm Credit Administration regulations or the General Financing Agreement with CoBank, ACB. The following table presents information regarding participations purchased and sold (participations purchased do not include syndications; amounts are in thousands):

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations		Participations		Participations	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
As of December 31, 2019						
Long-term agricultural mortgage	**$ 55,420**	**$ 28,534**	**$ –**	**$ –**	**$ 55,420**	**$ 28,534**
Production and intermediate term	**219,995**	**68,597**	**–**	**–**	**219,995**	**68,597**
Agribusiness	**223,642**	**33,224**	**22,314**	**–**	**245,956**	**33,224**
Rural infrastructure	**46,671**	**–**	**–**	**–**	**46,671**	**–**
Agricultural export finance	**5,596**	**–**	**–**	**–**	**5,596**	**–**
Total	**$551,324**	**$130,355**	**$22,314**	**$ –**	**$573,638**	**$130,355**
As of December 31, 2018						
Long-term agricultural mortgage	$ 58,620	$ 28,183	$ –	$ –	$ 58,620	$ 28,183
Production and intermediate term	186,880	57,031	2,373	–	189,253	57,031
Agribusiness	212,107	28,564	17,019	–	229,126	28,564
Rural infrastructure	36,599	–	–	–	36,599	–
Agricultural export finance	9,450	–	–	–	9,450	–
Total	$503,656	$113,778	$19,392	$ –	$523,048	$113,778
As of December 31, 2017						
Long-term agricultural mortgage	$ 52,712	$ 13,961	$ –	$ –	$ 52,712	$ 13,961
Production and intermediate term	149,122	49,359	1,062	–	150,184	49,359
Agribusiness	206,511	23,083	12,752	–	219,263	23,083
Rural infrastructure	33,018	–	–	–	33,018	–
Agricultural export finance	9,450	–	–	–	9,450	–
Total	$450,813	$ 86,403	$13,814	$ –	$464,627	$ 86,403

Participations purchased increased $50.6 million in 2019, while participations sold increased $16.6 million. The increases in both purchased and sold are primarily due to activity in the production and intermediate term, and agribusiness portfolios.

We have concentrations with individual borrowers within various agricultural commodities. At December 31, 2019, loans outstanding plus commitments to our 10 largest borrowers, net of participations sold, totaled an amount equal to 29.8 percent of members' equity. No single borrower's loans outstanding plus commitments exceeds 5.0 percent of members' equity.

Our credit risk concentration in various agricultural commodities is shown in the following table. While the amounts represent our maximum potential credit risk related to recorded loan principal, a substantial portion of our lending activities is collateralized, which reduces our exposure to credit loss associated with lending activity. We include an estimate of our credit risk exposure in determining the allowance for loan losses. Agricultural concentrations were as follows:

	December 31,		
	2019	2018	2017
Grain	**34.7%**	36.1%	37.3%
Cow-calf	**15.7**	16.3	17.1
Beef feedlot	**10.8**	9.6	8.3
Landlords/investors	**9.0**	9.0	9.2
Swine	**3.4**	3.5	3.5
Dairy	**3.2**	2.8	2.2
Farm supply	**2.5**	2.5	2.0
Forest products	**1.7**	1.8	2.3
General livestock	**1.5**	1.5	1.4
Meat/proteins processing	**1.3**	1.3	1.5
Renewable fuels	**0.9**	0.8	0.6
Poultry	**0.7**	0.5	0.5
Other	**14.6**	14.3	14.1
Total	**100.0%**	100.0%	100.0%

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on our credit evaluation of the borrower. Collateral held varies by loan type but typically includes agricultural real estate, equipment, crop inventory and livestock. Long-term real estate loans are secured by a first lien on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85.0 percent of the property's appraised value (97.0 percent if guaranteed by a government agency). However, internal lending procedures require a more conservative loan-to-value ratio, which results in an average loan-to-value ratio in the real estate portfolio of less than 50.0 percent of current market values.

Risk loans (accruing loans include accrued interest receivable) are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. The following table presents information concerning the recorded investment in risk loans (in thousands):

	December 31,		
	2019	2018	2017
Nonaccrual loans:			
Current as to principal and interest	**$ 7,472**	$ 4,696	$2,738
Past due	**7,043**	5,706	2,859
Total nonaccrual loans	**14,515**	10,402	5,597
Impaired accrual loans:			
Restructured	**728**	369	390
90 days or more past due	**–**	–	59
Total risk loans	**$15,243**	$10,771	$6,046

Total risk loans have increased since the end of 2018. The increase in nonaccrual loans is primarily due to accounts in the grain and landlords/investors industries. There was an increase in past due nonaccrual loans and restructured loans. Loans 90 days or more past due still accruing interest continued to be zero. It is our practice to transfer accruing loans that are past due 90 days or more into nonaccrual unless they are adequately secured and in the process of collection. Based on our analysis, risk loans as a percentage of total loans remain at acceptable levels.

At December 31, 2019, there were $562 thousand in commitments to lend additional funds to customers whose loans were at risk.

Interest income is recognized and cash payments are applied on nonaccrual loans as described in Note 2, "Summary of Significant Accounting Policies." The following table sets forth interest income recognized on risk loans (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Interest income recognized on nonaccrual loans	**$ 65**	$538	$33
Interest income recognized on risk accrual loans	**85**	94	19
Interest income recognized on risk loans	**$150**	$632	$52

Frontier Farm Credit, ACA

Notes to Consolidated Financial Statements

Risk assets by loan type are as follows (accruing volume includes accrued interest receivable; amounts are in thousands):

	December 31,		
	2019	2018	2017
Nonaccrual loans:			
Long-term agricultural mortgage	**$ 9,125**	$ 5,884	$4,210
Production and intermediate term	**1,923**	2,010	1,114
Agribusiness	**2,519**	2,461	24
Rural residential real estate	**948**	47	249
Total nonaccrual loans	**$14,515**	$10,402	$5,597
Accruing restructured loans:			
Long-term agricultural mortgage	**$728**	$ 87	$104
Rural residential real estate	**–**	282	286
Total accruing restructured loans	**$728**	$369	$390
Accruing loans 90 days or more past due:			
Production and intermediate term	**$ –**	$ –	$59
Total accruing loans 90 days or more past due	**$ –**	$ –	$59
Total risk loans	**15,243**	10,771	6,046
Other property owned	**–**	279	279
Total risk assets	**$15,243**	$11,050	$6,325

All risk loans are considered to be impaired loans. The following table provides additional impaired loan information (in thousands):

	As of December 31, 2019			For the Period Ended December 31, 2019	
	Recorded Investment (1)	Unpaid Principal Balance (2)	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Production and intermediate term	$ 133	$ 143	$ 29	$ 57	$ –
Agribusiness	1,666	1,749	885	1,763	5
Total	$1,799	$1,892	$914	$1,820	$ 5
Impaired loans with no related allowance for loan losses:					
Long-term agricultural mortgage	$ 9,853	$10,749	$ –	$ 8,677	$ 24
Production and intermediate term	1,790	4,116	–	5,265	116
Agribusiness	853	1,764	–	1,839	3
Rural residential real estate	948	963	–	440	2
Total	$13,444	$17,592	$ –	$16,221	$145
Total impaired loans:					
Long-term agricultural mortgage	$ 9,853	$10,749	$ –	$ 8,677	$ 24
Production and intermediate term	1,923	4,259	29	5,322	116
Agribusiness	2,519	3,513	885	3,602	8
Rural residential real estate	948	963	–	440	2
Total	$15,243	$19,484	$914	$18,041	$150

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

(2) Unpaid principal balance represents the contractual principal balance of the loan.

Frontier Farm Credit, ACA

Notes to Consolidated Financial Statements

	As of December 31, 2018			For the Period Ended December 31, 2018	
	Recorded Investment (1)	Unpaid Principal Balance (2)	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Production and intermediate term	$ 145	$ 141	$ 135	$291	$ (7)
Agribusiness	1,592	1,591	985	662	(9)
Total	$1,737	$1,732	$1,120	$953	$(16)
Impaired loans with no related allowance for loan losses:					
Long-term agricultural mortgage	$5,971	$ 6,659	$ –	$5,890	$207
Production and intermediate term	1,865	4,506	–	1,639	318
Agribusiness	869	1,844	–	539	–
Rural residential real estate	329	332	–	322	123
Total	$9,034	$13,341	$ –	$8,390	$648
Total impaired loans:					
Long-term agricultural mortgage	$ 5,971	$ 6,659	$ –	$5,890	$207
Production and intermediate term	2,010	4,647	135	1,930	311
Agribusiness	2,461	3,435	985	1,201	(9)
Rural residential real estate	329	332	–	322	123
Total	$10,771	$15,073	$1,120	$9,343	$632

(1) *The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges or acquisition costs, and may also reflect a previous write-down of the investment.*
(2) *Unpaid principal balance represents the contractual principal balance of the loan.*

	As of December 31, 2017			For the Period Ended December 31, 2017	
	Recorded Investment [1]	Unpaid Principal Balance [2]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Production and intermediate term	$527	$794	$106	$797	$21
Total	$527	$794	$106	$797	$21
Impaired loans with no related allowance for loan losses:					
Long-term agricultural mortgage	$4,313	$5,006	$ –	$5,166	$248
Production and intermediate term	647	3,522	–	3,733	179
Agribusiness	25	37	–	12	–
Rural residential real estate	534	603	–	541	15
Total	$5,519	$9,168	$ –	$9,452	$442
Total impaired loans:					
Long-term agricultural mortgage	$4,313	$5,006	$ –	$ 5,166	$248
Production and intermediate term	1,174	4,316	106	4,530	200
Agribusiness	25	37	–	12	–
Rural residential real estate	534	603	–	541	15
Total	$6,046	$9,962	$106	$10,249	$463

[1] The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges or acquisition costs, and may also reflect a previous write-down of the investment.
[2] Unpaid principal balance represents the contractual principal balance of the loan.

Frontier Farm Credit, ACA

Notes to Consolidated Financial Statements

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Classification System as a percentage of total loans and related accrued interest receivable by loan type (in thousands):

	Acceptable		OAEM		Substandard/Doubtful		Total
	Amount	%	Amount	%	Amount	%	Amount
As of December 31, 2019							
Long-term agricultural mortgage	**$1,024,353**	**88.81%**	**$47,344**	**4.10%**	**$ 81,792**	**7.09%**	**$1,153,489**
Production and intermediate term	**472,391**	**84.45%**	**38,594**	**6.90%**	**48,372**	**8.65%**	**559,357**
Agribusiness	**209,737**	**96.36%**	**4,564**	**2.10%**	**3,351**	**1.54%**	**217,652**
Rural residential real estate	**84,243**	**95.11%**	**1,478**	**1.67%**	**2,849**	**3.22%**	**88,570**
Rural infrastructure	**43,824**	**93.75%**	**2,923**	**6.25%**	**–**	**–**	**46,747**
Agricultural export finance	**5,606**	**100.00%**	**–**	**–**	**–**	**–**	**5,606**
Total	**$1,840,154**	**88.84%**	**$94,903**	**4.58%**	**$136,364**	**6.58%**	**$2,071,421**
As of December 31, 2018							
Long-term agricultural mortgage	$1,005,589	89.96%	$38,099	3.41%	$ 74,054	6.63%	$1,117,742
Production and intermediate term	462,120	84.82%	29,200	5.36%	53,474	9.82%	544,794
Agribusiness	198,890	96.89%	2,052	1.00%	4,323	2.11%	205,265
Rural residential real estate	89,218	96.35%	1,374	1.48%	2,008	2.17%	92,600
Rural infrastructure	34,210	93.24%	2,481	6.76%	–	–	36,691
Agricultural export finance	9,471	100.00%	–	–	–	–	9,471
Total	$1,799,498	89.68%	$73,206	3.65%	$133,859	6.67%	$2,006,563
As of December 31, 2017							
Long-term agricultural mortgage	$ 988,618	90.49%	$60,240	5.51%	$43,662	4.00%	$1,092,520
Production and intermediate term	462,428	89.09%	28,303	5.45%	28,313	5.46%	519,044
Agribusiness	205,455	98.95%	251	0.12%	1,928	0.93%	207,634
Rural residential real estate	81,414	97.03%	1,160	1.38%	1,330	1.59%	83,904
Rural infrastructure	33,080	100.00%	–	–	–	–	33,080
Agricultural export finance	9,468	100.00%	–	–	–	–	9,468
Total	$1,780,463	91.51%	$89,954	4.62%	$75,233	3.87%	$1,945,650

One credit quality indicator we utilize is the Farm Credit Administration Uniform Classification System that categorizes loans into five categories. The categories are defined as follows:

- acceptable – assets are expected to be fully collectible and represent the highest quality;
- other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness;
- substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan;
- doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable; and
- loss – assets are considered uncollectible.

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

The following table provides an aging analysis of past due loans by loan type (accruing volume includes accrued interest receivable; amounts are in thousands):

	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 Loans	90 Days or More Past Due and Accruing
As of December 31, 2019						
Long-term agricultural mortgage	**$3,699**	**$2,282**	**$ 5,981**	**$1,147,508**	**$1,153,489**	**$ –**
Production and intermediate term	**1,334**	**1,427**	**2,761**	**556,596**	**559,357**	**–**
Agribusiness	**8**	**518**	**526**	**217,126**	**217,652**	**–**
Rural residential real estate	**–**	**751**	**751**	**87,819**	**88,570**	**–**
Rural infrastructure	**–**	**–**	**–**	**46,747**	**46,747**	**–**
Agricultural export finance	**–**	**–**	**–**	**5,606**	**5,606**	**–**
Total	**$5,041**	**$4,978**	**$10,019**	**$2,061,402**	**$2,071,421**	**$ –**
As of December 31, 2018						
Long-term agricultural mortgage	$2,162	$3,636	$ 5,798	$1,111,944	$1,117,742	$ –
Production and intermediate term	2,878	1,512	4,390	540,404	544,794	–
Agribusiness	133	77	210	205,055	205,265	–
Rural residential real estate	529	46	575	92,025	92,600	–
Rural infrastructure	–	–	–	36,691	36,691	–
Agricultural export finance	–	–	–	9,471	9,471	–
Total	$5,702	$5,271	$10,973	$1,995,590	$2,006,563	$ –
As of December 31, 2017						
Long-term agricultural mortgage	$3,962	$ 669	$ 4,631	$1,087,889	$1,092,520	$ –
Production and intermediate term	5,637	937	6,574	512,470	519,044	59
Agribusiness	–	–	–	207,633	207,633	–
Rural residential real estate	96	249	345	83,560	83,905	–
Rural infrastructure	–	–	–	33,080	33,080	–
Agricultural export finance	–	–	–	9,468	9,468	–
Total	$9,695	$1,855	$11,550	$1,934,100	$1,945,650	$59

Frontier Farm Credit, ACA

Notes to Consolidated Financial Statements

A restructuring of a loan constitutes a troubled debt restructuring 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. Concessions vary by program and borrower, and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. As a restructured loan constitutes a troubled debt restructuring, these loans are included within our risk loans. All risk loans are analyzed within our allowance for loan losses.

The following table presents information regarding troubled debt restructurings that occurred during the year ended December 31 (in thousands):

	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
2019		
Long-term agricultural mortgage	**$649**	**$652**
Production and intermediate term	**–**	**–**
Agribusiness	**123**	**123**
Total	**$772**	**$775**
2018		
Production and intermediate term	$ 891	$ 732
Agribusiness	2,534	2,538
Total	$3,425	$3,270
2017		
Production and intermediate term	$ –	$ –
Agribusiness	–	–
Total	$ –	$ –

Premodification represents the outstanding recorded investment just prior to restructuring, and postmodification represents the outstanding recorded investment immediately following the restructuring. The recorded investment is the face amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges or acquisition costs, and may also reflect a previous direct write-down of the investment.

The following table presents information regarding troubled debt restructurings that occurred within the previous 12 months and for which there was a subsequent payment default during the respective reporting period (in thousands):

	2019	2018	2017
Troubled debt restructurings that subsequently defaulted:			
Agribusiness	**$ –**	$1,483	$ –

Troubled debt restructurings outstanding at December 31, 2019, totaled $5.0 million, $4.3 million of which was in nonaccrual status, compared to $4.8 million at December 31, 2018, $4.4 million of which was in nonaccrual status, and $2.3 million at December 31, 2017, $1.9 million of which was in nonaccrual status. Additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring were $0.5 million at December 31, 2019.

The "Provision for credit losses" on the Consolidated Statements of Comprehensive Income includes a provision for loan losses and a provision for unfunded lending commitments.

A summary of changes in the allowance for loan losses and reserve for unfunded lending commitments follows (in thousands):

	December 31,		
Allowance for Loan Losses	**2019**	2018	2017
Balance at beginning of year	**$8,800**	$6,100	$7,500
Provision for loan losses	**733**	3,157	566
Loans charged off	**(336)**	(1,048)	(2,119)
Recoveries	**403**	591	153
Balance at end of year	**$9,600**	$8,800	$6,100

	December 31,		
Reserve for Unfunded Lending Commitments	**2019**	2018	2017
Balance at beginning of year	**$700**	$700	$800
Provision for (reversal of) unfunded lending commitments	**100**	–	(100)
Balance at end of year	**$800**	$700	$700

A summary of changes in the allowance for loan losses and period-end recorded investments in loans by loan type is as follows (in thousands):

	Balance at December 31, 2018	**Loan Recoveries**	**Loan Charge-Offs**	**Provision for (Reversal of) Loan Losses**	**Balance at December 31, 2019**
Long-term agricultural mortgage	$4,808	**$ 13**	**$ (46)**	**$868**	**$5,643**
Production and intermediate term	2,037	**214**	**(290)**	**(45)**	**1,916**
Agribusiness	1,645	**176**	**–**	**(112)**	**1,709**
Rural residential real estate	172	**–**	**–**	**9**	**181**
Rural infrastructure	131	**–**	**–**	**16**	**147**
Agricultural export finance	7	**–**	**–**	**(3)**	**4**
Total	$8,800	**$403**	**$(336)**	**$733**	**$9,600**

	Balance at December 31, 2017	Loan Recoveries	Loan Charge-Offs	Provision for (Reversal of) Loan Losses	Balance at December 31, 2018
Long-term agricultural mortgage	$3,703	$ 5	$ (16)	$1,116	$4,808
Production and intermediate term	1,507	794	(446)	182	2,037
Agribusiness	614	(226)	(573)	1,830	1,645
Rural residential real estate	128	18	(13)	39	172
Rural infrastructure	137	–	–	(6)	131
Agricultural export finance	11	–	–	(4)	7
Total	$6,100	$591	$(1,048)	$3,157	$8,800

	Balance at December 31, 2016	Loan Recoveries	Loan Charge-Offs	Provision for (Reversal of) Loan Losses	Balance at December 31, 2017
Long-term agricultural mortgage	$3,386	$ 5	$ (24)	$336	$3,703
Production and intermediate term	3,343	148	(2,079)	95	1,507
Agribusiness	493	–	(11)	132	614
Rural residential real estate	136	–	(5)	(3)	128
Rural infrastructure	130	–	–	7	137
Agricultural export finance	12	–	–	(1)	11
Total	$7,500	$153	$(2,119)	$566	$6,100

Frontier Farm Credit, ACA

Notes to Consolidated Financial Statements

	Allowance for Credit Losses Ending Balance at December 31, 2019		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2019	
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Long-term agricultural mortgage	$ –	$5,643	$ 9,853	$1,143,636
Production and intermediate term	29	1,887	1,923	557,434
Agribusiness	885	824	2,519	215,133
Rural residential real estate	–	181	948	87,622
Rural infrastructure	–	147	–	46,747
Agricultural export finance	–	4	–	5,606
Total	$914	$8,686	$15,243	$2,056,178

	Allowance for Credit Losses Ending Balance at December 31, 2018		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2018	
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Long-term agricultural mortgage	$ –	$4,808	$ 5,971(1)	$1,111,771(2)
Production and intermediate term	135	1,902	2,010(1)	542,784(2)
Agribusiness	985	660	2,461(1)	202,804(2)
Rural residential real estate	–	172	329(1)	92,271(2)
Rural infrastructure	–	131	–	36,691
Agricultural export finance	–	7	–	9,471
Total	$1,120	$7,680	$10,771(1)	$1,995,792(2)

	Allowance for Credit Losses Ending Balance at December 31, 2017		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2017	
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Long-term agricultural mortgage	$ –	$3,703	$4,313(1)	$1,088,207(2)
Production and intermediate term	106	1,401	1,174(1)	517,869(2)
Agribusiness	–	614	25(1)	207,609(2)
Rural residential real estate	–	128	534(1)	83,371(2)
Rural infrastructure	–	137	–	33,080
Agricultural export finance	–	11	–	9,468
Total	$106	$5,994	$6,046(1)	$1,939,604(2)

(1) The Association revised the "Recorded Investments in Loans Outstanding – Individually Evaluated for Impairment" to correct an immaterial error in the disclosure as originally presented in the prior years (2018 and 2017) Notes to Consolidated Financial Statements as follows: For 2018, Long-term agricultural mortgage from $0 to $5,971, Production and intermediate term from $145 to $2,010, Agribusiness from $1,592 to $2,461, Rural residential real estate from $0 to $329 and the Total from $1,737 to $10,771. For 2017, Long-term agricultural mortgage from $0 to $4,313, Production and intermediate term from $527 to $1,174, Agribusiness from $0 to $25, Rural residential real estate from $0 to $534 and the Total from $527 to $6,046.

(2) The Association revised the "Recorded Investments in Loans Outstanding – Collectively Evaluated for Impairment" to correct an immaterial error in the disclosure as originally presented in the prior years (2018 and 2017) Notes to Consolidated Financial Statements as follows: For 2018, Long-term agricultural mortgage from $1,117,742 to $1,111,771, Production and intermediate term from $544,649 to $542,784, Agribusiness from $203,673 to $202,804, Rural residential real estate from $92,600 to $92,271 and the Total from $2,004,826 to $1,995,792. For 2017, Long-term agricultural mortgage from $1,092,520 to $1,088,207, Production and intermediate term from $518,517 to $517,869, Agribusiness from $207,633 to $207,609, Rural residential real estate from $83,905 to $83,371 and the Total from $1,945,123 to $1,939,604.

Adversely classified assets are assets that 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.

The allowance for loan losses is an estimate of losses on loans 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, probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Note 4 – Investment in CoBank, ACB

We are required to invest in the capital stock of CoBank, ACB as a condition for maintaining a readily available source of funds. The minimum required investment is 4.0 percent of our prior year's average direct loan volume. The investment in CoBank, ACB comprises patronage-based stock and purchased stock. The requirement for capitalizing our patronage-based participation loans sold to CoBank, ACB is 8.0 percent of our prior 10-year average of such participations sold to CoBank, ACB. Under the current CoBank, ACB capital plan applicable to such participations sold, patronage from CoBank, ACB related to these participations sold is paid 75.0 percent cash and 25.0 percent Class A stock. The capital plan is evaluated annually by CoBank ACB's Board of Directors and management and is subject to change.

At December 31, 2019, our investment in CoBank, ACB is in the form of Class A stock with a par value of $100 per share.

CoBank, ACB may require the holders of its equities to subscribe for additional capital as may be needed to meet its capital requirements for its joint and several liability under the Farm Credit Act and regulations. In making such a capital call, CoBank, ACB shall take into account the financial condition of each such holder and such other considerations, as it deems appropriate.

Note 5 – Investment in AgDirect, LLP

We participate in the AgDirect trade credit financing program, which includes origination and refinancing of agricultural equipment loans and leases through independent equipment dealers. The program is facilitated by FCSAmerica through a limited liability partnership (LLP) in which we are a partial owner. Our investment in AgDirect, LLP was $4.4 million at December 31, 2019, $4.2 million at December 31, 2018, and $4.7 million at December 31, 2017. The LLP is an unincorporated business entity.

Note 6 – Premises and Equipment

Premises and equipment consisted of the following (in thousands):

	December 31,		
	2019	2018	2017
Land, buildings and improvements	**$24,909**	$24,703	$24,703
Furniture and equipment	**1,027**	2,135	2,198
	25,936	26,838	26,901
Less accumulated depreciation	**5,591**	5,936	5,106
Premises and equipment, net	**$20,345**	$20,902	$21,795

Note 7 – Investment in Rural Business Investment Company

We and other Farm Credit System institutions are among the limited partners invested in two Rural Business Investment Companies (RBICs). The RBICs facilitate equity and debt investments in agriculture-related businesses that create growth and job opportunities in rural America. Our total current commitment is $7 million with varying commitment end dates through December 2029. Certain commitments may have an option to extend under specific circumstances. As of December 31, 2019, we have not funded a capital call.

Note 8 – Notes Payable

Our notes payable to CoBank, ACB represents borrowings in the form of a line of credit to fund our loan portfolio. This notes payable is collateralized by a pledge of substantially all our assets and is governed by a General Financing Agreement. CoBank, ACB has established a revolving line of credit of $1.9 billion effective June 1, 2019. The General Financing Agreement and promissory note are subject to periodic renewals in the normal course of business. The General Financing Agreement matures on May 31, 2020, and we expect renewal at that time. We were in compliance with the terms and conditions of the General Financing Agreement as of December 31, 2019. Substantially all borrower loans are match-funded with CoBank, ACB. Payments and disbursements are made on the notes payable to CoBank, ACB on the same basis as we collect payments from and disburse on borrower loans. The interest rate may periodically be adjusted by CoBank, ACB based on the terms and conditions of the borrowing. The weighted average interest rate was 2.74 percent for the year ended December 31, 2019, compared to 2.51 percent for the year ended December 31, 2018, and 2.03 percent at December 31, 2017.

Frontier Farm Credit, ACA
Notes to Consolidated Financial Statements

The consolidated notes payable balance is presented in the following table (in thousands):

	December 31,		
	2019	2018	2017
Notes payable to CoBank, ACB	**$1,657,977**	$1,636,637	$1,610,787

Under the Farm Credit Act, we are obligated to borrow only from CoBank, ACB unless CoBank, ACB approves borrowing from other funding sources. CoBank, ACB, consistent with Farm Credit Administration regulations, has established 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, we were within the specified limitations.

Note 9 – Members' Equity

A description of our capitalization requirements, regulatory capitalization requirements and restrictions, and equities follows.

Capital Stock

In accordance with the Farm Credit Act of 1971, as amended, each borrower is required to invest in us as a condition of obtaining a loan. Our capitalization bylaws require a customer to invest in capital stock equal to $1 thousand or 2.0 percent of the amount of the loan, whichever is less. Our Board of Directors may increase the amount of investment, if necessary, to meet capital needs. Under the current Board of Directors approved program, the stock requirement for loan customers is generally $1 thousand, and stock is issued to each loan comaker (includes primary borrower and any co-borrowers; does not include guarantors). Non-loan customers purchasing financially related services from the Association continue to purchase one $5 share of stock. All stock is funded with a noninterest-bearing obligation that will be due only in the unlikely event that the Association does not meet regulatory capital requirements. Loan comakers who do not currently own stock will acquire stock when a new loan is originated or a loan servicing action takes place.

The noninterest-bearing obligation is included in "Other assets" on the Consolidated Balance Sheets.

We retain a first lien on the stock owned by customers. Retirement of equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock.

Each customer purchasing capital stock is entitled to one vote as a stockholder regardless of the number of shares held. The customer acquires ownership of the capital stock at the time the loan is made.

Regulatory Capitalization Requirements and Restrictions

Effective January 1, 2017, the regulatory capital requirements for Farm Credit System banks and associations were modified. These regulations replaced existing core surplus and total surplus ratios with common equity Tier 1, Tier 1 capital and total capital risk-based capital ratios. These regulations also added a Tier 1 leverage ratio and an unallocated retained earnings and equivalents (UREE) leverage ratio. The permanent capital ratio continues to remain in effect, with some modifications, to align with the new regulations.

	As of December 31,			Regulatory Minimums	Capital Conservation Buffers	Total
	2019	2018	2017			
Risk-adjusted ratios:						
Common equity Tier 1	**18.52%**	17.58%	16.57%	**4.5%**	**2.5%***	**7.0%**
Tier 1 capital	**18.52%**	17.58%	16.57%	**6.0%**	**2.5%***	**8.5%**
Total capital	**18.95%**	18.00%	17.00%	**8.0%**	**2.5%***	**10.5%**
Permanent capital	**18.61%**	17.66%	16.65%	**7.0%**	**–**	**7.0%**
Non-risk-adjusted ratios:						
Tier 1 leverage	**20.27%**	19.23%	17.97%	**4.0%**	**1.0%**	**5.0%**
UREE leverage	**21.87%**	20.88%	19.71%	**1.5%**	**–**	**1.5%**

**The 2.5 percent capital conservation buffers over risk-adjusted ratio minimums was phased in over three years under the Farm Credit Administration capital requirements. The phase-in period ended December 31, 2019.*

Risk-adjusted assets has been defined by the Farm Credit Administration 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 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 Farm Credit Administration regulations and are calculated as follows (not all items 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 seven years, allocated equities held for a minimum of seven 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 noncumulative 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 five years, allocated equities held for a minimum of five years, subordinated debt and limited-life preferred stock greater than five 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 permanent capital ratio 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 (UREE) 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 Farm Credit Administration approval.

Effective January 1, 2017, the regulatory capital requirements allow for allotment agreements for only the permanent capital ratio and, as such, any stock in excess of our CoBank, ACB required investment was not included in the common equity Tier 1, Tier 1 capital or leverage ratios. We did not include our investment in CoBank, ACB as permanent capital at December 31, 2019, 2018 or 2017.

Description of Equities

The following table presents information regarding the classes and number of shares of stock outstanding as of December 31. All shares are at-risk and have a par or stated value of $5 per share.

	Shares Outstanding as of December 31,		
	2019	2018	2017
Class B common stock	**1,659,957**	1,605,023	1,490,916
Class C common stock	**46,545**	46,524	44,116

Our bylaws authorize us to issue an unlimited number of shares of Class B common stock and Class C common stock with a par or stated value of $5 per share.

Class B common stock is voting and is issued solely to a farmer, rancher, or producer or harvester of aquatic products. Class C common stock has no voting rights and is issued to customers to capitalize rural home and farm-related business loans or to become eligible for financial services. Class B common stock and Class C common stock may be retired at the discretion of the Board of Directors, at book value not to exceed par, provided we meet minimum capital adequacy standards under Farm Credit Administration regulations.

Subject to our policies, Class B and Class C common stock are transferable to any person eligible to hold the respective class of stock. Class B common stock and Class C common stock cannot be transferred when we do not meet capital adequacy standards under Farm Credit Administration regulations.

At any time within two years after the loan of a customer is repaid in full, any voting stock held by the customer is converted to nonvoting stock. The nonvoting stock may be converted back to voting stock if the owner of the stock borrows additional funds.

Frontier Farm Credit, ACA

Notes to Consolidated Financial Statements

As determined by the Board of Directors, we may declare dividends in stock, cash or any combination, provided we meet capital adequacy standards under Farm Credit Administration regulations and no stock is impaired. In the event we would liquidate or dissolve, any assets remaining after payment or retirement of all liabilities would be distributed to the holders of stock in the following order of priority:

- first, to the holders of common stock and participation certificates, equally and pro rata in proportion to the number of shares or units of common stock and participation certificates issued and outstanding, until an amount equal to the aggregate par value of all common stock and participation certificates has been distributed;
- second, to the holders of allocated surplus pro rata, on the basis of oldest allocations first, until an amount equal to the total account has been distributed; and
- third, any remaining assets would be distributed among current and former stockholders in the proportion which the aggregate patronage of each stockholder bears to the total patronage of all current and former stockholders, to the extent practicable and as determined by the Board unless otherwise provided by law.

Patronage Distributions

Subject to the Farm Credit Act and Farm Credit Administration regulations, and provided that at the time of declaration no class of stock is impaired, patronage distributions may be declared and paid in amounts determined by the Board of Directors. Patronage distributions may be paid in any class of stock that the recipient is eligible to hold, in allocated surplus, in cash, in qualified or nonqualified notices of allocation, or in any combination, and must be paid on an equitable and nondiscriminatory basis as determined by the Board of Directors.

The Board of Directors declared cash patronage distributions, referred to as cash-back dividends, of 1.0 percent of a customer's average daily balance of eligible loans outstanding for an approximate total of $17.7 million in 2019 and 0.90 percent for an approximate total of $15.7 million in 2018. The Board of Directors declared a cash patronage distribution of $11.5 million in 2017.

We are prohibited from distributing earnings on a patronage basis to the extent that they would reduce our permanent capital ratio below the Farm Credit Administration's minimum permanent capital adequacy requirements. We do not foresee any events that would result in this prohibition in 2020. Additionally, effective January 1, 2017, patronage distributions may be restricted or prohibited without prior Farm Credit Administration approval if capital ratios fall below the total requirements, including the buffer amounts. We do not foresee any events that would result in this prohibition in 2020.

Note 10 – Employee Benefit Plans

We participate in the benefits plans administered by Farm Credit Foundations, a service corporation for Farm Credit System entities. The Farm Credit Foundations Plan Sponsor and Trust Committees provide governance and oversight for the benefit plans. The governance committees are either elected or appointed representatives (senior leadership or Board of Director members) from the participating organizations. The Plan Sponsor Committee is responsible for decisions regarding benefits at the direction of the participating employers. The Trust Committee is responsible for fiduciary and plan administration functions. The Association has a senior officer who serves on each committee.

Under the alliance agreement described in Note 1, "Organization and Operations," the 2019 benefits expense of $52.8 million was shared between Frontier Farm Credit and FCSAmerica on a 6.4 percent and 93.6 percent basis, respectively, which excluded any Frontier Farm Credit pension plan expense in excess of FCSAmerica's retirement programs. Additionally, Frontier Farm Credit's net pension plan expense was $857 thousand for 2019. The employee benefits expense is included in "Salaries and employee benefits" on the Consolidated Statements of Comprehensive Income.

Defined Contribution Plan

The Association participates in the Farm Credit Foundations Defined Contribution/401(k) Plan for benefits-eligible employees. The plan is a qualified plan up to the limits provided under the Internal Revenue Code.

For employees who do not participate in the Qualified Pension Plan, Frontier Farm Credit matches the employee's contributions dollar for dollar up to a maximum of 6.0 percent of the employee's compensation on both pretax and post-tax contributions. Additionally, Frontier Farm Credit contributes a fixed 3.0 percent of the employee's compensation to the plan. For employees who participate in the Qualified Pension Plan, Frontier Farm Credit matches the employee's contributions dollar for dollar up to 2.0 percent of the employee's compensation and 50.0 percent of the employee's contributions above 2.0 percent, and up to and including 6.0 percent of the employee's compensation, on both pretax and post-tax contributions.

Nonqualified Deferred Compensation Plan

The Farm Credit Foundations Nonqualified Deferred Compensation Plan serves two purposes. The plan provides for employer-matching or fixed contributions that exceed the Internal Revenue Code limits of the Defined Contribution Plan. Additionally, eligible employees may defer a portion of their base salary, variable pay and other compensation into this plan. Under the plan, eligible participants include the Chief Executive Officer and other employees who meet certain compensation thresholds as determined by the Internal Revenue Code.

Pre-409A Frozen Nonqualified Deferred Compensation Plan

We also participate in the Farm Credit Foundations Pre-409A Frozen Nonqualified Deferred Compensation Plan. This plan serves the same purposes as the Nonqualified Deferred Compensation Plan. However, the plan was frozen effective January 1, 2007. As such, no additional participants are eligible to enter the plan and no additional employer contributions are made to the plan.

Qualified Pension Plan

We participate in the Ninth Farm Credit District Pension Plan for certain eligible employees hired prior to January 1, 2007. The plan is a noncontributory, qualified defined benefit 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 (ERISA), as amended. 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. As a multiemployer plan, the assets, liabilities and costs of the plan are not segregated by participating employers. 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. Because of the multiemployer nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee moves 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.

The plan reflects an unfunded liability totaling $81.2 million at December 31, 2019, $69.5 million and $84.6 million at December 31, 2018 and 2017, respectively. The pension benefits funding status 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 projected benefit obligation and fair value of the multiemployer plan assets as of December 31 follows (in millions):

	2019	2018	2017
Projected benefit obligation	**$333.7**	$274.4	$292.6
Fair value of plan assets	**$252.5**	$204.9	$208.0

The amount of the pension benefits 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 participating employer based on costs directly related to its current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. The Association recognizes its proportional share of expense and contributes a proportional share of funding. Costs and contributions for the multiemployer plan as of December 31 follow (in millions):

	2019	2018	2017
Total plan expenses for all participating employers	**$6.8**	$10.8	$12.7
Association's allocated share of plan expenses included in "Salaries and employee benefits"	**$0.9**	$1.1	$1.4
Total plan contributions for all participating employees	**$20.0**	$20.0	$20.0
Association's allocated share of plan contributions	**$2.0**	$2.0	$2.1

While the plan is a governmental plan and is not subject to minimum funding requirements, the participating 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 employer contributions expected to be paid into the pension plans during 2020 is $30.0 million. Frontier Farm Credit's allocated share of these pension contributions is expected to be $3.1 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 anticipated.

Nonqualified Pension Restoration Plan

We participate in the Ninth Farm Credit District Pension Restoration Plan that is a nonqualified, unfunded retirement plan. This plan provides retirement benefits above the Internal Revenue Code compensation limit to certain former highly compensated eligible employees. Benefits payable under this plan are offset by the benefits payable from the Qualified Pension Plan.

The plan reflects no unfunded liability at December 31, 2019. The funding status reflects the net fair value of the plan assets and the projected benefit obligation at the date of these consolidated financial statements. The plan is not funded so the fair value of plan assets is zero.

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 data based on assumed future compensation levels. The projected benefit obligation of the plan was $0 as of December 31, 2019, $265 thousand as of December 31, 2018, and $520 thousand at December 31, 2017.

Frontier Farm Credit, ACA

Notes to Consolidated Financial Statements

The plan expenses included in "Salaries and employee benefits" was $193 thousand in 2019, $64 thousand in 2018 and $77 thousand in 2017. See the Consolidated Statements of Comprehensive Income and Changes in Members' Equity for the impact of net actuarial gains or losses. Assumptions utilized for the plan were consistent with the Qualified Pension Plan. Benefits payouts are expected to be zero in 2020 and thereafter.

Retiree Health Care

We participate in the Farm Credit Foundations Retiree Medical Plan. The plan benefits are available to retired employees who meet specific age and service requirements. The anticipated costs of these benefits were accrued during the period of the employee's active service. The related expense is not considered material to our financial position.

Note 11 – Income Taxes

The Tax Cuts and Jobs Act (the Act) was enacted in December 2017. This Act contained various tax law changes, including a federal statutory tax rate change to 21.0 percent from 35.0 percent, effective January 1, 2018. Because deferred tax assets and liabilities are expected to be recognized in the Association's tax return in a future year, when the new statutory tax rate would be applicable, the deferred tax assets and liabilities as of December 31, 2017, were valued using a blended federal/state effective tax rate based on the new federal statutory tax rate. The effect of this revaluation was recognized in our provision for (benefit from) income taxes for the year ended December 31, 2017. Our effective tax rate was zero percent for the years ending 2019, 2018 and 2017.

Our provision for income taxes follows (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Current:			
Federal	**$ –**	$ –	$ –
State	**–**	17	–
Total current	**$ –**	$ 17	$ –
Deferred:			
Federal	**$269**	$(755)	$549
State	**106**	(171)	97
(Decrease) Increase in valuation allowance	**(375)**	926	(646)
Total deferred	**–**	–	–
Total provision for income taxes	**$ –**	$ 17	$ –

The following table calculates the differences between the provision for income taxes and income taxes at the statutory rates (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Federal tax at statutory rate	**$9,573**	$9,740	$14,840
State tax, net	**(5)**	(115)	–
Tax effect of:			
Exempt FLCA earnings	**(8,767)**	(8,737)	(12,381)
Deferred tax valuation allowance	**(375)**	625	(646)
Patronage distribution	**(825)**	(1,438)	(1,978)
Tax rate change	**–**	–	133
Other	**399**	(58)	32
Provision for income taxes	**$ –**	$ 17	$ –

The following table provides the components of deferred tax assets and liabilities (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Allowance for loan losses	**$398**	$429	$375
Nonaccrual loan interest	**93**	67	89
CoBank, ACB patronage allocations	**(398)**	–	(466)
Prepaid pension expense	**513**	425	298
Net operating loss	**237**	301	–
Short-term incentive	**4**	–	–
Deferred tax asset	**847**	1,222	296
Deferred tax asset valuation allowance	**(847)**	(1,222)	(296)
Net deferred tax asset	**$ –**	$ –	$ –

The calculation of deferred tax assets and liabilities involves various management estimates and assumptions regarding future taxable earnings, including the amount of nonpatronage income and patronage income retained. The expected future tax rates are based on enacted tax laws.

Deferred tax assets were fully offset by a valuation allowance for all years presented. We will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

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. Additionally, we believe we are no longer subject to income tax examinations for years prior to 2016.

Note 12 – Related Party Transactions

In the ordinary course of business, we may enter into loan transactions with our directors, senior officers, their immediate family members and other organizations with whom such persons may be associated. These loans may be subject to special approval requirements contained in the Farm Credit Administration regulations and/or our policy, 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. 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. In our opinion, loans outstanding to directors and senior officers at December 31, 2019, did not involve more than a normal risk of collectability.

Loan information to related parties for the years ended December 31 is shown below (in thousands):

Related Party Loans and Leases	As of December 31,		
	2019	2018	2017
Total related party loans and leases	**$16,832**	$14,656	$10,712

Related Party Loans and Leases	For the year ended December 31,		
	2019	2018	2017
New and advances on loans and leases	**$13,067**	$11,418	$9,451
Repayments and other	**$10,891**	$7,474	$3,890

We purchase various services from AgriBank, FCB, including SunStream Business Services, a division of AgriBank, FCB. The services include tax-reporting services. The total cost of services we purchased from AgriBank, FCB was $13 thousand, $8 thousand and $8 thousand in 2019, 2018 and 2017, respectively.

We purchase human resource information systems and benefit and payroll services from Farm Credit Foundations. The Farm Credit System entities using Farm Credit Foundations' services contributed an investment into the service corporation when it was formed as a separate service corporation. Our investment was $21 thousand for all years presented. The total cost of services purchased from Farm Credit Foundations was $97 thousand in 2019, $74 thousand in 2018 and $78 thousand in 2017.

Note 13 – Commitments and Contingencies

In the normal course of business, we have various outstanding commitments and contingent liabilities, such as commitments to extend credit, which are not reflected in the consolidated financial statements. Commitments to extend credit are agreements to lend to a customer as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments may expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis using the same credit policies as for on-balance-sheet financial instruments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on our credit evaluation of the counterparty. Collateral held upon exercise of commitments varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing property. We had remaining commitments for additional borrowing at December 31, 2019, of approximately $535 million, approximately $523 million at December 31, 2018, and $489 million at December 31, 2017.

We also participate in standby letters of credit to satisfy the financing needs of customers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2019, $4.6 million of standby letters of credit were outstanding, $4.4 million at December 31, 2018, and $4.2 million at December 31, 2017. Outstanding standby letters of credit have expiration dates ranging to 2025. The maximum potential amount of future payments we are required to make under the guarantees is equal to the total amount of the letters of credit outstanding.

In the normal course of business, we may be subject to a variety of legal matters that may result in contingencies. Actions are pending against us in which claims for money damages are asserted. In our opinion, based on current information, the ultimate liability, if any, would not have a material impact on our financial position.

Frontier Farm Credit, ACA

Notes to Consolidated Financial Statements

Note 14 – Fair Value Measurement

The Financial Accounting Standards Board guidance on "Fair Value Measurements" defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. The guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. See Note 2, "Summary of Significant Accounting Policies" for a more complete description of the three input levels.

We do not have any material assets or liabilities measured at fair value on a recurring basis. We may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis. The following tables provide information on assets measured at fair value on a nonrecurring basis (in thousands):

As of December 31, 2019	**Fair Value Measurement Using**			**Total Fair Value**
	Level 1	**Level 2**	**Level 3**	
Loans	**–**	**–**	**$1,099**	**$1,099**
Other property owned	**–**	**–**	**$ –**	**$ –**

As of December 31, 2018	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Loans	–	–	$723	$723
Other property owned	–	–	$300	$300

As of December 31, 2017	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Loans	–	–	$576	$576
Other property owned	–	–	$300	$300

The amount of loans in the previous tables represents the fair value of certain loans that were evaluated for impairment based on the estimated appraised value of the underlying collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases, it also requires significant input based on our knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the carrying value of the loan, a specific reserve is established.

The amount of 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.

Note 15 – Subsequent Events

We have evaluated subsequent events through March 3, 2020, which is the date the consolidated financial statements were available to be issued. On January 21, 2020, we received a communication from the Farm Credit Administration that will prospectively exclude at-risk capital stock that is financed with a noninterest-bearing obligation from Tier 1/Tier 2 regulatory capital. The estimated impact of this change on our regulatory capital ratios is expected to be immaterial. Additionally, the balance sheet treatment of the noninterest-bearing receivable will be reclassified to contra equity. These changes will be implemented in the first quarter of 2020 and will not have a material impact on our financial condition, results of operations, cash flows or financial statement disclosures.

Frontier Farm Credit, ACA

Disclosure Information

Required by Farm Credit Administration Regulations (Unaudited)

Description of Business

The description of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit System institutions required to be disclosed in this section are incorporated herein by reference from Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report to stockholders.

The description of significant developments that had, or could have, a material impact on earnings, interest rates to customers, acquisitions or dispositions of material assets, and material changes in the manner of conducting the business, if any, required to be disclosed in this section are incorporated herein by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this annual report to stockholders.

Description of Property

Our corporate office is located in Manhattan, Kansas, and is owned. The locations of our retail offices are incorporated herein by reference to the last page of this annual report to stockholders. All retail office locations are owned. No facility construction projects were undertaken in 2019.

Legal Proceedings

Information required to be disclosed in this section is incorporated herein by reference from Note 13 to the consolidated financial statements, "Commitments and Contingencies," included in this annual report to stockholders.

Additional Regulatory Capital

Pursuant to Farm Credit Administration regulation 620.5, the permanent capital ratio, total surplus ratio and core surplus ratios were 14.83 percent, 14.56 percent and 14.56 percent as of December 31, 2014; 14.58 percent, 14.30 percent and 14.30 percent as of December 31, 2013; and 15.12 percent, 14.82 percent and 14.82 percent as of December 31, 2012. Refer to the "Consolidated Five-Year Summary of Selected Financial Data" for capital ratio calculations for the past five years.

Description of Capital Structure

Information required to be disclosed in this section is incorporated herein by reference from Note 9 to the consolidated financial statements, "Members' Equity," included in this annual report to stockholders.

Description of Liabilities

The description of debt outstanding required to be disclosed in this section is incorporated herein by reference from Note 8 to the consolidated financial statements, "Notes Payable," included in this annual report to stockholders.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Note 13 to the consolidated financial statements, "Commitments and Contingencies," included in this annual report to stockholders.

Member Privacy

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

Customer Privacy

Customer privacy is important to us. We hold customer financial and other personal information in strict confidence. We do not sell or trade customers' personal information to marketing companies or information brokers for their use. By Farm Credit Administration regulations, we are required to provide a list of current stockholders to any stockholder who requests such information for defined purposes. Additional information regarding this Farm Credit Administration regulation governing the disclosure of customer information can be obtained by contacting the Farm Credit Administration or our Legal team at PO Box 2409, Omaha, NE 68103-2409.

Financial and Supervisory Relationship with the Association's Funding Bank

Information required to be disclosed in this section is incorporated herein by reference from the "Relationship with CoBank, ACB" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" and from Note 8 to the consolidated financial statements, "Notes Payable."

Selected Financial Data

The selected financial data for the five years ended December 31, 2019, required to be disclosed in this section is incorporated herein by reference from the "Consolidated Five-Year Summary of Selected Financial Data" included in this annual report to stockholders.

Frontier Farm Credit, ACA

Disclosure Information

Required by Farm Credit Administration Regulations (Unaudited)

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

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in this annual report to stockholders and is required to be disclosed in this section, is incorporated herein by reference.

Directors and Compensation of Directors

The listing of directors, term of office, business experience during the past five years, principal occupation and employment during the past five years, and any other business interests, which are required to be disclosed in this section, are incorporated herein by reference from the "Frontier Farm Credit, ACA Directors" section in this annual report to stockholders.

Our bylaws permit compensation of directors for service on the Board. Compensation is provided for attendance at meetings, special assignments, training and development, and travel time associated with these responsibilities. The per diem rate for 2019 was $600. Monthly retainers for January 1 through April 30, 2019, were $2,717 for the Board Chairperson, $2,475 for the Board Vice-Chairperson and Committee Chairpersons, and $2,225 for all other Directors. Beginning May 1, 2019, the monthly retainers were $2,800 for the Board Chairperson, $2,550 for the Board Vice-Chairperson and chairpersons of a Frontier Farm Credit and Farm Credit Services of America subcommittee, and $2,290 for all other directors.

Compensation information for each director who served in 2019 follows:

Director	Board Days	Other Days	2019 Total Compensation
Kathy Brick	8.5	28.5	**$49,420**
Ronald Dunbar	8.5	21.0	**$44,920**
Jennifer Gehrt*	8.0	37.0	**$58,267**
Bill Miller	8.5	26.0	**$47,920**
Lee Mueller, Board Vice-Chairperson	8.5	27.0	**$51,600**
Steve Powers	8.5	23.5	**$47,170**
Shane Tiffany, Board Chairperson	8.0	51.0	**$67,700**
		Total Compensation	**$366,997**

**Denotes chairperson of a Frontier Farm Credit and Farm Credit Services of America subcommittee.*

All directors, except the Board chairperson, serve as members of the Board committees (Audit, Business Risk, Governance and Human Capital). No additional compensation is paid for service on a Board committee. Total compensation is rounded to the nearest dollar and includes retainers and all per diems paid in 2019.

Frontier Farm Credit, ACA
Disclosure Information
Required by Farm Credit Administration Regulations (Unaudited)

Compensation of CEO and Senior Officers

The CEO and senior officers as of December 31, 2019, are shown below. The CEO and senior officers provide joint management for Frontier Farm Credit (Association) and Farm Credit Services of America (FCSAmerica).

Name	Current Position	Date Started in Current Position	Previous Position(s) During Past Five Years
Mark Jensen	President and CEO	November 2017	Senior Vice President – Chief Risk Officer
Robert Campbell	Senior Vice President	April 1999	–
Scott Coziahr	Senior Vice President – General Counsel	February 2006	–
Ann Finkner	Senior Vice President – Chief Administrative Officer	July 2005	–
Shane Frahm	Senior Vice President – Agribusiness Capital	February 2017	Vice President – Agribusiness Credit
Chad Gent	Senior Vice President – Retail Credit	January 2017	Vice President – Retail Credit
Marshall Hansen	Senior Vice President – Agribusiness Capital	January 2017	Vice President – Agribusiness Finance
Anthony Jesina	Senior Vice President – Related Services	June 2015	Vice President – Country Home Loans
Kenneth Keegan	Executive Vice President – Business Development	August 2013	–
Craig Kinnison	Senior Vice President – Chief Financial Officer	November 2006	–
Dennis Kirlin	Senior Vice President – Chief Applications Officer	January 2017	Vice President – Chief Applications Officer, Vice President – Applications Development
Jim Knuth	Senior Vice President	September 2001	–
Timothy Koch	Senior Vice President – Chief Credit Officer	February 2017	Senior Vice President – Specialized Lending
Brian Legried	Senior Vice President – AgDirect	April 2017	Vice President, Refined Fuels Sales & Energy Services, CHS Inc
Duane Maciejewski	Senior Vice President – Specialized Lending	March 2017	Senior Vice President – AgDirect, Vice President – AgDirect
David Martin	Senior Vice President – Chief Strategy Officer	December 2008	–
Gary Mazour	Senior Vice President – Agribusiness Capital Credit	February 2017	Vice President – Capital Markets
James Roberge	Senior Vice President – Commercial Lending	March 2012	–
Greg Salton	Senior Vice President – Chief Risk Officer	January 2018	Senior Vice President – Risk Management, Vice President – Business Risks Insights
Fallon Savage	Senior Vice President – Agribusiness Capital Credit	February 2017	Vice President – Agribusiness Finance Operations
Robert Schmidt	Senior Vice President	May 1999	–
Russell Wagner	Senior Vice President – Chief Technology Officer	January 2017	Vice President – Chief Technology Officer
Angie Winegar	Senior Vice President – Centralized Business Solutions	April 2019	Vice President – Consumer Lending, Vice President – Country Home Loans, Director – Innovation & Strategy

Frontier Farm Credit, ACA

Disclosure Information

Required by Farm Credit Administration Regulations (Unaudited)

Other business interests of the CEO and senior officers are shown below.

Name	Other Business Interests
Mark Jensen	• Board of Directors, Greater Omaha Chamber. • Advisory Council, University of Nebraska Clayton Yeutter Institute of International Trade and Finance.
Robert Campbell	• Board of Directors, Nebraska Farm Bureau Foundation, a non-profit organization promoting an understanding of the vital importance of agriculture in the state of Nebraska.
Scott Coziahr	• Managing member of JDI Properties, LLC, a residential real estate management company.
Ann Finkner	• Board of Directors and Plan Sponsor Committee, Farm Credit Foundations, a provider of benefits and payroll services for Farm Credit System organizations. • Board of Directors, Institute for Career Advancement Needs, a non-profit organization focusing on professional and personal leadership development. • Board of Directors, NET Foundation, a non-profit organization enhancing the position of public television and radio in the state of Nebraska. • Partner, Jane Doughs Investment Club, a group owning publicly traded investments.
Shane Frahm	• Managing member of Frahm Brothers Partnership, a production farming company. • Co-manager of Hollertz Farms, LLC, a production farming company.
Chad Gent	• Managing member of Double Summit, LLC, a real estate tax lien investment company.
Marshall Hansen	• Board member, Nebraska Career Education & Innovation Foundation, an advocate for innovative career education opportunities for Nebraskans.
Kenneth Keegan	• Board of Directors, The Durham Museum, a non-profit regional learning and cultural center organization.
Craig Kinnison	• Trust Committee, Farm Credit Foundations, a provider of benefits and payroll services for Farm Credit System organizations. • Board of Directors, Food Bank for the Heartland, a non-profit organization that distributes emergency and supplemental food to people in Nebraska and western Iowa.
David Martin	• Board of Directors, Release Ministries, a non-profit organization supporting youth in the juvenile justice system. • President of DCM Ventures, LLC, a residential real estate company. • President of DCM Properties, LLC, a residential real estate company.
James Roberge	• Board of Directors, Child Saving Institute, a non-profit organization serving children and families in the Omaha area.
Fallon Savage	• Board of Directors, Four Points Federal Credit Union, a financial services cooperative offering banking products and services to members.
Robert Schmidt	• Board of Governors, South Dakota State University Foundation, a non-profit organization supporting private funding for the university.

Compensation Overview: The Association's compensation programs are market-based and designed to provide competitive compensation, including base salary, incentives and benefits that attract, retain, motivate and reward an engaged and talented workforce while achieving business results aligned with the best interests of our shareholders.

The design and governance of our CEO and senior officer compensation program are consistent with prudent risk management standards and provide total compensation that promotes our mission to ensure a safe, sound and dependable source of credit and related services for agriculture and rural America. The design of the compensation program supports our risk management goals and includes (1) a competitive mix of base salary and variable pay, (2) a balanced use of variable-pay performance measures that are risk-adjusted where appropriate, (3) a pay-for-performance process that allocates individual awards based on individual performance and contributions, and (4) a long-term portion of variable pay to align with the strategic direction of the Association, which provides for competitive market-based compensation and aligns with shareholder interests.

Compensation for the CEO and senior officers includes base salary, short-term incentive plan opportunity and long-term incentive plan opportunity. Compensation for all other employees includes base salary and short-term incentive plan opportunity. The CEO and senior officers participate in benefit plans generally available to all employees. Under the alliance agreement described in Note 1, "Organization and Operations," the 2019 compensation and benefits expense for the CEO, senior officers, and all Association and FCSAmerica employees was shared between the Association and FCSAmerica on a 6.4 percent and 93.6 percent basis respectively, excluding any Association pension plan expense in excess of the FCSAmerica's retirement programs.

The CEO, Mr. Mark Jensen, does not have an employment agreement. Any CEO employment agreement is at the discretion of the Board of Directors.

Base Salaries: Base salaries for all employees, including the CEO and senior officers, are determined based upon position, experience and responsibilities, performance, and market-based compensation data. The CEO base salary is reviewed and approved by the Board of Directors. The Board of Directors approves the merit and market-adjustment pools available for senior officers' base salaries. Employer expense for base salaries is included in "Salaries and employee benefits" on the Consolidated Statements of Comprehensive Income, which was shared by the Association and FCSAmerica as part of the overall allocation of salaries and benefits.

Short-Term Incentive: The Board of Directors approves the annual short-term incentive plan, including the performance measures. The 2019 short-term incentive plan performance measures included combined results for the Association and FCSAmerica. The senior officers participate in the annual short-term incentive plan along with the other eligible Association employees. Select employees must sign an assignment, nonsolicitation and nondisclosure agreement to participate in the short-term incentive plan. Payouts under the short-term incentive plan are based on financial and business results, select initiatives and credit performance measures, and are approved by the Board of Directors. Payouts are not provided unless specific levels of performance are achieved.

No more than one-half of the short-term incentive-plan award opportunity may be paid in the fourth quarter of the plan year (first award payout), and the remainder of the award payout (final award payout) is paid no later than March 15 after the end of the plan year. The first award payout is based on the results achieved as of September 30 for select performance measures. The final award payout is based upon the year-end results net of the first award payout. The first payout under the 2019 short-term incentive plan occurred in November 2019. The second and final payout occurred in February 2020 and was net of the November 2019 payout.

The CEO's short-term incentive opportunity is established by the Board of Directors. The Board has full discretion as to the amount of any payout to the CEO under the short-term incentive plan and has historically and for 2019 used the results from the short-term incentive plan to determine the payout amount.

The expense for the annual short-term incentive plan was $37.9 million for 2019, which was shared by the Association and FCSAmerica as part of the overall allocation of salaries and benefits.

Long-Term Incentive: The CEO and senior officers are eligible for long-term senior officer incentive plans. The long-term incentive plans were approved by the Board of Directors to align CEO and senior officer compensation with the strategic business plan and the goals of the Association while providing the opportunity for competitive market-based compensation at a level that will attract, retain and reward key staff for the accomplishment of Association goals. The CEO and senior officers must sign an assignment, nonsolicitation and nondisclosure agreement to participate. The plans are nonqualified performance unit plans that are effective January 1, 2017, through December 31, 2019; January 1, 2018, through December 31, 2020; and January 1, 2019, through December 31, 2021.

The plans have independent performance goals measured over the three-year term of the plans that include core return on assets, customer experience index, employee engagement, adverse assets to risk funds and nonaccrual loans to total classified assets. The results included in the plans were combined results for the Association and FCSAmerica.

The Board of Directors approves the total dollars available for the long-term incentive plans, which are then converted into units. The value of each unit is determined by the results achieved toward the established goals. The CEO has discretion as to the distribution of the units to the senior officers for each three-year plan, which is based on consideration of market compensation and individual contributions and performance. The CEO's long-term incentive opportunity is established by the Board of Directors. The Board has full discretion as to the amount of any payout to the CEO under the long-term incentive plan and has historically used the results from the long-term senior officer incentive plan to determine the unit value for the payout amount.

Payments are made no later than March 15 after the end of each three-year plan's term. The payout for the 2017–2019 plan occurred in February 2020 and is reflected in the Summary Compensation Table in the "Long-Term Incentive" column for the calendar year 2019. The payouts for the 2015–2017 and 2016–2018 plans were paid in the first quarter of 2018 and the first quarter of 2019 respectively and are reflected in the Summary Compensation Table in the "Long-Term Incentive" column for the calendar years 2017 and 2018.

A liability and salary and benefits expense of $3.5 million was recorded in 2019 for the long-term incentive plans. The expense was shared by the Association and FCSAmerica as part of the overall allocation of salaries and benefits.

Frontier Farm Credit, ACA

Disclosure Information

Required by Farm Credit Administration Regulations (Unaudited)

The following Summary Compensation Table includes compensation paid to the CEO and the senior officers during fiscal years 2019, 2018 and 2017.

Name of CEO	Year (2)	Salary (3)	Short-Term Incentive (4)	Long-Term Incentive (5)	Deferred (6)	Other (7)	Total
Mark Jensen, CEO	**2019**	**$650,000**	**$469,235**	**$330,000**	**$182,417**	**$6,064**	**$1,637,716**
Mark Jensen, CEO	2018	$600,000	$415,410	$227,540	$151,733	$5,733	$1,400,416
Mark Jensen, CEO (1)	2017	$100,000	$68,110	$8,731	$26,986	$1,478	$205,305
Douglas Stark, CEO (1)	2017	$566,667	$283,334	$415,574	$159,720	$11,149	$1,436,444

Aggregate No. of Sr. Officers in Year Excluding CEO (8)	Year (2)	Salary (3)	Short-Term Incentive (4)	Long-Term Incentive (5)	Deferred (6)	Other (7)	Total
22	**2019**	**$5,691,726**	**$3,737,203**	**$2,946,240**	**$1,320,750**	**$147,238**	**$13,843,157**
22	2018	$5,416,138	$3,087,248	$2,270,053	$1,306,434	$446,526	$12,526,399
23	2017	$5,363,646	$2,832,368	$1,942,011	$1,177,192	$135,876	$11,451,093

(1) Mr. Jensen was appointed CEO as of November 1, 2017, with Mr. Stark concluding his service as CEO on October 31, 2017.

(2) The Association paid 6.4 percent, 6.9 percent and 7.1 percent of the compensation expense for 2019, 2018 and 2017, respectively. Farm Credit Services of America paid 93.6 percent, 93.1 percent and 92.9 percent of the compensation expense for 2019, 2018 and 2017, respectively.

(3) Salary earned in the fiscal year.

(4) Incentive earned in the fiscal year.

(5) Incentive earned at the end of the respective three-year, long-term incentive plan. For 2018 and 2019, the number includes long-term incentive for Mr. Stark based upon his employment agreement.

(6) Association contributions to the Defined Contribution Plan and Nonqualified Deferred Compensation Plan during the fiscal year.

(7) Executive physicals, sign-on bonus, special recognition bonus, retirement gift, severance, taxable moving expense, vacation leave payout, recognition and referral awards, health and fitness account payouts, health incentives, taxable vehicle use, long-term disability premiums and group life insurance imputed income incurred during the fiscal year.

(8) Employees designated as senior officers during the fiscal year. The 2019 number excludes Mr. Stark who retired in 2018 and includes a new senior leader position. The 2018 number includes Mr. Stark, who served as a senior officer from November 1, 2017, until his retirement on March 1, 2018. The 2017 number includes Mr. Jensen and Mr. Stark when they served as senior officers.

Disclosure of the total compensation paid during 2019 to any senior officer included in the Summary Compensation Table is available to our stockholders upon written request to Frontier Farm Credit, PO Box 2409, Omaha, NE 68103-2409.

Details of the benefit plans are described in Note 10 to the consolidated financial statements, “Employee Benefit Plans.”

Travel, Subsistence and Other Related Expenses

Director and employee reimbursements for travel, subsistence and other related expenses are set forth in the Board’s Governance Guidelines and Human Resources Manual. Each provides authority for and control over reimbursement of travel and subsistence expenses for authorized individuals traveling on official business. Copies of the related Governance Guidelines and Human Resources Manual provisions are available to our stockholders upon written request to Frontier Farm Credit, PO Box 2409, Omaha, NE 68103-2409.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all our directors was $77 thousand in 2019, $75 thousand in 2018 and $100 thousand in 2017.

Transactions with Directors, Senior Officers and Employees

Directors and certain employees may obtain loans from us, provided they meet all eligibility requirements and provided that such loans are made on the same terms available to other customers. Approval of CoBank, ACB is required for loans to our directors and employees, and for loans to any customer if a director or employee is to receive more than $50 thousand of the loan proceeds, has a significant personal interest in the loan or its security, may exercise control over the customer, or guarantees or cosigns a loan in excess of $50 thousand. Further, directors and employees are required to refrain from taking any part in the consideration or decision on any loan in which they or their relatives have an interest.

Our bylaws and policies require that directors’ loans be maintained at a high level of credit quality. Any director whose loan is classified “substandard” must prepare and obtain approval of a plan to improve and upgrade the loan within a specified period of time. For directors, failure to comply with our bylaws and policies would result in the director’s position being vacated. Directors whose loans are classified “doubtful” or “loss,” or have any portion of a loan charged off, must resign immediately.

Frontier Farm Credit, ACA

Disclosure Information

Required by Farm Credit Administration Regulations (Unaudited)

The Farm Credit Act and Farm Credit Administration regulations require certain disclosures to stockholders concerning loans to directors and employees, their relatives, organizations with which they are affiliated or entities that they may control. Disclosure is required where such loans were made on terms other than those available to other customers, or where such loans are considered to have more than a normal risk of collectability. None of our loans made to directors or employees, their relatives, affiliated organizations or entities they may control were made on terms other than those available to all customers, nor were any such loans considered to have more than a normal risk of collectability.

Director, senior officer and employee non-loan transactions with us are regulated by our policy.

Concerning property that was mortgaged or pledged as security for Farm Credit System debt within the preceding 12 months, the policy requires that senior officers and employees obtain approval from the Standards of Conduct officer for purchase of the property.

Concerning property acquired within the preceding 12 months in satisfaction of Farm Credit System debt, this policy:

- prohibits lease, purchase or acquisition except through inheritance by senior officers and employees; and
- prohibits lease, purchase or acquisition except through inheritance, public auction or other open competitive bidding process by directors.

The policy does permit directors, senior officers and employees to purchase furniture and equipment owned by us provided that any item having a value of greater than $5 thousand must be purchased through an open, competitive bidding process.

The Farm Credit Act and Farm Credit Administration regulations also require certain disclosures to stockholders concerning non-loan transactions a director or senior officer, or any of his or her relatives, affiliated organizations or entities he or she may control, has with us. Such disclosure is required if such transactions did not involve competitive bidding, involved amounts in excess of $5 thousand or provided a special benefit to the director or senior officer. No such transactions took place during 2019.

Involvement in Certain Legal Proceedings

There were no material legal proceedings or enforcement actions involving Frontier Farm Credit, our directors or senior officers that require disclosure in this section.

Relationship with Qualified Public Accountant

PricewaterhouseCoopers LLP serves as our qualified public accountant. There were no changes in our qualified public accountant since the prior annual report to stockholders, and there were no material disagreements on any matter of accounting principles or financial statement disclosures during this period. Expenses recognized in the 2019 consolidated financial statements for services provided by PricewaterhouseCoopers LLP were approved by the Board Audit Committee and include $98 thousand for audit services and $4 thousand for tax-review services.

Financial Statements

The “Consolidated Financial Statements,” “Notes to Consolidated Financial Statements,” “Report of Management,” “Report on Internal Control Over Financial Reporting,” “Report of Audit Committee” and “Report of Independent Auditors” required to be disclosed in this section are incorporated herein by reference from this annual report to stockholders.

Credit and Services to Young, Beginning and Small Producers

We have specific programs in place to serve the credit and related needs of young, beginning and small producers in our territory. Programs focus on providing sound financial services, education and networking opportunities. The definitions of young, beginning and small producers follow:

Definitions

- Young – producers age 35 and under.
- Beginning – producers with 10 years or less of production agriculture as their primary source of income.
- Small – producers who generate less than $250,000 in annual gross sales of agricultural products.

Frontier Farm Credit, ACA
Disclosure Information
Required by Farm Credit Administration Regulations (Unaudited)

Program Elements

Our program for serving young, beginning and small producers includes the following:

Conventional Loans: Producers age 35 and under, or with 10 years or less of farming or ranching experience, may have sufficient capacity, credit history or financial backing to meet our traditional loan approval standards.

AgStart Loans: Producers age 35 and under, or with 10 years or less experience, can benefit from modified credit-approval standards to help them gain access to debt capital. It is the goal of the program to help facilitate the financial growth of the customer and graduate participating producers from the AgStart program into conventional product offerings over time.

Development Fund: This program assists young, beginning and small producers who are beginning, growing or enhancing an agricultural-based operation by providing them business planning assistance and includes three loan products: Working Capital Loan, Breeding Livestock Loan and Contract Finish Loan. The Association has booked 16 loans in the program as of December 31, 2019, providing $2.1 million in Development Fund loans.

Youth in Agriculture Loans for Breeding Livestock: The Breeding Livestock loan program for youth provides loans for terms of one to five years, up to $10,000, for the purpose of purchasing breeding livestock. These loans require a cosigner of legal age and are approved based on the strength and credit scores of the cosigner.

Education and Finance Sponsorships: We provide donations and sponsor state and local FFA activities and conventions, state 4-H activities and conventions, and agricultural leadership programs.

College Scholarships: In 2019, we offered $2,500 scholarships to eight qualified students studying agriculture at Kansas State University and $2,000 scholarships to four qualified Kansas community college students.

Small Producer Financing: Small producers are served primarily through three loan programs: Rural 1st Home Loans, AgDirect and the full line of products and services offered through our retail marketplaces. All of these programs are designed to meet the needs of small producers, part-time farmers or rural residents with a convenient and efficient delivery of financial services. Small producers who also meet the definition of young or beginning are eligible for the young and beginning program.

Credit Underwriting Standards

Young and beginning producers who do not meet traditional credit standards are considered under an outreach loan program called AgStart. Through this program, applicants' requests are analyzed and assessed based primarily on character and capacity credit factors. Farm Service Agency guarantees are used as deemed necessary, with additional support provided by our payment of the first $2,500 of external fees. As of December 31, 2019, AgStart customers accounted for 363 loans to 215 customers with an outstanding commitment of $43 million. AgStart loan volume grew by 14.1 percent in 2019.

Results and Goals

As of December 31, 2019, we had 2,839 unique young, beginning and small customers, with total loan volume of $431 million. These include:

- 365 customers who qualify as young, with total loan volume of $49 million.
- 692 customers who qualify as beginning, with total loan volume of $100 million.
- 2,694 customers who qualify as small, with total loan volume of $407 million.

Young and Beginning Segment: The 2017 United States Department of Agriculture Census of Agriculture reports operators who meet the criteria for young, beginning and small, as well as farms with any operators meeting the criteria, including farms with debt. A significant change to the 2017 Census of Agriculture is the elimination of the "principal operator," making it difficult to compare numbers to previous Census of Agriculture years. In our territory, there are 1,665 farms with debt with a young operator. There are 2,867 farms with debt with a beginning operator. As of December 31, 2019, we had 365 young customers and 692 beginning customers, some of whom are counted in both categories. This equates to a young market share of 21.9 percent and a beginning market share of 24.1 percent. Total loan volume to young and beginning customers was $116 billion.

Small Producer Segment: According to 2017 United States Department of Agriculture Census of Agriculture data, 25,550 farms representing 89 percent of all farms in our territory meet the definition of small (less than $250,000 in annual gross sales of agricultural products). The 2017 Census of Agriculture includes any operation with farm income in its definition of a farm.

Disclosure Information

Required by Farm Credit Administration Regulations (Unaudited)

	Potential Customers*	Frontier Farm Credit Customers	Market Share***
Young	1,665	365	21.9%
Beginning	2,867	692	24.1%
Small**	5,332	2,694	50.5%

** 2017 United States Department of Agriculture Census of Agriculture data of farms with debt.*

*** Potential customers in the small category are producers with debt who reported annual gross sales between $10,000 and $249,999.*

**** Market share was computed by comparing the number of producers in the young, beginning or small categories maintaining a loan relationship with Frontier Farm Credit to the total number of producers with debt in those categories.*

Young, Beginning and Small Producer New Customer Growth

	2020 Goals	2021 Goals	2022 Goals
Young	45	50	55
Beginning	65	70	75
Small	85	85	85

Special Program Goal (AgStart): This program goal will positively affect all three young, beginning and small producer categories. Use of this outreach loan program is seen as a critical component of long-term success in the marketplace.

The Association's goal is to increase AgStart loan commitments by 8.0–12.0 percent annually.

Related Services

Young and Beginning Producer Conference: Frontier Farm Credit jointly hosts the annual Side by Side conference for young and beginning producers with FCSAmerica. The conference was held in Omaha, Nebraska, on July 31–August 2, 2019. Including customers from FCSAmerica, there were 161 young and beginning producers in attendance at this conference.

Producers benefited from the opportunity to network with one another, learn from the speakers and learn more about Frontier Farm Credit. The conference provided benefits by creating an opportunity for participants to become better-informed business managers.

Education and Finance Sponsorships: We awarded $28,000 in college scholarships in 2019. In addition, the Association donated funds for state and local FFA and 4-H activities, and provided additional funding and resources for young and beginning producer education, leadership development programs and local community grants.

Awareness

Young and Beginning Team: The Association will launch a cross-functional team in 2020 to research and recommend an evolution to the program strategy and structure for the future of the Association's young, beginning and small program. This is an enhancement to the ongoing young and beginning producer team that has been in place previously.

Frontier Farm Credit, ACA
Disclosure Information
Required by Farm Credit Administration Regulations (Unaudited)

Frontier Farm Credit Retail Office Locations

1270 N. 300 Road
Baldwin City, KS 66006

1808 Road G
Emporia, KS 66801

2219 Natchez Street
Hiawatha, KS 66434

2009 Vanesta Place
Manhattan, KS 66503

835 Pony Express Highway
Marysville, KS 66508

2005 Harding Drive
Parsons, KS 67357

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800-397-3191 // frontierfarmcredit.com

Frontier Farm Credit strives to be environmentally conscious. If you would like to receive an additional copy of our 2019 annual report, please contact us at 1-800-397-3191.

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