AGRIBANK DISTRICT 2020 QUARTERLY FINANCIAL INFORMATION

Unaudited

JUNE 30, 2020

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.

<u>COVID-19 Pandemic</u>

The spread of COVID-19 has created a global public-health crisis that has stifled the worldwide economy, temporarily decreased liquidity in fixed income and equity markets in March and April, significantly increased unemployment levels and disrupted global supply and demand chains. Governments, businesses and individuals have taken unprecedented actions to slow or contain the spread of COVID-19, including quarantines, “stay-at-home” orders, school closings, and travel bans that substantially restricted daily activities and caused many businesses to curtail or cease operations beginning in March 2020. In the U.S., states and municipalities that implemented closings have started reopening to various degrees. The impact of the COVID-19 pandemic on companies is evolving rapidly, and its future effects are uncertain.

When the significance of the COVID-19 situation became apparent, AgriBank and District Associations implemented their respective Business Continuity Plans. In March and April, operations transitioned to alternative work environments. Beginning in June, operations at certain Associations began transitioning back to in-office on a location-by-location basis in accordance with each entity's Business Continuity Plan. To date, the transition to alternative work environments has occurred without significant issues. Collectively, business continuity responses have allowed District entities to continue to serve the Farm Credit mission. The remote work environment has maintained the health of employees and allowed uninterrupted business functions. AgriBank is supporting District Associations as they continue to work with farmer-borrowers to offer appropriate solutions to meet their liquidity needs, which may include loan modifications for those borrowers impacted by the COVID-19 pandemic. AgriBank and District Associations have not had any significant changes to internal controls over financial reporting due to working remotely or due to limited staff.

The U.S. government has instituted various programs in support of the COVID-19 pandemic economic recovery. In late March 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act which provided funding and authority to bolster United States Department of Agriculture (USDA) programs. As such, the USDA announced a $19 billion Coronavirus Food Assistance Program with $16 billion in direct support for agricultural producers where prices and market supply chains have been impacted and $3 billion for direct purchases of fresh produce, dairy and meat for distribution to food banks and other non-profits. Additionally, the CARES Act and congressional approval made available for small businesses approximately $660 billion under the Paycheck Protection Program (PPP), a guaranteed loan program administered by the U.S. Small Business Administration (SBA). The purpose of the program is to support payroll and certain other financial needs of small businesses during the COVID-19 pandemic. Numerous District Associations obtained approval from the SBA to participate as lenders in the PPP. Loan applicants with 500 or fewer employees or fit within the revenue-based sized standard and who are eligible to receive financing under the Farm Credit Act and FCA regulations are able to borrow from District Associations under this program. The PPP provides for loan forgiveness under limited circumstances and loan payments can be deferred up to six months. Since then, District Associations have successfully processed approximately $470 million in PPP loans for customers with the majority being production and intermediate-term loans. To date, no loans have been forgiven and payments have not been due.

This outbreak puts the economy and agriculture sector in uncharted territory. The overall impact of the COVID-19 pandemic on U.S. agriculture will depend on the severity and duration of the outbreak and the continued response by the federal and local governments. To date, the COVID-19 pandemic has not resulted in a material adverse impact to the AgriBank District Combined Financial Information. The extent to which the COVID-19 pandemic ultimately impacts the District will depend on future developments that are highly uncertain and cannot be predicted. Overall, agriculture will adjust, providing an “essential service” to the U.S. and global consumer.

Combined Financial Highlights

AgriBank, FCB and District Associations

(dollars in thousands)

	June 30, 2020	December 31, 2019
Total loans	**$121,166,198**	$115,179,594
Allowance for loan losses	**551,843**	519,665
Net loans	**120,614,355**	114,659,929
Total assets	**144,013,228**	135,232,861
Total shareholders' equity	**25,445,764**	24,726,836

For the six months ended June 30,	**2020**	2019
Net interest income	**$1,703,333**	$1,597,453
Provision for credit losses	**59,182**	13,911
Net fee income	**73,122**	28,898
Net income	**1,146,186**	1,060,720
Net interest margin	**2.5 %**	2.6 %
Return on average assets	**1.7 %**	1.6 %
Return on average shareholders' equity	**9.2 %**	8.9 %
Operating expense as a percentage of net interest income and non-interest income	**35.1 %**	36.3 %
Net loan chargeoffs as a percentage of average loans	**(0.04)%**	(0.01)%
Average loans	**$117,279,470**	$109,118,573
Average earning assets	**136,361,836**	126,534,951
Average assets	**138,747,490**	128,807,430

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

Net income was $1.1 billion for the six months ended June 30, 2020, an increase of $85.5 million, or 8.1 percent, compared to the same period of the prior year. Net interest income remained strong and increased due to growth in loan volume across the District as well as a favorable rate environment. Non-interest income increased as well compared to the same period of the prior year. These increases were partially offset by increases in non-interest expenses. The increase in non-interest income was mainly attributable to growth in fee and prepayment income throughout the District, as well as increases in other operating income. The increase in non-interest expenses was due mainly to higher salaries and incentive compensation expenses, occupancy and equipment costs, and purchased services expenses across the District.

Net Interest Income

Net interest income increased $105.9 million, or 6.6 percent, compared to the same period of the prior year, primarily due to increased loan volume and, to a lesser extent, the impact of increases in the positive contribution from funding activities. This increase was partially offset by a decline in the benefit of our equity financing.

Net interest margin was 2.5 percent for the six months ended June 30, 2020, comparable to the same period of the prior year. Loan volume increased during the first half of 2020 across the District. Additionally, interest rates declined in the first half of 2020, resulting in an increase in contribution to net interest income from the structure of the District's funding and in the widening of the interest rate spread. However, the benefit from the structure of our funding and interest rate spread increases was more than offset by a decline in the benefit of equity financing activities when compared to the first half of the prior year. The benefit of equity financing is reduced in a lower interest rate environment.

Provision for (Reversal of) Credit Losses

The provision for credit losses was $59.2 million for the six months ended June 30, 2020, increasing significantly when compared to the same period of the prior year. Any reserves for unfunded commitments and letters of credit are recorded in "Other liabilities" on the Combined Balance Sheets.

These are unprecedented times with the longer-term impact of the COVID-19 pandemic. The allowance analyses performed at each of the District institutions have started to reflect that losses have begun to be estimated related to the pandemic. 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 increased compared to the same period of the prior year, primarily due to the larger than normal provision amounts at several District Associations and at AgriBank due to the economic impacts that the COVID-19 pandemic has had through June, 30, 2020. Erosion of farm sector working capital and credit quality deterioration, as well as disrupted supply chains at the processing level, primarily in the cattle, dairy and swine industries, have resulted in additional provision for credit losses during the six months ended June 30, 2020. Prolonged lower levels of commodity prices, negatively impacted grower margins and other economic factors, including the impacts of the COVID-19 pandemic, will likely contribute to further declines in credit quality, which may increase provision for credit losses across the District. As many supply chains began to reopen during the second quarter, significant uncertainty continues as to the length and depth of the impact the COVID-19 pandemic will have going forward. The government financial assistance programs made available to the agriculture industries may also partially mitigate these uncertainties and the estimated losses throughout the District.

Non-interest Income

The increase in non-interest income was driven by increases in fee income related to PPP loan originations across the District, prepayments and other fees, as well as increase in other operating income. These increases in non-interest income are partially offset by decreases in mineral income when compared to the same period of the prior year. Mineral income was significantly impacted by low levels of oil and gas prices during the first half of the year. During the same period of the prior year, rising oil and gas prices resulted in increased mineral income, but was partially offset by the reversal of mark-to-market gains recorded on certain economic hedges. AgriBank anticipates mineral royalty income will produce less income compared to the prior year due to the impact of economic uncertainty and its effect on the oil and gas market.

Non-interest Expense
Overall, non-interest expenses increased, primarily driven by increased salaries and benefits expense. The growth in salaries and incentives expense was primarily due to additional employees being hired throughout the District during the first half of 2020. Additionally, greater occupancy and equipment costs related to remodels and reconfiguration at Association offices, and purchased services expense related to the hiring of temporary staff at District Associations contributed to the increase in non-interest expenses.

Loan Portfolio

District Loans by Loan Type

(in thousands)	**June 30, 2020**	December 31, 2019
Real estate mortgage	**$65,733,124**	$62,386,625
Production and intermediate-term	**28,294,512**	27,943,774
Agribusiness:		
Loans to cooperatives	**1,460,150**	1,304,557
Processing and marketing	**13,793,932**	12,251,764
Farm-related businesses	**1,574,105**	1,431,031
Rural infrastructure:		
Power	**1,342,334**	1,230,179
Communications	**2,485,972**	2,138,173
Water/Wastewater	**241,686**	236,016
Rural residential real estate	**2,596,215**	2,655,840
Agricultural export finance	**447,525**	345,638
Lease receivables	**191,897**	203,767
Loans to other financing institutions	**606,755**	631,038
Mission related investments	**2,397,991**	2,421,192
Total	**$121,166,198**	$115,179,594

District loans increased $6.0 billion, or 5.2 percent, from December 31, 2019. The increase in total loans was primarily due to volume growth in the real estate mortgage due to targeted marketing efforts across the District. There were also increases in the agribusiness sector related to increased draws on revolving lines of credit as a response to the current economic environment in capital markets lending portfolios. 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. As such, the production and intermediate-term sector typically grows through the third quarter before exceeding the prior year balance; however, increases in PPP loan originations resulted in an increase in this sector in the first half of 2020.

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

	June 30, 2020	December 31, 2019
Acceptable	**91.4 %**	90.8 %
Special Mention	**4.3 %**	4.4 %
Substandard/Doubtful	**4.3 %**	4.8 %
Total	**100.0 %**	100.0 %

The credit quality of the District loan portfolio remained sound at June 30, 2020. Substandard/Doubtful loans, collectively called adverse loans, are loans AgriBank and District Associations have identified as showing some credit weakness outside the credit standards. No loans were categorized as loss as of June 30, 2020 or December 31, 2019.

While credit quality is currently strong, agricultural economic stress has continued due to prolonged low commodity prices, global pandemic impacts on the supply chain, uncertainty in the domestic and global economy, as well as uncertain trade policy. This additional stress has negatively impacted retail borrower working capital. Continued projected stress in the agriculture industry may result in an increase in adverse credit quality and related allowance for loan losses and provision for loan losses.

Nonperforming Assets

(in thousands)	June 30, 2020	December 31, 2019
Nonaccrual Loans:		
Real estate mortgage	$455,554	$482,613
Production and intermediate-term	226,187	257,621
Agribusiness	64,555	67,218
Rural infrastructure	22,882	23,683
Rural residential real estate	25,137	25,903
Other	1,871	1,131
Total nonaccrual loans	$796,186	$858,169
Accruing Restructured Loans:		
Real estate mortgage	$55,846	$61,335
Production and intermediate-term	18,617	16,315
Agribusiness	1,914	3,937
Rural residential real estate	1,722	1,706
Total accruing restructured loans	$78,099	$83,293
Accruing Loans 90 Days or More Past Due:		
Real estate mortgage	$10,747	$3,010
Production and intermediate-term	37,935	4,751
Agribusiness	8	395
Rural residential real estate	742	84
Other	113,401	38,303
Total accruing loans 90 days or more past due	$162,833	$46,543
Total nonperforming loans	$1,037,118	$988,005
Other property owned	30,043	31,492
Total nonperforming assets	$1,067,161	$1,019,497

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.

Most District Associations have implemented borrower relief programs related to the COVID-19 pandemic. The programs are generally for borrowers with acceptable credit quality, who have experienced COVID-19 pandemic related financial difficulty. The relief comes in a variety of ways, but most predominantly payment deferral for a specified period of time with some programs offering short maturity extensions. To date, there have not been significant actions taken under these programs that materially impact the AgriBank District. However, these programs continue to evolve and are dependent on the prolonged nature of the economic disruption. District Associations continue to work with each borrower on a case-by-case basis, which may involve loan restructurings outside the COVID-19 pandemic relief programs.

Overall, the increase in nonperforming assets has been driven by increases in accruing loans 90 days or more past due. The increase in accruing loans 90 days or more past due was primarily in the Mission Related loans category. These loans are generally guaranteed by the USDA. Additionally, the crop input loan portfolio accounted for approximately one third of the increase of accruing loans 90 days or more past due. This portfolio exhibits a great degree of seasonality due to a significant portion of the portfolio maturing in January through March of each year. A large portion of this portfolio contains recourse agreements from the crop input dealers, which significantly reduces the risk of non-collection for this portfolio. Generally, repayment through the recourse agreements is collected in the third and fourth quarters of the year, and any amounts considered uncollectible will be charged-off.

The decrease in nonaccrual loans was mainly due to repayments, increased net charge-offs, and greater volume of loans being reinstated from nonaccrual to accrual status. These activities were partially offset by loans being transferred into nonaccrual.

Aging Analysis of Loans

(in thousands) **As of June 30, 2020**	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	**$232,567**	**$169,855**	**$402,422**	**$66,062,366**	**$66,464,788**
Production and intermediate-term	**183,873**	**163,267**	**347,140**	**28,308,981**	**28,656,121**
Agribusiness	**14,925**	**24,504**	**39,429**	**16,853,009**	**16,892,438**
Rural infrastructure	**—**	**—**	**—**	**4,075,707**	**4,075,707**
Rural residential real estate	**10,058**	**6,835**	**16,893**	**2,591,912**	**2,608,805**
Other	**101,380**	**115,113**	**216,493**	**3,452,872**	**3,669,365**
Total	**$542,803**	**$479,574**	**$1,022,377**	**$121,344,847**	**$122,367,224**

(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

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.

Overall, delinquencies increased slightly during the six months ended June 30, 2020, compared to year end 2019 primarily due to continued erosion of farm sector working capital, low commodity prices, and uncertain trade policy. Delinquencies may be delayed as a result of PPP loans and USDA direct assistance. Given the erosion of farm sector working capital and the mix of commodity exposures within this retail portfolio, adverse credit quality and related allowance for loan losses and provision for loan losses may increase. Additionally, delinquencies tend to exhibit some seasonality as many loans within the portfolio mature or have annual payments due during the first quarter of the year.

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, 2019	**$229,972**	**$173,711**	**$88,143**	**$18,091**	**$6,598**	**$3,150**	**$519,665**
Provision for (reversal of) credit losses	**22,796**	**28,090**	**4,182**	**2,882**	**(55)**	**1,287**	**59,182**
Loan recoveries	**1,000**	**5,709**	**421**	**—**	**184**	**—**	**7,314**
Loan charge-offs	**(6,177)**	**(22,392)**	**(137)**	**—**	**(211)**	**—**	**(28,917)**
Reclassification from (to) reserve for unfunded commitments*	**—**	**(5,401)**	**—**	**—**	**—**	**—**	**(5,401)**
Balance as of June 30, 2020	**$247,591**	**$179,717**	**$92,609**	**$20,973**	**$6,516**	**$4,437**	**$551,843**
As of June 30, 2020							
Ending balance: individually evaluated for impairment	**17,476**	**29,755**	**24,403**	**7,608**	**265**	**210**	**79,717**
Ending balance: collectively evaluated for impairment	**230,115**	**149,962**	**68,206**	**13,365**	**6,251**	**4,227**	**472,126**
Recorded investment in loans outstanding:							
Ending balance as of June 30, 2020:	**$66,464,788**	**$28,656,121**	**$16,892,438**	**$4,075,707**	**$2,608,805**	**$3,669,365**	**$122,367,224**
Ending balance: individually evaluated for impairment	**522,147**	**282,739**	**66,477**	**22,882**	**27,601**	**115,272**	**1,037,118**
Ending balance: collectively evaluated for impairment	**65,942,641**	**28,373,382**	**16,825,961**	**4,052,825**	**2,581,204**	**3,554,093**	**121,330,106**

(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	(3,937)	12,620	3,114	2,568	(271)	(183)	13,911
Loan recoveries	1,444	2,678	737	—	182	1	5,042
Loan charge-offs	(947)	(10,579)	(36)	—	(369)	(1)	(11,932)
Reclassification from (to) reserve for unfunded commitments*	—	(1,335)	—	—	—	—	(1,335)
Balance as of June 30, 2019	$222,855	$165,256	$76,560	$19,296	$7,309	$5,182	$496,458
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

*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

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.

Despite the volatile market in March, there has been limited impact to the value and liquidity of our investments portfolio during the first half of the year. The portfolio remained liquid and unrealized losses resulting from temporary market factors in March reversed in the second quarter as investment market values increased due to a reduction in market volatility and credit spreads. Overall, market mechanisms are functioning well, but demand and supply imbalances continue to influence some segments.

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 primarily 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 June 30, 2020**	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
AgriBank investments	**$17,189,388**	**$128,872**	**$9,297**	**$17,308,963**
District Association investments	**1,765,182**	**72,261**	**9,448**	**1,827,995**
Total District investments	**$18,954,570**	**$201,133**	**$18,745**	**$19,136,958**

(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

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 $718.9 million, primarily resulting from net income for the six months ended June 30, 2020, partially offset by patronage accruals. Effective January 1, 2020, three District Associations implemented a change in accounting for non-interest bearing receivables related to capital stock and participation certificates. The capital stock and participation certificates will now be included within members' equity on the Combined Statements of Condition and a new contra line item titled "Capital stock and participation certificates receivable" has been added for the same amount. This change has no impact on the capital stock or participation certificates owned by the Associations' borrowers.

Accumulated Other Comprehensive Loss		
(in thousands)	**June 30, 2020**	December 31, 2019
Investment securities activity	**$119,575**	$2,010
Derivatives and hedging activity	**(245,125)**	(78,520)
Employee benefit plans activity	**(456,822)**	(479,891)
Total accumulated other comprehensive loss	**$(582,372)**	$(556,401)

The increase in accumulated other comprehensive loss (AOCL) in 2020 primarily relates to increased unrealized losses on pay-fixed derivative instruments designated as cash flow hedges that decrease in value when interest rates fall. This was offset by increases in unrealized gains on available-for-sale investments.

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

Regulatory Capital Requirements and Ratios

As of June 30, 2020	Primary Components of Numerator	Regulatory Minimums	Minimum with Buffer	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)[1]	4.5 %	7.0 %	**17.0 %**	**14.1 % - 26.7 %**
Tier 1 capital ratio	CET1 capital, non-cumulative perpetual preferred stock	6.0 %	8.5 %	**17.6 %**	**14.6 % - 26.7 %**
Total capital ratio	Tier 1 capital, allowance for loan losses[2], common cooperative equities[3] and term preferred stock and subordinated debt[4]	8.0 %	10.5 %	**17.7 %**	**15.1 % - 27.0 %**
Permanent capital ratio	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	7.0 %	7.0 %	**17.7 %**	**14.9 % - 27.9 %**
Non-risk adjusted:					
Tier 1 leverage ratio	Tier 1 capital	4.0 %	5.0 %	**5.4 %**	**14.4 % - 22.4 %**
UREE leverage ratio	URE and URE Equivalents	1.5 %	1.5 %	**2.7 %**	**14.1 % - 22.9 %**

[1] Equities outstanding 7 or more years
[2] Capped at 1.25% of risk-adjusted assets
[3] Outstanding 5 or more years, but less than 7 years
[4] Outstanding 5 or more years

Other Matters

AgriBank's approval is required for significant structure changes at District Associations including, but not limited to: merger, acquisition, liquidation, or reaffiliation to another Farm Credit District. On April 24, 2020, AgriBank received a formal request from Delta, ACA petitioning for consent to the transfer of Delta, ACA to another System Bank. AgriBank continues to work with Delta to obtain further information regarding this request.

The FCA 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 is owned by AgriBank and 11 District Associations and will provide services to its owners and certain other Farm Credit Institutions. SunStream has been combined in the AgriBank District financial information. All intra-District transactions have been eliminated upon combination, resulting in no significant change to the District-wide financial position or results of operations.

Select Information on AgriBank District Associations

(in thousands)

As of June 30, 2020	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	$25,903,523	27.8%	$32,283,373	$6,314,167	16.5%	0.8%	2.0%
Farm Credit Mid-America	19,109,270	20.6%	24,444,324	5,112,023	20.4%	1.6%	1.6%
Compeer Financial[2]	18,991,418	20.5%	23,357,586	4,041,564	15.1%	0.7%	1.8%
GreenStone Farm Credit Services	8,473,383	9.1%	10,471,684	1,942,177	16.4%	0.7%	2.5%
AgCountry Farm Credit Services[2]	6,683,626	7.2%	8,608,325	1,862,072	17.9%	0.3%	1.9%
FCS Financial	3,776,106	4.1%	4,769,009	960,607	17.7%	0.4%	1.8%
Farm Credit Illinois	3,593,647	3.9%	4,685,763	1,071,074	19.4%	0.1%	1.9%
AgHeritage Farm Credit Services	1,320,831	1.4%	1,672,809	346,661	18.1%	0.9%	2.1%
Farm Credit Services of Western Arkansas	1,249,605	1.3%	1,597,119	317,887	19.0%	0.8%	1.9%
Farm Credit Services of Mandan	1,108,857	1.2%	1,408,275	291,729	17.0%	1.0%	2.0%
Farm Credit Services of North Dakota	1,074,772	1.2%	1,417,580	337,089	20.0%	0.6%	1.8%
Farm Credit Midsouth	801,803	0.9%	1,046,452	238,762	20.7%	0.9%	1.1%
Farm Credit Southeast Missouri	628,864	0.7%	804,871	167,753	20.3%	0.5%	2.2%
Delta Agricultural Credit Association	39,502	0.1%	49,800	10,093	27.0%	2.0%	0.5%
Total	$92,755,207	100.0%	$116,616,970	$23,013,658			

[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)

		June 30, 2020		December 31, 2019
Assets				
Cash	**$**	**851,549**	$	740,810
Federal funds and securities purchased under resale agreements		**904,600**		1,050,000
Investments		**19,074,145**		16,061,249
Loans		**121,166,198**		115,179,594
Allowance for loan losses		**551,843**		519,665
Net loans		**120,614,355**		114,659,929
Accrued interest receivable		**1,240,987**		1,433,680
Premises and equipment, net		**667,446**		658,150
Other assets		**660,146**		629,043
Total assets	**$**	**144,013,228**	$	135,232,861
Liabilities				
Bonds and notes	**$**	**115,580,396**	$	107,118,958
Member investment bonds		**1,404,665**		1,207,874
Accrued interest payable		**342,805**		408,135
Patronage distribution payable		**403,579**		879,177
Other liabilities		**836,019**		891,881
Total liabilities		**118,567,464**		110,506,025
Shareholders' equity				
Preferred stock		**350,000**		350,000
Capital stock and participation certificates		**328,998**		315,806
Capital stock and participation certificates receivable		**(118,180)**		—
Additional paid-in capital		**2,084,988**		2,084,988
Allocated retained earnings		**374,188**		374,125
Unallocated retained earnings		**22,928,511**		22,083,612
Accumulated other comprehensive loss		**(582,372)**		(556,401)
Noncontrolling interest		**79,631**		74,706
Total shareholders' equity		**25,445,764**		24,726,836
Total liabilities and shareholders' equity	**$**	**144,013,228**	$	135,232,861

Combined Statements of Income

AgriBank, FCB and District Associations

(unaudited)				
(in thousands)	Three months		Six months	
For the periods ended June 30,	**2020**	2019	**2020**	**2019**
Interest Income				
Loans	**$ 1,180,024**	$ 1,330,559	**$ 2,473,717**	$ 2,630,756
Investment securities	**67,377**	116,413	**161,735**	229,308
Total interest income	**1,247,401**	1,446,972	**2,635,452**	2,860,064
Interest Expense	**396,644**	641,311	**932,119**	1,262,611
Net interest income	**850,757**	805,661	**1,703,333**	1,597,453
Provision for (reversal of) credit losses	**48,844**	(6,086)	**59,182**	13,911
Net interest income after provision for (reversal of) credit losses	**801,913**	811,747	**1,644,151**	1,583,542
Non-interest income				
Net fee income	**52,704**	16,705	**73,122**	28,898
Financially related services income	**22,758**	20,670	**49,668**	46,229
Net gains on sales of investments and other assets	**2,070**	1,441	**2,321**	1,512
Mineral income	**6,292**	13,550	**19,722**	25,347
Allocated Insurance Reserve Accounts	**—**	—	**24,188**	25,526
Other income (loss)	**1,990**	(1,237)	**7,246**	(8,129)
Total non-interest income	**85,814**	51,129	**176,267**	119,383
Non-interest expense				
Salaries and employee benefits	**196,761**	188,551	**394,161**	380,291
Occupancy and equipment	**34,688**	30,703	**66,918**	60,274
Purchased services	**21,751**	19,172	**42,332**	36,557
Farm Credit System Insurance Corporation expense	**20,910**	21,297	**40,709**	42,201
Other expense	**54,156**	54,732	**114,780**	106,271
Total non-interest expense	**328,266**	314,455	**658,900**	625,594
Income before income taxes	**559,461**	548,421	**1,161,518**	1,077,331
Provision for income taxes	**5,048**	9,237	**15,332**	16,611
Net income	**$ 554,413**	$ 539,184	**$ 1,146,186**	$ 1,060,720