AGRIBANK DISTRICT 2019 FINANCIAL INFORMATION

Unaudited

AGRIBANK, FCB AND DISTRICT ASSOCIATIONS

STRENGTH STABILITY SOLUTIONS

AgriBank

FARM CREDIT BANK

AgriBank District Financial Information
AgriBank, FCB and District Associations
unaudited

INTRODUCTION AND DISTRICT OVERVIEW

AgriBank, FCB (“AgriBank” or “the Bank”) and District Associations (“Associations”) are part of the customer-owned, nationwide Farm Credit System (System or Farm Credit). The System provides loans, leases and financial services to farmers, ranchers and rural businesses across the United States and Puerto Rico. This focus on rural communities and agriculture is the reason Farm Credit was established in 1916, and the System has been delivering on that mission ever since – helping fund America's food, fuel and fiber and supporting the rural communities America's farmers and ranchers call home.

The System is a cooperative structure. Farm Credit’s funds are raised by the Federal Farm Credit Banks Funding Corporation (the Funding Corporation) and insured by the Farm Credit System Insurance Corporation (FCSIC or the Insurance Corporation). The Funding Corporation issues a variety of Federal Farm Credit Banks Combined Systemwide Debt Securities with broad ranges of maturities and structures on behalf of the four System Banks. Each System Bank has exposure to Systemwide credit risk because each Bank is joint and severally liable for all Systemwide debt issued. Farm Credit Associations receive funding through one of the System Banks. System entities have specific lending authorities within their chartered territories and are subject to examination and regulation by an independent federal agency, the Farm Credit Administration (FCA).

Under Farm Credit's cooperative structure, AgriBank is primarily owned by 14 local Farm Credit Associations, which provide financial products and services to rural communities and agriculture. AgriBank obtains funds and provides funding and financial solutions to those Associations. AgriBank and the 14 Associations are collectively referred to as the District. The AgriBank District covers a 15-state area stretching from Wyoming to Ohio and Minnesota to Arkansas.

The following commentary reviews the combined financial condition and results of operations of AgriBank and District Associations and provides additional specific information.

Combined Financial Highlights

AgriBank, FCB and District Associations

(dollars in thousands)

As of December 31,	**2019**	2018	2017
Total loans	**$ 115,179,594**	$ 109,081,975	$ 103,583,191
Allowance for loan losses	**519,665**	490,772	436,059
Net loans	**114,659,929**	108,591,203	103,147,132
Total assets	**135,232,861**	128,599,161	122,141,690
Total shareholders' equity	**24,726,836**	23,490,090	22,080,364

For the year ended December 31,	**2019**	2018	2017
Net interest income	**$ 3,258,773**	$ 3,095,566	$ 2,993,955
Provision for credit losses	**52,018**	83,034	110,041
Net fee income	**67,705**	65,315	62,376
Net income	**2,180,042**	2,129,503	1,923,898
Net interest margin	**2.5 %**	2.5 %	2.6%
Return on average assets	**1.7 %**	1.7 %	1.6%
Return on average shareholders' equity	**8.9 %**	9.3 %	8.9%
Operating expense as a percentage of net interest income and non-interest income	**36.5 %**	35.6 %	37.3%
Net loan chargeoffs as a percentage of average loans	**(0.02)%**	(0.03)%	(0.03)%
Average loans	**$ 110,591,563**	$ 104,983,099	$ 100,664,064
Average earning assets	**128,219,739**	121,669,201	116,939,357
Average assets	**130,680,585**	123,897,714	119,035,726

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

Net income was $2.2 billion for the year ended December 31, 2019, an increase of $50.5 million, or 2.4 percent, compared to the same period of the prior year. Net interest income remained strong due to increased loan volume across the District, partially offset by decreases in non-interest income and increases in non-interest expenses. The decrease in non-interest income was mainly attributable to a lower allocated insurance reserve accounts (AIRA) refund in March 2019 when compared to March 2018, and to a lesser extent, lower mineral income and losses on certain economic hedges. The increase in non-interest expenses was due mainly to higher salaries and incentive compensation expenses and occupancy and equipment costs across the District.

Net Interest Income
Net interest income increased $163.2 million, or 5.3 percent, compared to the same period of the prior year, primarily due to increased loan volume and the impact of equity financing. This increase was partially offset by a slight decline in the positive contribution from funding actions.

Net interest margin was 2.5 percent for the year ended December 31, 2019, comparable to the same period of the prior year, as the lending environment remained competitive across the District. The benefit of equity financing, which represents the benefit of non-interest bearing funding, increased due to higher equity volume and higher interest rates. Interest rates on liabilities and earning assets were generally higher year-over-year in 2019; however, there was a substantial decline in market interest rates through the last three quarters of 2019, along with flattening and periodic inversions of the yield curve. While call activity did increase during the third and fourth quarters, the shape of the yield curve, loan refinancing and other funding actions partially offset the impact of these activities, resulting in a slight overall funding benefit decline year-over-year.

Provision for Credit Losses
The provision for credit losses was $52.0 million for the year ended December 31, 2019. Any reserves for unfunded commitments and letters of credit are recorded in "Other liabilities" on the Combined Balance Sheets.

The year-over-year fluctuations for the District's provision for credit losses can be impacted by economic stress in individual agricultural sectors. The overall provision decreased compared to the same period of the prior year, primarily due to the reversal of provision recorded at one District Association based on an updated analysis of industry stress. This Association's customers have experienced less stress in the agricultural economy than had been expected. Notwithstanding this reversal of provision, net farm income levels remaining slightly below the 10-year average and credit quality deterioration, primarily in the grain and dairy industries, have resulted in additional provision for credit losses during the year ended December 31, 2019. Overall, loan growth resulted in slight increases in special mention credit quality relative to the District portfolio as a whole, which outpaced the growth in both acceptable and adverse categories compared to the prior year. With commodity prices expected to remain at relatively low levels, grower margins will likely be negatively impacted in 2020 which may result in moderate increases to adverse credit quality and related provision for credit losses across the District.

Non-interest Income
The decrease in non-interest income was driven by the decreased AIRAs distribution received from the FCSIC during the first quarter of 2019 compared to the same period of the prior year. The AIRAs were established by the FCSIC when premiums collected increased the level of the insurance fund beyond the required secured base amount of 2 percent of insured debt.

The decrease in non-interest income was further impacted by mark to market losses recorded on certain economic hedges and decreased mineral income compared to the prior year. These economic hedges, related to AgriBank's mineral income, were initiated and increased in value during the fourth quarter of 2018, when oil prices decreased; however, as oil prices rebounded during 2019, the value decreased resulting in current year losses, partially offsetting the gains recognized in 2018. These losses are classified as "Other (loss) income" on the Combined Statements of Income. These derivatives matured in November 2019 and no similar derivatives were outstanding as of December 31, 2019.

Non-interest Expense

Overall, non-interest expense increased, primarily driven by increased salaries and benefits expense. The increase in salaries and benefits expense was primarily due to an increase in employees in the District as well as annual merit increases. Additionally, increases in variable incentives, driven by performance measures exceeding expectations at many Associations across the District, contributed to higher non-interest expense compared to the prior year.

Loan Portfolio

District Loans by Loan Type

(in thousands)

December 31,	2019	2018	2017
Real estate mortgage	**$ 62,386,625**	$ 59,810,146	$ 57,593,060
Production and intermediate-term	**27,943,774**	26,888,339	26,358,352
Agribusiness:			
Loans to cooperatives	**1,304,557**	1,227,755	1,678,219
Processing and marketing	**12,251,764**	10,552,428	8,530,420
Farm-related businesses	**1,431,031**	1,288,785	1,123,160
Rural infrastructure:			
Power	**1,230,179**	1,175,525	1,068,921
Communications	**2,138,173**	1,761,466	1,320,603
Water/Wastewater	**236,016**	103,438	60,669
Rural residential real estate	**2,655,840**	2,708,589	2,745,807
Agricultural export finance	**345,638**	320,434	277,685
Lease receivables	**203,767**	207,450	277,074
Loans to other financing institutions	**631,038**	549,113	593,677
Mission related investments	**2,421,192**	2,488,507	1,955,544
Total	**$ 115,179,594**	$ 109,081,975	$ 103,583,191

District loans increased $6.1 billion, or 5.6 percent, from December 31, 2018. The increase in total loans was primarily due to growth in the real estate mortgage and production and intermediate-term sectors related to new originations throughout the year and in the agribusiness sector related to capital markets lending.

Consistent with prior years, production and intermediate-term loan volume increased in December 2019 as certain borrowers purchased inputs for next year's production for tax-planning purposes. The loan portfolio exhibits some seasonality relating to the patterns of operating loans made to crop producers. Operating loans are normally at their lowest levels following the harvest and then increase in the spring and throughout the rest of the year as borrowers fund operating needs. The degree of seasonality exhibited by the loan portfolio is diminished primarily due to growth in real estate mortgage, agribusiness and part-time farmer sectors.

Portfolio Diversification

Loan concentrations exist when there are amounts loaned to multiple borrowers engaged in similar activities, or within close proximity, which could cause them to be similarly impacted by economic or other conditions. While the amounts represent the maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the District's lending activities is collateralized and, accordingly, the credit risk associated with lending activities is considerably less than the recorded loan principal and is considered in the allowance for loan losses.

While the District has concentrations in crops, these crops represent staple commodities of agriculture – corn, soybeans and wheat. To some extent, there is further concentration in crops related to the investor real estate sector, as these loans are typically made for the purchase of land that is rented for crop production. However, the concentration in crops is geographically diverse, with multiple states being significant producers of these important commodities. While the commodity distribution represents the primary commodity of the borrower, many of the crop producers may also have livestock operations or other forms of diversification.

Certain District Associations have diversified the concentration in agricultural production loans through rural residential real estate and part-time farmer loans, as well as agribusiness loans. Rural residential real estate, investor real estate and part-time farmer borrowers generally have significant off-farm sources of income, and, therefore, are less subject to cycles in agriculture. These borrowers are typically more susceptible to changes in the general economy, and the condition of the general economy will influence the credit quality of these segments of the portfolio.

Grain and livestock producers are somewhat subject to a counter-cyclical diversification effect. High grain prices are generally favorable to crop producers; however, livestock producers are adversely affected through higher feed costs. Conversely, low grain prices are generally negative to crop producers, but tend to improve the profitability for those livestock producers who purchase most or all of their feed. Severe fluctuations in commodity prices can negatively impact all District producers. During 2019, certain grain and livestock producers across the District experienced additional financial stress as a result of continued low net farm income.

Commodity Concentrations

December 31,	**2019**	2018	2017
Crops	**43 %**	44 %	45 %
Cattle	**9 %**	9 %	9 %
Dairy	**7 %**	7 %	7 %
Investor real estate	**6 %**	7 %	7 %
Food products	**6 %**	6 %	5 %
Other	**29 %**	27 %	27 %
Total	**100 %**	100 %	100 %

Other commodities consist primarily of loans in the pork, timber, poultry, rural residential real estate, and grain marketing and farm supply sectors, none of which represented more than 5 percent of the District loan portfolio.

Geographic Concentrations			
December 31,	**2019**	**2018**	**2017**
Iowa	**11 %**	11 %	11 %
Illinois	**9 %**	9 %	10 %
Minnesota	**8 %**	8 %	9 %
Nebraska	**8 %**	8 %	8 %
Indiana	**6 %**	6 %	6 %
Michigan	**6 %**	6 %	6 %
Wisconsin	**6 %**	6 %	6 %
Ohio	**5 %**	6 %	6 %
South Dakota	**5 %**	6 %	5 %
Other	**36 %**	34 %	33 %
Total	**100 %**	100 %	100 %

Other states consist primarily of loans in Missouri, North Dakota, Tennessee, Arkansas and Kentucky, none of which represented more than 5 percent of the District loan portfolio.

Loan Quality

The primary credit quality indicator utilized by the Bank and Associations is the FCA Uniform Loan Classification System, which 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 (Special Mention) – 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.
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest classified under the Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable.

District Loan Quality			
December 31,	**2019**	2018	2017
Acceptable	**90.8 %**	91.1 %	92.2 %
Special Mention	**4.4 %**	4.0 %	3.6 %
Substandard/Doubtful	**4.8 %**	4.9 %	4.2 %
Total	**100 %**	100 %	100 %

The credit quality of the District loan portfolio remained sound at December 31, 2019. Substandard/Doubtful loans, collectively called adverse loans, are loans AgriBank and District Associations have identified as showing some credit weakness outside the credit standards. Overall, loan growth resulted in slight increases in special mention credit quality relative to the District portfolio as a whole, which outpaced the growth in both acceptable and adverse categories compared to the prior year. With commodity prices expected to remain at relatively low levels, grower margins will likely be negatively impacted in 2020 which may result in moderate increases to adverse credit quality and related provision for credit losses across the District. No loans were categorized as loss as of December 31, 2019, 2018 or 2017.

Overall, Bank and District Association managements did not expect nor did the portfolios experience significant deterioration in credit quality through 2019. Due to continued erosion of farm sector working capital, agricultural economic stress (primarily driven by low commodity prices) and uncertain trade policy, the downturn in credit quality has worsened within many sectors of the District's retail portfolio and has impacted retail borrower working capital. Given continued projected stress in the agriculture industry and the product mix within this retail portfolio, adverse credit quality and related allowance for loan losses and provision for loan losses may continue to increase.

Nonperforming Assets

(in thousands) December 31,	2019	2018	2017
Nonaccrual Loans:			
Real estate mortgage	**$ 482,613**	$ 454,787	$ 433,708
Production and intermediate-term	**257,621**	224,889	256,946
Agribusiness	**67,218**	60,166	18,381
Rural infrastructure	**23,683**	27,120	—
Rural residential real estate	**25,903**	28,375	32,639
Other	**1,131**	1,321	4,010
Total nonaccrual loans	**$ 858,169**	$ 796,658	$ 745,684
Accruing Restructured Loans:			
Real estate mortgage	**$ 61,335**	$ 59,329	$ 62,231
Production and intermediate-term	**16,315**	17,867	24,483
Agribusiness	**3,937**	3,004	3,173
Rural residential real estate	**1,706**	1,947	1,989
Total accruing restructured loans	**$ 83,293**	$ 82,147	$ 91,876
Accruing Loans 90 Days or More Past Due:			
Real estate mortgage	**$ 3,010**	$ 8,954	$ 1,119
Production and intermediate-term	**4,751**	5,695	6,953
Agribusiness	**395**	—	—
Rural residential real estate	**84**	337	563
Other	**38,303**	27,257	17,518
Total accruing loans 90 days or more past due	**$ 46,543**	**$ 42,243**	**$ 26,153**
Total nonperforming loans	**988,005**	921,048	863,713
Other property owned	**31,492**	47,267	12,295
Total nonperforming assets	**$ 1,019,497**	**$ 968,315**	**$ 859,858**

Note: Accruing loans include accrued interest receivable.

The Other category is primarily composed of certain assets originated under the Mission Related Investment authority and finance leases.

Overall, the increase in nonperforming assets has been driven primarily by declines in net farm income levels for certain borrowers within the District. Based on current forecasts for net farm income levels in certain agricultural production sectors, risk assets are expected to continue to rise. Nonperforming assets have primarily been concentrated in the real estate mortgage and production and intermediate-term sectors during the periods presented.

The increase in nonaccrual loans was mainly due to loans concentrated in the dairy, general crops, and ethanol sectors; offset by initiatives to remedy troubled accounts.

The increase in accrual loans 90 days or more past due was primarily due to increases in Mission Related loans, which are generally guaranteed by the United States Department of Agriculture, becoming 90 days or more past due at December 31, 2019, when compared to the same period of the prior year.

Aging Analysis of Loans

(in thousands) **As of December 31, 2019**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total
Real estate mortgage	**$ 158,010**	**$ 150,728**	**$ 308,738**	**$ 62,884,100**	**$ 63,192,838**
Production and intermediate-term	**144,023**	**113,407**	**257,430**	**28,159,618**	**28,417,048**
Agribusiness	**7,266**	**16,221**	**23,487**	**15,028,558**	**15,052,045**
Rural infrastructure	**—**	**—**	**—**	**3,611,039**	**3,611,039**
Rural residential real estate	**43,215**	**5,843**	**49,058**	**2,621,022**	**2,670,080**
Other	**118,637**	**39,258**	**157,895**	**3,463,088**	**3,620,983**
Total	**$ 471,151**	**$ 325,457**	**$ 796,608**	**$ 115,767,425**	**$ 116,564,033**

As of December 31, 2018	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total
Real estate mortgage	$ 162,493	$ 116,328	$ 278,821	$ 60,293,800	$ 60,572,621
Production and intermediate-term	211,265	109,034	320,299	27,020,582	27,340,881
Agribusiness	6,230	3,808	10,038	13,119,852	13,129,890
Rural infrastructure	—	—	—	3,046,431	3,046,431
Rural residential real estate	17,977	7,626	25,603	2,697,941	2,723,544
Other	53,471	28,162	81,633	3,502,208	3,583,841
Total	$ 451,436	$ 264,958	$ 716,394	$ 109,680,814	$ 110,397,208

As of December 31, 2017	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total
Real estate mortgage	$ 151,533	$ 96,941	$ 248,474	$ 58,034,097	$ 58,282,571
Production and intermediate-term	145,404	117,615	263,019	26,449,591	26,712,610
Agribusiness	1,029	7,183	8,212	11,370,607	11,378,819
Rural infrastructure	—	—	—	2,456,008	2,456,008
Rural residential real estate	19,956	9,173	29,129	2,732,696	2,761,825
Other	66,149	19,836	85,985	3,031,924	3,117,909
Total	$ 384,071	$ 250,748	$ 634,819	$ 104,074,923	$ 104,709,742

Note: Accruing loans include accrued interest receivable.

The Other category is composed of certain assets originated under the Mission Related Investment authority, loans to other financing institutions, agricultural export finance and finance leases.

Past due loans have increased and are reflective of the overall credit quality in the portfolios.

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

(in thousands)	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Rural Infrastructure	Rural Residential Real Estate	Other	Total
Allowance for loan losses:							
As of December 31, 2018	**$ 226,295**	**$ 161,872**	**$ 72,745**	**$ 16,728**	**$ 7,767**	**$ 5,365**	**$ 490,772**
Provision for (reversal of) credit losses	**3,286**	**31,623**	**18,901**	**1,363**	**(940)**	**(2,215)**	**52,018**
Loan recoveries	**2,989**	**7,692**	**895**	**—**	**359**	**—**	**11,935**
Loan charge-offs	**(2,598)**	**(23,732)**	**(4,398)**	**—**	**(588)**	**—**	**(31,316)**
Reclassification from (to) reserve for unfunded commitments*	**—**	**(3,744)**	**—**	**—**	**—**	**—**	**(3,744)**
Balance as of December 31, 2019	**$ 229,972**	**$ 173,711**	**$ 88,143**	**$ 18,091**	**$ 6,598**	**$ 3,150**	**$ 519,665**
As of December 31, 2019							
Ending balance: individually evaluated for impairment	**20,123**	**33,373**	**24,873**	**7,606**	**330**	**22**	**86,327**
Ending balance: collectively evaluated for impairment	**209,849**	**140,338**	**63,270**	**10,485**	**6,268**	**3,128**	**433,338**
Recorded investment in loans outstanding:							
Ending balance as of December 31, 2019	**$ 63,192,838**	**$ 28,417,048**	**$ 15,052,045**	**$ 3,611,039**	**$ 2,670,080**	**$ 3,620,983**	**$116,564,033**
Ending balance: individually evaluated for impairment	**546,958**	**278,687**	**71,550**	**23,683**	**27,693**	**39,434**	**988,005**
Ending balance: collectively evaluated for impairment	**62,645,880**	**28,138,361**	**14,980,495**	**3,587,356**	**2,642,387**	**3,581,549**	**115,576,028**

(in thousands)	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Rural Infrastructure	Rural Residential Real Estate	Other	Total
Allowance for loan losses:							
As of December 31, 2017	$ 196,748	$ 156,184	$ 54,817	$ 14,030	$ 8,965	$ 5,315	$ 436,059
Provision for (reversal of) credit losses	36,757	26,062	17,360	3,171	(366)	50	83,034
Loan recoveries	4,314	5,582	688	—	582	—	11,166
Loan charge-offs	(11,524)	(24,020)	(120)	(473)	(1,414)	—	(37,551)
Reclassification from (to) reserve for unfunded commitments*	—	(1,936)	—	—	—	—	(1,936)
Balance as of December 31, 2018	$ 226,295	$ 161,872	$ 72,745	$ 16,728	$ 7,767	$ 5,365	$ 490,772
As of December 31, 2018							
Ending balance: individually evaluated for impairment	20,866	30,214	25,351	7,619	520	127	84,697
Ending balance: collectively evaluated for impairment	205,428	131,658	47,394	9,109	7,247	5,239	406,075
Recorded investment in loans outstanding:							
Ending balance as of December 31, 2018	$ 60,572,621	$ 27,340,881	$ 13,129,890	$ 3,046,431	$ 2,723,543	$ 3,583,842	$110,397,208
Ending balance: individually evaluated for impairment	523,070	248,451	63,170	27,120	30,659	28,578	921,048
Ending balance: collectively evaluated for impairment	60,049,551	27,092,430	13,066,720	3,019,311	2,692,884	3,555,264	109,476,160

(in thousands)	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Rural Infrastructure	Rural Residential Real Estate	Other	Total
Allowance for loan losses:							
As of December 31, 2016	$ 158,779	$ 154,488	$ 47,067	$ 11,907	$ 10,220	$ 4,293	$ 386,754
Provision for (reversal of) credit losses	55,770	39,793	10,595	3,307	(541)	1,117	110,041
Loan recoveries	1,905	10,993	3,816	—	612	—	17,326
Loan charge-offs	(13,128)	(29,695)	(2,730)	—	(1,274)	—	(46,827)
Adjustment due to merger	(9,657)	(19,395)	(3,931)	(1,184)	(52)	(96)	(34,315)
Reclassification from (to) reserve for unfunded commitments*	—	3,080	—	—	—	—	3,080
Balance as of December 31, 2017	$ 193,669	$ 159,264	$ 54,817	$ 14,030	$ 8,965	$ 5,314	$ 436,059
As of December 31, 2017							
Ending balance: individually evaluated for impairment	13,638	27,116	4,352	—	1,156	813	47,075
Ending balance: collectively evaluated for impairment	180,031	132,148	50,465	14,030	7,809	4,501	388,984
Recorded investment in loans outstanding:							
Ending balance as of December 31, 2017	$ 58,282,571	$ 26,712,610	$ 11,378,819	$ 2,456,008	$ 2,761,825	$ 3,117,909	$104,709,742
Ending balance: individually evaluated for impairment	497,058	288,382	21,554	—	35,191	21,528	863,713
Ending balance: collectively evaluated for impairment	57,785,513	26,424,228	11,357,265	2,456,008	2,726,634	3,096,380	103,846,028

*Represents reclassifications between the allowance for loan losses and the reserve for unfunded commitments as a result of advances on or repayments of seasonal lines of credit or other loans.

Investments

To maintain alignment with new FCA regulations effective January 1, 2019, certain financial instruments held by one District Association were reclassified from "Investment securities" to "Loans" in the Combined Statements of Condition. This reclassification was applied to December 31, 2018 and 2017 balances to conform to this revised presentation resulting in investments decreasing by $1.4 billion and $1.1 billion, respectively, and loans increasing by the same amounts.

AgriBank is responsible for meeting the District's funding, liquidity and asset/liability management needs. While access to the unsecured debt capital markets remains the District's primary source of liquidity, the Bank also maintains a secondary source of liquidity through a high-quality investment portfolio and other short-term liquid assets. The Bank typically holds these investments on an available-for-sale basis. Refer to the AgriBank 2019 Annual Report for additional information about the Bank's investment portfolio. District Associations have regulatory authority to enter into certain guaranteed investments, typically mortgage-backed or asset-backed securities, and are typically held to maturity. Refer to individual District Associations' 2019 annual reports for specific information about the investments at the District Associations. Investment securities held by AgriBank and District Associations are primarily debt securities that increase in value as interest rates fall.

Investment Information

(in thousands) **As of December 31, 2019**	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
AgriBank investments	**$ 14,366,148**	**$ 32,148**	**$ 30,138**	**$ 14,368,158**
District Association investments	**1,693,091**	**29,356**	**6,258**	**1,716,189**
Total District investments	**$ 16,059,239**	**$ 61,504**	**$ 36,396**	**$ 16,084,347**

(in thousands) As of December 31, 2018	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AgriBank investments	$ 14,080,602	$ 9,739	$ 92,599	$ 13,997,742
District Association investments	1,096,230	6,748	17,550	1,085,428
Total District investments	$ 15,176,832	$ 16,487	$ 110,149	$ 15,083,170

(in thousands) As of December 31, 2017	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AgriBank investments	$ 14,461,641	$ 8,842	$ 84,028	$ 14,386,455
District Association investments	1,035,941	5,081	12,918	1,028,104
Total District investments	$ 15,497,582	$ 13,923	$ 96,946	$ 15,414,559

District Capital

AgriBank and District Associations believe a sound capital position is critical to long-term financial stability. AgriBank and District Associations maintain adequate capital to protect against unanticipated losses as well as to meet the District's growth needs. Total shareholders' equity increased $1.2 billion, primarily resulting from net income for the year ended December 31, 2019, partially offset by patronage distributions declared.

Accumulated Other Comprehensive Loss			
(in thousands)			
December 31,	**2019**	2018	2017
Unrealized loss on investment securities	**$ 2,010**	$ (82,857)	$ (75,184)
Derivatives and hedging activity	**(78,520)**	34,005	(10,121)
Employee benefit plans activity	**(479,891)**	(473,623)	(508,251)
Total accumulated other comprehensive loss	**$ (556,401)**	$ (522,475)	$ (593,556)

The increase in accumulated other comprehensive loss (AOCL) in 2019 primarily relates to increased unrealized losses on pay fixed derivative instruments designated as cash flow hedges that decrease in value when interest rates fall. Conversely, the decreasing interest rate environment during the year ended December 31, 2019, resulted in increased fair values of certain investment securities helping to offset the overall increase in AOCL.

The Farm Credit Administration sets minimum regulatory capital requirements for Banks and Associations.

Regulatory Capital Requirements and Ratios

As of December 31, 2019	Primary Components of Numerator	Regulatory Minimums	Minimum with Buffer[1]	Bank	District Associations
Risk adjusted:					
Common equity tier 1 capital ratio (CET1)	Unallocated retained earnings (URE), common cooperative equities (qualifying capital stock and allocated equity)[2]	4.5 %	7.0 %	**17.1 %**	**15.0 % - 24.8%**
Tier 1 capital ratio	CET1 capital, non-cumulative perpetual preferred stock	6.0 %	8.5 %	**17.8 %**	**15.5 % - 24.8%**
Total capital ratio	Tier 1 capital, allowance for loan losses[3], common cooperative equities[4] and term preferred stock and subordinated debt[5]	8.0 %	10.5 %	**17.9 %**	**15.9 % - 25.1%**
Permanent capital ratio	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	7.0 %	7.0 %	**17.8 %**	**15.9 % - 25.2%**
Non-risk adjusted:					
Tier 1 leverage ratio	Tier 1 capital	4.0 %	5.0 %	**5.5 %**	**15.4 % - 21.7%**
UREE leverage ratio	URE and URE Equivalents	1.5 %	1.5 %	**3.0 %**	**14.8 % - 23.0%**

(1) The 2.5% capital conservation buffer over risk-adjusted ratio minimums was phased in over three years under the FCA capital requirements. The phase in period ended on December 31, 2019.
(2) Equities outstanding 7 or more years
(3) Capped at 1.25% of risk-adjusted assets
(4) Outstanding 5 or more years, but less than 7 years
(5) Outstanding 5 or more years

Employee Benefit Plans

Eligible employees of AgriBank as well as eligible employees of certain District Associations participate in various defined benefit retirement plans. The retirement plans are noncontributory, and the benefits are based on salary and years of service. As of January 1, 2007, the Bank and Associations froze participation in their defined benefit pension plans and offered defined contribution retirement plans to all employees hired subsequent to the freeze. In addition, AgriBank and certain District Associations provide certain healthcare and other postretirement benefits to eligible retired employees. Employees may become eligible for healthcare and other postretirement benefits if they reach normal retirement age while working for AgriBank or the District Associations.

District Retirement Plans

(in thousands)	Pension Benefits		Other Benefits
December 31, 2019	Qualified	Non-qualified	
Projected benefit obligation	**$ 1,421,126**	**$ 45,015**	**$ 21,832**
Fair value of plan assets	**1,200,332**	**—**	**—**
Unfunded status	**(220,794)**	**(45,015)**	**(21,832)**
Accumulated benefit obligation	**$ 1,298,942**	**$ 38,723**	**N/A**
Assumptions used to determine benefit obligations:			
Discount rate	**3.3%**	**2.7%**	**2.20% - 3.21%**
Expected long-term rate of return	**5.8%**	**N/A**	**N/A**
Rate of compensation increase[(1)(2)]	**6.8%**	**6.8%**	**N/A**

[(1)] Beginning in 2019 the rate of compensation increase for the pension benefits was modified to an age-based scale beginning at 6.8%, decreasing ultimately to 3.5%

[(2)] Beginning in 2019, the AgriBank District Pension Restoration Plan (non-qualified) generally follows the same rate of compensation increase assumption as the AgriBank District Restoration Plan unless an alternative assumption is deemed necessary for an individual participating entity. Alternative assumption elections were not material to the District combined non-qualified plan.

(in thousands)	Pension Benefits		Other Benefits
December 31, 2018	Qualified	Non-qualified	
Projected benefit obligation	$ 1,272,063	$ 41,204	$ 20,600
Fair value of plan assets	997,613	—	—
Unfunded status	(274,450)	(41,204)	(20,600)
Accumulated benefit obligation	$ 1,125,682	$ 33,215	N/A
Assumptions used to determine benefit obligations:			
Discount rate	4.4%	4.0%	3.5% - 4.3%
Expected long-term rate of return	6.8%	N/A	N/A
Rate of compensation increase	5.3%	5.3%	N/A

(in thousands)	Pension Benefits		Other Benefits
December 31, 2017	Qualified	Non-qualified	
Projected benefit obligation	$ 1,371,013	$ 37,189	$ 21,044
Fair value of plan assets	1,018,497	—	—
Unfunded status	(352,516)	(37,189)	(21,044)
Accumulated benefit obligation	$ 1,184,550	$ 29,844	N/A
Assumptions used to determine benefit obligations:			
Discount rate	3.7%	3.1%	2.9% - 3.7%
Expected long-term rate of return	6.8%	N/A	N/A
Rate of compensation increase	5.3%	5.3%	N/A

Other Matters

District Associations and AgriBank conducted research related to repositioning many business services offered by AgriBank into a separate entity jointly owned by AgriBank and participating Associations. The long-term strategic objective of this initiative is to increase scale, improve operating efficiency, and enhance technology and business services. The FCA recently provided regulatory approval for the formation of the separate service entity, SunStream Business Services (SunStream) under Section 4.25 of the Farm Credit Act. Effective April 1, 2020, SunStream will be owned AgriBank and 11 District Associations and will provide services to its owners and certain other Farm Credit Institutions. SunStream will be combined in the AgriBank District financial information. All intra-District transactions will be eliminated upon combination, resulting in no significant change to the District-wide financial position or results of operations.

During the year ended December 31, 2019, management of one District Association concluded that a material weakness existed in their internal control over financial reporting. This material weakness was with regard to the Association's monitoring of regulatory compliance and covenant requirements of their General Financing Agreement with AgriBank. The Association has taken action to remediate the deficiency and enhance their monitoring of regulatory and covenant requirements. This material weakness was not deemed to have a material effect on the District as a whole.

Select Information on AgriBank District Associations

(in thousands)

As of December 31, 2019	Wholesale Loan Amount	% of Wholesale Portfolio	Total Assets	Total Allowance and Capital	Total Regulatory Capital Ratio	Nonperforming [1] as a % of Total Loans	Return on Assets
Farm Credit Services of America	$24,780,930	27.8%	$31,268,565	$6,075,179	17.2 %	0.9 %	2.2 %
Farm Credit Mid-America	19,634,081	22.1%	25,003,283	5,019,456	21.2 %	1.3 %	1.8 %
Compeer Financial[2]	17,940,024	20.2%	22,183,933	3,885,914	16.0 %	0.8 %	1.9 %
GreenStone Farm Credit Services	7,748,606	8.7%	9,728,263	1,874,166	17.6 %	0.8 %	2.2 %
AgCountry Farm Credit Services[2]	6,248,820	7.0%	8,181,525	1,826,798	18.9 %	0.3 %	2.0 %
FCS Financial	3,577,406	4.0%	4,562,212	930,616	18.4 %	0.3 %	1.9 %
Farm Credit Illinois	3,441,433	3.9%	4,521,527	1,026,913	20.2 %	0.2 %	1.7 %
AgHeritage Farm Credit Services	1,181,941	1.3%	1,525,315	331,664	18.4 %	0.7 %	2.0 %
Farm Credit Services of Western Arkansas	1,146,921	1.3%	1,490,409	307,469	20.2 %	0.9 %	1.9 %
Farm Credit Services of North Dakota	1,017,166	1.1%	1,350,450	324,633	20.1 %	0.6 %	2.0 %
Farm Credit Services of Mandan	1,016,564	1.1%	1,310,132	279,874	17.8 %	0.2 %	2.1 %
Farm Credit Midsouth	742,342	0.8%	990,889	235,696	20.2 %	0.1 %	2.0 %
Farm Credit Southeast Missouri	557,241	0.6%	732,634	162,411	20.9 %	0.1 %	2.3 %
Delta Agricultural Credit Association	34,665	0.1%	45,029	9,987	25.1 %	0.7 %	0.8 %
Total	$89,068,140	100.0%	$112,894,166	$22,290,776			

[1] Nonperforming loans are comprised of nonaccrual loans, accruing restructured loans and accruing loans 90 days or more past due.

[2] Loan amounts do not include fair value adjustments due to merger.

Combined Balance Sheets

AgriBank, FCB and District Associations

(unaudited)

(in thousands)

December 31,		**2019**		2018		2017
Assets						
Cash	**$**	**740,810**	$	670,856	$	571,445
Federal funds and securities purchased under resale agreements		**1,050,000**		1,698,100		676,300
Investments		**16,061,249**		15,093,972		15,422,396
Loans		**115,179,594**		109,081,975		103,583,191
Allowance for loan losses		**519,665**		490,772		436,059
Net loans		**114,659,929**		108,591,203		103,147,132
Accrued interest receivable		**1,433,680**		1,357,081		1,160,514
Premises and equipment, net		**658,150**		577,523		516,331
Other assets		**629,043**		610,426		647,572
Total assets	**$**	**135,232,861**	$	128,599,161	$	122,141,690
Liabilities						
Bonds and notes	**$**	**107,118,958**	$	102,181,163	$	97,293,981
Member investment bonds		**1,207,874**		942,181		1,019,963
Accrued interest payable		**408,135**		405,784		288,978
Patronage distribution payable		**879,177**		732,471		549,617
Other liabilities		**891,881**		847,472		908,787
Total liabilities		**110,506,025**		105,109,071		100,061,326
Shareholders' equity						
Preferred stock		**350,000**		350,000		350,000
Capital stock and participation certificates		**315,806**		311,527		294,949
Additional paid-in capital		**2,084,988**		2,084,988		2,084,988
Allocated retained earnings		**374,125**		426,967		523,252
Unallocated retained earnings		**22,083,612**		20,771,011		19,356,250
Accumulated other comprehensive loss		**(556,401)**		(522,475)		(593,556)
Noncontrolling interest		**74,706**		68,072		64,481
Total shareholders' equity		**24,726,836**		23,490,090		22,080,364
Total liabilities and shareholders' equity	**$**	**135,232,861**	$	128,599,161	$	122,141,690

Combined Statements of Income

AgriBank, FCB and District Associations

(unaudited)

(in thousands)

For the year ended December 31,	**2019**	**2018**	2017
Interest Income			
Loans	**$ 5,279,393**	$ 4,824,300	$ 4,258,378
Investment securities	**440,817**	362,395	235,645
Total interest income	**5,720,210**	5,186,695	4,494,023
Interest Expense	**2,461,437**	2,091,129	1,500,068
Net interest income	**3,258,773**	3,095,566	2,993,955
Provision for credit losses	**52,018**	83,034	110,041
Net interest income after provision for credit losses	**3,206,755**	3,012,532	2,883,914
Non-interest income			
Net fee income	**67,705**	65,315	62,376
Financially related services income	**170,924**	168,686	170,708
Net gains on sales of investments and other assets	**1,986**	1,504	1,537
Mineral income	**53,638**	67,185	45,795
Allocated Insurance Reserve Accounts	**25,526**	65,941	—
Other (loss) income	**(6,088)**	9,814	17,712
Total non-interest income	**313,691**	378,445	298,128
Non-interest expense			
Salaries and employee benefits	**773,340**	734,576	734,332
Occupancy and equipment	**125,701**	105,997	98,316
Purchased services	**83,207**	77,180	60,363
Farm Credit System Insurance Corporation expense	**85,533**	81,201	130,437
Other expense	**240,495**	241,463	215,997
Total non-interest expense	**1,308,276**	1,240,417	1,239,445
Income before income taxes	**2,212,170**	2,150,560	1,942,597
Provision for income taxes	**32,128**	21,057	18,699
Net income	**$ 2,180,042**	$ 2,129,503	$ 1,923,898

DISTRICT ASSOCIATIONS

Farm Credit Associations provide farmers with the capital they need to support their business success.

AgriBank supports the following 14 Farm Credit Associations that serve rural communities and agriculture in 15 states. Under our cooperative structure, the farmers, ranchers and agribusinesses Farm Credit serves own these local Associations, which in turn are the primary customers and owners of AgriBank.

AgCountry Farm Credit Services, ACA
1900 44th St. S.
Fargo, ND 58108
(701) 282-9494
www.agcountry.com

AgHeritage Farm Credit Services, ACA
119 E. Third St., Suite 200
Little Rock, AR 72201
(800) 299-2290
www.agheritagefcs.com

Compeer Financial, ACA
2600 Jenny Wren Trail
Sun Prairie, WI 53590
(844) 426-6733
www.compeer.com

Delta Agricultural Credit Association
118 E. Speedway
Dermott, AR 71638
(870) 538-3258
www.deltaaca.com

FCS Financial, ACA
1934 E. Miller St.
Jefferson City, MO 65101
(573) 635-7956
www.myfcsfinancial.com

Farm Credit Illinois, ACA
1100 Farm Credit Drive
Mahomet, IL 61853
(217) 590-2200
www.farmcreditil.com

Farm Credit Mid-America, ACA
12501 Lakefront Place
Louisville, KY 40299
(502) 420-3700
www.e-farmcredit.com

Farm Credit Midsouth, ACA
3000 Prosperity Drive
Jonesboro, AR 72404
(870) 932-2288
www.farmcreditmidsouth.com

Farm Credit Services of America, ACA
5015 S. 118th St.
Omaha, NE 68137
(402) 348-3333
www.fcsamerica.com

Farm Credit Services of Mandan, ACA
1600 Old Red Trail
Mandan, ND 58554
(701) 663-6487
www.farmcreditmandan.com

Farm Credit Services of North Dakota, ACA
1400 31st Ave. S.W.
Minot, ND 58701
(701) 852-1265
www.farmcreditnd.com

Farm Credit Services of Western Arkansas, ACA
3115 W. 2nd Court
Russellville, AR 72801
(479) 968-1434
www.myaglender.com

Farm Credit Southeast Missouri, ACA
1116 N. Main St.
Sikeston, MO 63801
(573) 471-0342
www.farmcreditsemo.com

GreenStone Farm Credit Services, ACA
3515 West Road
East Lansing, MI 48823
(800) 968-0061
www.greenstonefcs.com