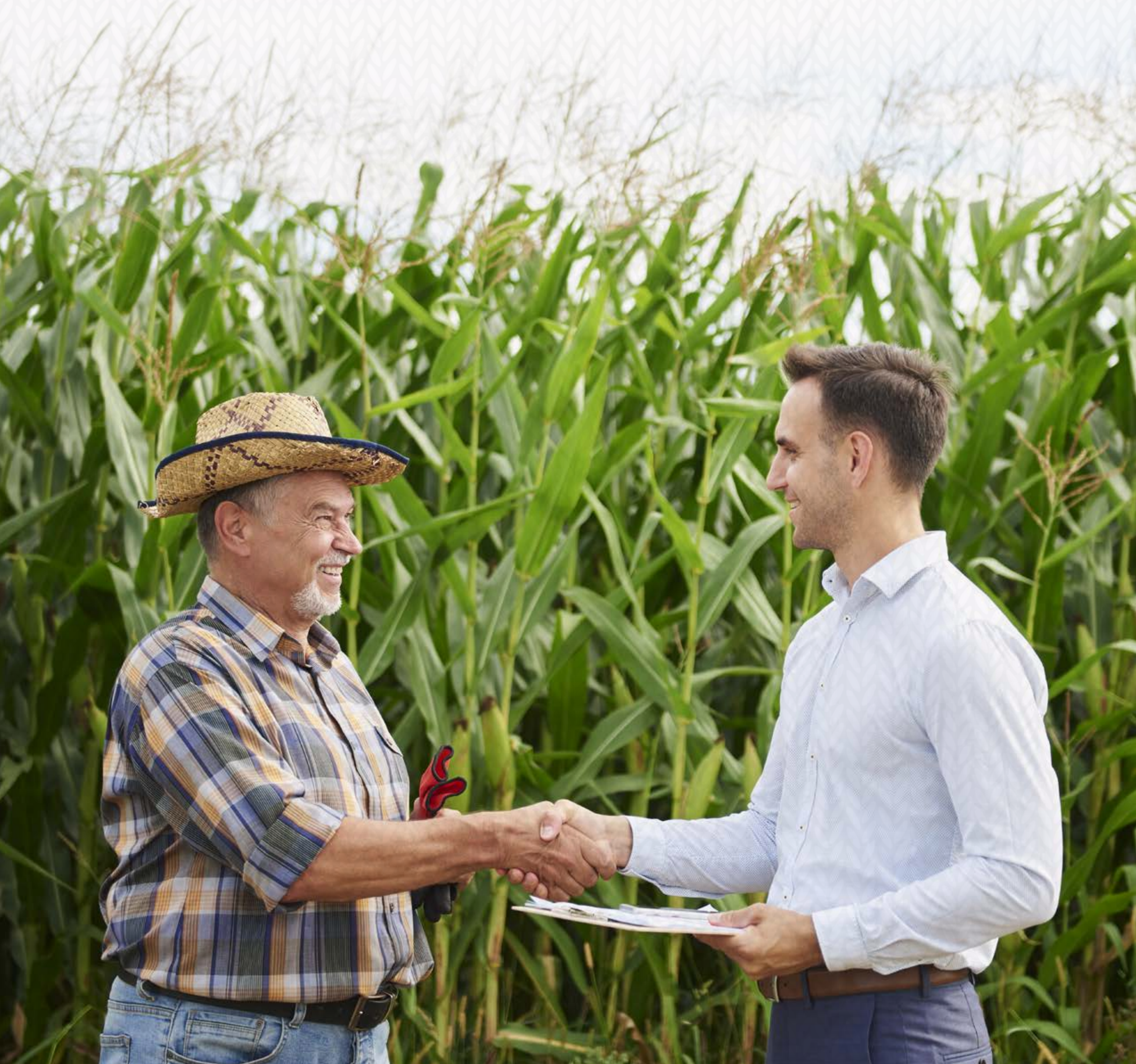
AGFIRST FARM CREDIT BANK & DISTRICT ASSOCIATIONS

2019 FINANCIAL INFORMATION



AgFirst Farm Credit Bank and District Associations 2019 Financial Information

INTRODUCTION AND DISTRICT OVERVIEW

The following commentary reviews the Combined Financial Statements of condition and results of operations of AgFirst Farm Credit Bank (AgFirst or the Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the AgFirst District (District), for the years ended December 31, 2019, 2018, and 2017. AgFirst and the District Associations are part of the Farm Credit System (the System), a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. Cooperatives are organizations that are owned and controlled by their members who use the cooperatives' products or services. The U.S. Congress authorized the creation of the first System institutions in 1916. The System was created to provide support for the agricultural sector because of its significance to the well-being of the U.S. economy and the U.S. consumer. The mission of the System is to provide sound and dependable credit to American farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, and certain farm-related businesses. The System does this by making appropriately structured loans to qualified individuals and businesses at competitive rates and providing financial services and advice to those persons and businesses. AgFirst and each District Association are individually regulated by the Farm Credit Administration (FCA).

The Associations are structured as cooperatives, and each Association is owned by its borrowers. AgFirst also operates as a cooperative. The District Associations, certain Other Financing Institutions (OFIs), other System institutions, and preferred stockholders jointly own AgFirst. As such, the benefits of ownership flow to the same farmer/rancher-borrowers that the System was created to serve.

As of December 31, 2019, the District consisted of the Bank and nineteen District Associations. All nineteen were structured as Agricultural Credit Association (ACA) holding companies, with Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries. PCAs originate and service short- and intermediate-term loans; FLCAs originate and service long-term real estate mortgage loans; and ACAs originate and service both long-term real estate mortgage loans and short- and intermediate-term loans.

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). The Funding Corporation issues a variety of Federal Farm Credit Banks Consolidated Systemwide Debt Securities with broad ranges of maturities and structures on behalf of the System banks. Each System bank has exposure to Systemwide credit risk because each bank is jointly and severally liable for all Systemwide debt issued.

AgFirst provides funding and related services to the District Associations, which, in turn, provide loans and related services to agricultural and rural borrowers. AgFirst has in place with each of the District Associations, a revolving line of credit, referred to as a "Direct Note." Each Association primarily funds its lending and general corporate activities by borrowing through its Direct Note. Virtually all assets of the Associations secure the Direct Notes. Lending terms are specified in a separate General Financing Agreement (GFA) between AgFirst and each Association, including the subsidiaries of the Associations.

AgFirst and the Associations are chartered to serve eligible borrowers in Alabama, Delaware, Florida, Georgia, Maryland, Mississippi, North Carolina, Pennsylvania, South Carolina, Virginia, West Virginia, Puerto Rico, and portions of Kentucky, Louisiana, Ohio, and Tennessee. As of December 31, 2019, two other Farm Credit Banks (FCBs) and an Agricultural Credit Bank (ACB), through a number of associations, provided loans and related services to eligible borrowers in the remaining portion of the United States. While owned by its related associations, each FCB manages and controls its own business activities and operations. The ACB is owned by its related associations as well as other agricultural and rural institutions, including agricultural cooperatives. Associations are not commonly owned or controlled and each manages and controls its own business activities and operations.

While combined District statements reflect the financial and operational interdependence of AgFirst and its Associations, AgFirst does not own or control the Associations. AgFirst publishes Bank-only audited financial statements (electronic version of which is available on AgFirst's website at **www.agfirst.com**) that may be referred to for a more complete analysis of AgFirst's financial condition and results of operations.

Financial Highlights

(dollars in thousands)

As of December 31,	**2019**	**2018**	**2017**
Total loans	**$ 30,718,991**	$ 29,592,224	$ 28,451,807
Allowance for loan losses	**(211,077)**	(209,657)	(193,067)
Net loans	**30,507,914**	29,382,567	28,258,740
Total assets	**40,331,696**	38,625,732	37,810,568
Total shareholders' equity	**6,672,951**	6,473,552	6,249,124

Year Ended December 31,	**2019**	**2018**	**2017**
Net interest income	**$ 1,054,662**	$ 1,035,097	$ 1,038,806
Provision for loan losses	**12,097**	23,227	13,371
Noninterest income (expense), net	**(489,800)**	(425,398)	(319,108)
Net income	**$ 552,765**	$ 586,472	$ 706,327
Net interest income as a percentage of average earning assets	**2.73 %**	2.79 %	2.88 %
Net (chargeoffs) recoveries to average loans	**(0.04)%**	(0.02)%	(0.01)%
Return on average assets	**1.40 %**	1.55 %	1.92 %
Return on average shareholders' equity	**8.10 %**	9.03 %	11.39 %
Operating expense as a percentage of net interest income and noninterest income	**48.52 %**	45.47 %	33.67 %
Average loans	**$ 30,024,891**	$ 28,703,679	$ 27,793,235
Average earning assets	**38,692,772**	37,052,762	36,126,918
Average assets	**39,349,694**	37,744,205	36,837,806

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

RESULTS OF OPERATIONS

Net Income

District net income totaled $552.8 million for the year ended December 31, 2019, a decrease of $33.7 million from 2018. Net income of $586.5 million for the year ended December 31, 2018 was a decrease of $119.9 million from 2017. Major components of the changes in net income for the referenced periods are outlined in the following table and discussion:

Change in Net Income *(dollars in thousands)*	**Year Ended December 31, 2019**	**2018**
Net income (for prior year)	$ 586,472	$ 706,327
Increase (decrease) due to:		
Total interest income	134,646	193,482
Total interest expense	(115,081)	(197,191)
Net interest income	19,565	(3,709)
Provision for loan losses	11,130	(9,856)
Noninterest income	(36,821)	28,173
Noninterest expense	(27,578)	(134,975)
Provision for income taxes	(3)	512
Total increase (decrease) in net income	(33,707)	(119,855)
Net income	$ 552,765	$ 586,472

Key Results of Operations Comparisons

Key District results of operations comparisons for years ended December 31 are shown in the following table:

Key Results of Operations Comparisons	**For the Year Ended December 31, 2019**	**2018**	**2017**
Return on average assets	1.40%	1.55%	1.92%
Return on average shareholders' equity	8.10%	9.03%	11.39%
Net interest income as a percentage of average earning assets	2.73%	2.79%	2.88%
Operating expense as a percentage of net interest income and noninterest income	48.52%	45.47%	33.67%
Net (charge-offs) recoveries to average loans	(0.04)%	(0.02)%	(0.01)%

Lower net income combined with higher average asset and equity balances resulted in lower return on average assets and average shareholders' equity for 2019 compared to 2018. These two ratios decreased in 2018 primarily due to a one-time reduction in noninterest expenses in 2017 of $145.8 million from a change in accounting estimate related to the District's multiemployer benefits plans. Excluding the impact of this one-time adjustment, the 2018 and 2017 ratios would have remained relatively constant. See *Noninterest Expenses* section below for further information.

The lower net interest income as a percentage of average earning assets in both 2019 and 2018 resulted primarily from debt costs returning to a more normalized level following a period in which debt costs were enhanced by calling debt in a falling interest rate environment.

For the operating expense as a percentage of net interest income and noninterest income ratio, operating expense consists primarily of noninterest expenses excluding losses (gains) from other property owned. This ratio was negatively impacted by lower noninterest income and higher noninterest expenses in 2019 compared to 2018 as discussed below. The increase in this ratio from 2017 to 2018 was primarily the result of the one-time adjustment to noninterest expenses in 2017 discussed above. Excluding the impact of this one-time adjustment, this ratio would also have remained relatively constant for 2018 and 2017.

The net (charge-offs) recoveries ratio reflected slightly higher charge-offs in 2019 compared to 2018 and 2017.

See *Allowance for Loan Losses, Net Interest Income*, *Noninterest Income*, and *Noninterest Expenses* sections for further discussion.

Interest Income

Total interest income for the year ended December 31, 2019 was $1.798 billion, an increase of $134.6 million, as compared to the same period of 2018. Total interest income for the year ended December 31, 2018 was $1.663 billion, an increase of $193.5 million, as compared to the same period of 2017. The increase in interest income in 2019 resulted primarily from higher earning asset volume. For 2018, interest income increased primarily as a result of higher yields on earning assets. The average volume of interest earning assets increased $1.640 billion in 2019 and $925.8 billion in 2018. The average yield on interest earning assets increased 16 basis points from 2018 to 2019 and 42 basis points from 2017 to 2018.

The following table illustrates the impact of volume and yield changes on interest income:

Net Change in Interest Income *(dollars in thousands)*	**Year Ended December 31,** 2019-2018	2018-2017
Current year increase (decrease) in average earning assets	$ 1,640,010	$ 925,844
Prior year average yield	4.49%	4.07%
Interest income variance attributed to change in volume	73,618	37,666
Current year average earning assets	38,692,772	37,052,762
Current year increase (decrease) in average yield	0.16%	0.42%
Interest income variance attributed to change in yield	61,028	155,816
Net change in interest income	$ 134,646	$ 193,482

Interest Expense

Total interest expense for the year ended December 31, 2019 was $743.2 million, an increase of $115.1 million, as compared to the same period of 2018. Total interest expense for the year ended December 31, 2018 was $628.2 million, an increase of $197.2 million, as compared to the same period of 2017. The increase in interest expense for both years was primarily attributed to higher average rates paid on average System debt obligations.

The following table illustrates the impact of volume and rate changes on interest expense:

Net Change in Interest Expense *(dollars in thousands)*	**Year Ended December 31,** 2019-2018	2018-2017
Current year increase (decrease) in average interest-bearing liabilities	$ 1,307,071	$ 723,083
Prior year average rate	2.05%	1.44%
Interest expense variance attributed to change in volume	26,750	10,398
Current year average interest-bearing liabilities	31,999,715	30,692,644
Current year increase (decrease) in average rate	0.27%	0.61%
Interest expense variance attributed to change in rate	88,331	186,793
Net change in interest expense	$ 115,081	$ 197,191

Net Interest Income

Net interest income increased in 2019 and decreased in 2018, as illustrated by the following table:

District Analysis of Net Interest Income
Year Ended December 31,
(dollars in thousands)

	2019			**2018**			**2017**		
	Avg. Balance	**Interest**	**Avg. Yield**	**Avg. Balance**	**Interest**	**Avg. Yield**	**Avg. Balance**	**Interest**	**Avg. Yield**
Loans	$ 30,024,891	$ 1,571,525	5.23%	$ 28,703,679	$ 1,462,622	5.10%	$ 27,793,235	$ 1,316,611	4.74%
Investments	8,432,013	221,309	2.62	8,298,932	199,533	2.40	8,323,126	153,102	1.84
Other	235,868	5,060	2.15	50,151	1,093	2.18	10,557	53	0.50
Total earning assets	38,692,772	1,797,894	4.65	37,052,762	1,663,248	4.49	36,126,918	1,469,766	4.07
Interest-bearing liabilities	31,999,715	(743,232)	2.32	30,692,644	(628,151)	2.05	29,969,561	(430,960)	1.44
Spread			2.33			2.44			2.63
Impact of capital	$ 6,693,057		0.40	$ 6,360,118		0.35	$ 6,157,357		0.25
Net Interest Income (NII) & NII to average earning assets		$ 1,054,662	2.73%		$ 1,035,097	2.79%		$ 1,038,806	2.88%

Net interest income for the year ended December 31, 2019 was $1.055 billion compared to $1.035 billion for the same period of 2018, an increase of $19.6 million, or 1.89 percent. For the year ended December 31, 2018, net interest income decreased $3.7 million, or 0.36 percent, from $1.039 billion in 2017. The net interest margin was 2.73 percent, 2.79 percent, and 2.88 percent for the years ended December 31, 2019, 2018, and 2017, respectively, decreases of six and nine basis points, respectively. The decreases in net interest margin for both years resulted primarily from higher rates paid on interest-bearing liabilities and higher volume of interest-earning assets.

The Bank called debt totaling $18.005 billion and $2.297 billion for the years ended December 31, 2019 and 2017, respectively, and was able to lower the cost of funds. No debt was called during the year ended December 31, 2018. The Bank called substantial volumes of debt prior to 2017 which enhanced net interest margin significantly. Over time, net interest margin has naturally decreased as assets have repriced.

Provision for Loan Losses

AgFirst and the Associations measure risks inherent in their individual portfolios on an ongoing basis and, as necessary, recognize provision for loan loss expense so that appropriate reserves for loan losses are maintained. Provision for loan losses was a net expense of $12.1 million for the year ended December 31, 2019 compared to a net expense of $23.2 million and $13.4 million for the years ended December 31, 2018 and 2017, respectively. The decrease in net provision expense in 2019 was due primarily to a reduction in provision expense for specific credits compared to 2018 and 2017.

The $12.1 million in total net provision expense for the year ended December 31, 2019 consisted of $10.4 million of provision expense for general reserves and $1.7 million of provision expense for specific reserves. Total net provision expense in 2019 primarily related to borrowers in the forestry ($3.2 million), processing ($3.1 million), other real estate ($2.8 million), poultry ($2.4 million), cotton ($1.5 million), dairy ($1.5 million), cattle ($1.2 million), swine ($1.2 million), and grains ($1.2 million) segments, partially offset by provision reversals in the field crops ($5.1 million) and nursery/greenhouse ($2.4 million) segments.

The $23.2 million in total net provision expense for the year ended December 31, 2018 consisted of $2.6 million of provision expense for general reserves and $20.6 million of provision expense for specific reserves. Total net provision expense in 2018 primarily related to borrowers in the field crops ($13.1 million), dairy ($4.9 million), poultry ($4.9 million), and cotton ($2.3 million) segments, partially offset by provision reversals in the forestry ($3.6 million) segment.

For the year ended December 31, 2017, the $13.4 million in total net provision expense consisted of $8.9 million of provision expense for general reserves and $4.5 million of provision expense for specific reserves. Total net provision expense in 2017 primarily related to borrowers in the cattle ($5.0 million), poultry ($4.3 million), field crops ($4.0 million), and rural home loan ($1.4 million) segments, partially offset by provision reversals in the nursery/greenhouse ($2.7 million) and utilities ($1.2 million) segments.

See the *Loan Portfolio* section below for further information.

Noninterest Income

Noninterest income for years ended December 31 is shown in the following table:

Noninterest Income	**For the Year Ended December 31,**			**Increase (Decrease)**	
				2019/	**2018/**
(dollars in thousands)	**2019**	**2018**	**2017**	**2018**	**2017**
Loan fees	$ 32,551	$ 31,477	$ 30,917	$ 1,074	$ 560
Fees for financially related services	11,819	11,461	10,811	358	650
Lease income	4,776	3,412	3,650	1,364	(238)
Net impairment losses	(83)	–	–	(83)	–
Gains (losses) on investments, net	–	13	(258)	(13)	271
Gains (losses) on debt extinguishment	(30,034)	150	(4,528)	(30,184)	4,678
Gains (losses) on other transactions	9,942	5,422	6,086	4,520	(664)
Insurance premium refund	7,051	21,086	–	(14,035)	21,086
Other noninterest income	13,456	13,278	11,448	178	1,830
Total noninterest income	$ 49,478	$ 86,299	$ 58,126	$ (36,821)	$ 28,173

Noninterest income decreased $36.8 million from 2018 to 2019 and increased $28.2 million from 2017 to 2018. Significant line item dollar variances are discussed below.

Loan fees increased $1.1 million for year ended December 31, 2019 compared to the prior year. The increase resulted primarily from an increase in fee income related to the first lien residential mortgage portfolio of $976 thousand, mainly in loan origination and underwriting fees.

For the year ended December 31, 2019, lease income increased $1.4 million primarily due to higher lease income from tenants in the Bank's headquarters building.

Debt issuance expense is amortized over the life of the underlying debt security. When debt securities are called prior to maturity, any unamortized issuance cost is expensed. Losses on debt extinguishment increased $30.2 million and decreased $4.7 million for the years ended December 31, 2019 and 2018, respectively. Call options were exercised on bonds totaling $18.005 billion in 2019 and $2.297 billion in 2017. No bonds were called in 2018. During 2018, in order to improve its repricing and maturity gap position, the Bank extinguished discount notes totaling $450 million and recognized a gain of $150 thousand. Debt is called to take advantage of favorable market interest rate changes. The amount of debt issuance cost expensed is dependent upon both the volume and remaining maturity of the debt when called. Losses on called debt are more than offset by interest expense savings realized over the life of the replacement debt.

For the year ended December 31, 2019, gains on other transactions increased $4.5 million. This increase resulted primarily from a $3.9 million increase in the market value gains on certain retirement plan trust assets and $1.1 million higher gains on sale of assets, primarily related to the sales of buildings and automobiles by four Associations in 2019. These increases were partially offset by $1.6 million lower gains resulting primarily from the Bank establishing interest rate lock and forward commitment derivatives in 2018 that resulted from the sale of loans from the first lien residential mortgage portfolio.

The District received $7.1 million and $21.1 million for the years ended 2019 and 2018, respectively, in insurance premium refunds from the FCSIC which insures the System's debt obligations. The FCSIC refunds are nonrecurring and resulted from the assets of the FCSIC at the end of 2017 and 2018 exceeding the secure base amount as defined by the Farm Credit Act.

Other noninterest income increased by $1.8 million for the year ended December 31, 2018 compared to the prior year. This increase resulted primarily from an increase of $1.2 million in income from services provided to Farm Credit entities outside the AgFirst District and an increase of $465 thousand in patronage received from other Farm Credit institutions.

Noninterest Expenses

Noninterest expenses for years ended December 31 are shown in the following table:

Noninterest Expenses	**For the Year Ended December 31,**			**Increase (Decrease)**	
(dollars in thousands)	**2019**	**2018**	**2017**	**2019/ 2018**	**2018/ 2017**
Salaries and employee benefits	$ 315,177	$ 304,769	$ 290,015	$ 10,408	$ 14,754
Occupancy and equipment	46,792	43,834	42,897	2,958	937
Insurance Fund premiums	23,891	22,465	36,622	1,426	(14,157)
Other operating expenses	149,849	138,864	(235)	10,985	139,099
Losses (gains) from other property owned	2,973	1,172	6,830	1,801	(5,658)
Total noninterest expenses	$ 538,682	$ 511,104	$ 376,129	$ 27,578	$ 134,975

Noninterest expenses increased $27.6 million and $135.0 million for the years ended December 31, 2019 and 2018, respectively, compared to the prior years. Significant line item dollar variances are discussed below.

Salaries and employee benefits expenses increased $10.4 million and $14.8 million for the years ended December 31, 2019 and 2018, respectively. The increases for both 2019 and 2018 resulted primarily from increases of $13.4 million and $9.2 million, respectively, in salaries and incentives due to normal salary administration. An increase in headcount contributed to the increase for both years. Group health insurance increased $1.1 million in 2019 and $2.2 million in 2018. Premium holidays in both 2018 and 2017 lowered expenses for those years. The increase in 2019 was partially offset by a decrease in pension expense of $4.1 million primarily due to lower service costs. In 2018, an increase of $1.7 million in pension expense resulted primarily from higher service costs.

Occupancy and equipment expenses increased $3.0 million and $937 thousand for the years ended December 31, 2019 and 2018, respectively, compared to the prior years. This increase resulted primarily from higher maintenance and lease costs.

Insurance Fund premiums increased $1.4 million and decreased $14.2 million for the years ended December 31, 2019 and 2018, respectively, compared to the prior years. The increase in 2019 was primarily due to higher average debt balances in the 2019 period. The decrease in 2018 was primarily due to a decrease in the base annual premium rate. The base annual premium rate was 9 basis points in both 2019 and 2018, and 15 basis points in 2017. The FCSIC Board makes premium rate adjustments, as necessary, to maintain the secure base amount, which is based upon insured debt outstanding at System banks. The insurance fund premium rate decreased to 8 basis points for at least the first half of 2020.

Other operating expenses increased $11.0 million and $139.1 million for the years ended December 31, 2019 and 2018, respectively, compared to the prior years. The increase in 2019 was primarily due to $6.4 million higher postretirement benefits plans non-service costs which resulted from lower expected return on plan assets and higher interest costs and an increase of $3.6 million in professional fees. The increase in 2018 resulted primarily from a one-time expense reduction in 2017 due to a change in the method of recording expenses at participating District entities for the multiemployer pension and postretirement benefits plans. Prior to 2017, expense was recorded based on allocations of actuarially determined costs and any differences between recorded expense and actual contributions were recorded in Other Assets or Other Liabilities on the Balance Sheets. For 2017 and future years, participating entities record postretirement benefit costs based on the actual contributions to the plans. This change caused the District to modify its accounting estimates recorded in Other Assets and Other Liabilities since the assets and liabilities do not impact future contributions to the plans. The change in estimate resulted in a reduction of Other Liabilities of $186.9 million and an increase in Accumulated Other Comprehensive Income (AOCI) of $39.2 million on the District's Balance Sheets, and a total reduction of noninterest expenses of $145.8 million during 2017.

Losses from other property owned increased $1.8 million and decreased $5.7 million during 2019 and 2018, respectively. The increase in losses in 2019 was primarily a result of higher writedowns of $1.6 million. The decrease in losses in 2018 resulted primarily from lower writedowns of $3.4 million and higher gains on sales of $2.3 million. See *Other Property Owned* section below for further discussion.

Provision for Income Taxes

Provision for income taxes remained relatively constant at $596 thousand in 2019 compared to $593 thousand in 2018. Provision for income taxes was $1.1 million in 2017.

LOAN PORTFOLIO

The District's aggregate loan portfolio consists primarily of loans made by the Associations to eligible borrowers located within their chartered territories. Diversification of the loan volume by FCA loan type at December 31 is shown in the following table:

Loan Types *(dollars in thousands)*	**2019**		**2018**		**2017**	
Real Estate Mortgage	$ 15,524,140	50.54%	$ 14,832,199	50.12%	$ 14,092,944	49.54%
Production and Intermediate-term	6,919,544	22.53	7,081,438	23.93	7,044,930	24.76
Rural Residential Real Estate	3,815,624	12.42	3,592,326	12.14	3,431,905	12.06
Processing and Marketing	1,906,654	6.21	1,658,946	5.60	1,442,935	5.07
Loans to Cooperatives	614,977	2.00	573,169	1.94	662,604	2.33
Communication	609,970	1.99	531,590	1.80	466,975	1.64
Power and Water/Waste Disposal	589,989	1.92	601,693	2.03	629,317	2.21
Farm-Related Business	363,273	1.18	380,606	1.29	363,137	1.28
International	157,553	0.51	122,137	0.41	98,625	0.35
Loans to OFIs	142,384	0.46	134,387	0.45	131,572	0.46
Other (including Mission Related)	62,851	0.20	73,090	0.25	74,505	0.26
Lease Receivables	12,032	0.04	10,643	0.04	12,358	0.04
Total	$ 30,718,991	100.00%	$ 29,592,224	100.00%	$ 28,451,807	100.00%

Total loans outstanding were $30.719 billion at December 31, 2019, an increase of $1.127 billion, or 3.81 percent, compared to total loans outstanding at December 31, 2018. Loans outstanding at the end of 2018 increased $1.140 billion, or 4.01 percent, compared to December 31, 2017.

In 2019, loan demand benefitted from growth in the forestry, rural home loans, field crops, swine, and processing segments. Growth in the poultry, rural home loans, cotton, field crops, and grains segments contributed to the increased loan growth in 2018. Future District loan demand is difficult to predict; however, modest growth is expected.

Each loan in the District's portfolio is classified according to a Uniform Classification System, which is used by all System institutions. Below are the classification definitions:

- *Acceptable* – Assets are expected to be fully collectible and represent the highest quality. In addition, these assets may include loans with properly executed and structured guarantees that might otherwise be classified less favorably.
- *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 facts, conditions and values that make collection in full highly questionable.
- *Loss* – Assets are considered uncollectible.

District credit quality remained relatively stable for the years presented. Credit quality of District loans including accrued interest at December 31 is shown in the following table:

Credit Quality	2019	2018	2017
Acceptable	94.79%	95.32%	95.27%
OAEM	3.11	2.63	2.62
Substandard/doubtful/loss	2.10	2.05	2.11
Total	100.00%	100.00%	100.00%

Delinquencies (loans 90 days or more past due) were 0.41 percent of total loan assets at year-end 2019 compared to 0.37 percent and 0.38 percent at year-end 2018 and 2017, respectively.

At December 31, 2019, nonperforming assets for the District represented 1.36 percent of total loans and other property owned, or $416.5 million, compared to 1.40 percent, or $413.2 million, for 2018, and 1.33 percent, or $377.3 million, for 2017. Nonperforming assets consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due, and other property owned.

The District recognized net loan charge-offs of $10.7 million, $6.6 million, and $2.9 million in 2019, 2018, and 2017, respectively. As a percentage of total average loans, net charge-offs for the District were 0.04 percent for 2019 compared to net charge-offs of 0.02 percent and 0.01 percent for 2018 and 2017, respectively. The Bank as well as each Association maintains an allowance for loan losses, determined by its management based upon its unique situation.

The District employs a number of risk management techniques to limit credit exposures. The District has adopted underwriting standards, individual borrower exposure limits, commodity exposure limits, and other risk management techniques. AgFirst and the Associations actively purchase and sell loan participations to enhance the diversification of their portfolios. The District utilizes guarantees from U.S. government agencies/departments, including the Federal Agricultural Mortgage Corporation (Farmer Mac), the Farm Service Agency, and the Small Business Administration, as well as state government guarantees to further limit credit exposures. At December 31, 2019, the District collectively had $2.877 billion (9.37 percent of the total loan portfolio) under such government or GSE guarantees, compared to $3.042 billion (10.28 percent) and $3.201 billion (11.25 percent) at December 31, 2018 and 2017, respectively.

The Associations serve primarily all or a portion of fifteen states and Puerto Rico. Additionally, AgFirst and the Associations actively purchase and sell loans and loan participations with non-District institutions. The resulting geographic diversity is a natural credit risk-reducing factor. The geographic distribution of the District's loan volume outstanding by state at December 31 is shown in the following table:

District Loan Volume by State

State	2019	2018	2017
North Carolina	17%	17%	17%
Georgia	12	11	11
Virginia	9	10	10
Florida	8	8	8
Pennsylvania	8	8	8
Ohio	7	7	7
Maryland	6	6	6
South Carolina	6	6	6
Alabama	4	4	4
Kentucky	3	3	3
Mississippi	2	2	2
Texas	2	2	2
Louisiana	2	2	2
Delaware	2	2	2
Other	12	12	12
Total	100%	100%	100%

At December 31, 2019, only two states have loan volume representing 10.00 percent or more of the total. Commodity diversification, guarantees, and borrowers with significant reliance on non-farm income further mitigate the geographic concentration risk in these states.

The diversity of commodity types mitigates credit risk to the District. The District's credit portfolios are comprised of a number of segments having varying, and in some cases complementary, characteristics. Commodity and industry categories are based on the Standard Industrial Classification system published by the federal government. This system is used to assign commodity or industry categories based on the largest agricultural commodity of the customer. The aggregate credit portfolio of the District by major commodity segments based on borrower eligibility at December 31 is shown in the following table:

	Percent of Portfolio		
Commodity Group	**2019**	**2018**	**2017**
Forestry	14%	13%	14%
Rural Home	12	12	12
Poultry	11	11	10
Field Crops	10	10	10
Cattle	7	7	7
Grains	6	7	6
Dairy	5	5	4
Other Real Estate	4	5	5
Corn	4	4	5
Processing	4	4	4
Utilities	3	3	3
Tree Fruits and Nuts	3	3	3
Nursery/Greenhouse	3	3	3
Cotton	3	3	2
Swine	3	3	2
Other	8	7	10
Total	100%	100%	100%

As illustrated in the above chart, at December 31, 2019, 2018, and 2017, the District had concentrations of 10.00 percent or greater in only four commodities: forestry, rural home, poultry, and field crops. All four commodities have geographic dispersion over the entire AgFirst footprint.

Forestry is divided principally into hardwood and softwood production and value-added processing. The timber from hardwood production is further processed into furniture, flooring, and high-grade paper and is generally located at the more northern latitudes and higher elevations of the District. Softwood timber production is typically located in the coastal plains of the AgFirst District footprint and is used for building materials for the housing market and pulp to make paper and hygiene products. Timber producers at the Associations range in size from less than fifty acres to thousands of acres, with value-added processing being conducted at sawmills, planer mills, and paper mills.

The District's rural home loans consist primarily of first lien residential mortgages purchased by the Bank's Correspondent Lending Unit. At December 31, 2019, 33.49 percent of these loans were guaranteed by the Federal National Mortgage Association (Fannie Mae) and/or Farmer Mac, thereby limiting credit risk to AgFirst. The guarantees are in the form of Long-Term Standby Commitments to Purchase, which give AgFirst the right to deliver delinquent loans to the guarantor at par. Non-guaranteed loans are reflected in the Bank's allowance for loan losses methodology related to this portfolio.

Poultry concentrations within the District are dispersed among a large number of farm units producing poultry. Poultry concentration is further dispersed as production is segregated among chicken, turkey, and egg production.

The field crops commodity group represents a diverse group of commodities, including fruits, vegetables, and other non-grain crops, which are grown throughout the AgFirst District.

The diversity of income sources supporting District loan repayments, including a prevalence of non-farm income among the borrowers, further mitigates credit risk to AgFirst as demonstrated by the following table as of December 31:

	Percent of Portfolio		
Commodity Group	**2019**	**2018**	**2017**
Non-Farm Income	35%	35%	35%
Grains	12	12	12
Poultry	10	10	10
Timber	7	7	7
Fruit and Vegetables	5	5	4
Dairy	4	4	4
Beef	3	4	4
Rural Utilities	3	3	3
Swine	3	3	3
Farm Related Business	3	3	3
Cotton	3	3	2
Landlords	2	2	2
Tobacco	2	2	2
Nursery	2	2	2
Processing and marketing	2	1	2
Other	4	4	5
Total	100%	100%	100%

As a result of the continued performance of the general economy and the District's efforts to resolve problem assets, the District's high-risk assets continue to be a small percentage of the total loan volume and total assets. Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	December 31,		
(dollars in thousands)	**2019**	**2018**	**2017**
Nonaccrual loans:			
Real estate mortgage	$ 124,033	$ 115,131	$ 118,073
Production and intermediate-term	108,890	113,667	99,646
Loans to cooperatives	6,352	7,492	–
Processing and marketing	3,035	3,395	2,827
Farm-related business	1,058	1,492	3,224
Rural residential real estate	20,150	19,691	15,037
Lease receivables	263	312	50
Total	$ 263,781	$ 261,180	$ 238,857
Accruing restructured loans:			
Real estate mortgage	$ 72,970	$ 63,898	$ 64,234
Production and intermediate-term	50,604	51,237	47,100
Processing and marketing	468	560	–
Farm-related business	345	389	439
Rural residential real estate	4,028	3,740	3,011
Lease receivables	47	–	–
Other (including Mission Related)	3,956	8,582	8,958
Total	$ 132,418	$ 128,406	$ 123,742
Accruing loans 90 days or more past due:			
Real estate mortgage	$ 251	$ 104	$ –
Production and intermediate-term	257	603	75
Farm-related business	70	–	–
Rural residential real estate	–	145	–
Lease receivables	–	188	–
Total	$ 578	$ 1,040	$ 75
Total nonperforming loans	$ 396,777	$ 390,626	$ 362,674
Other property owned	19,749	22,538	14,655
Total nonperforming assets	$ 416,526	$ 413,164	$ 377,329
Nonaccrual loans as a percentage of total loans	0.86%	0.88%	0.84%
Nonperforming assets as a percentage of total loans and other property owned	1.36%	1.40%	1.33%
Nonperforming assets as a percentage of capital	6.24%	6.38%	6.04%

Nonaccrual Loans

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the combined District at December 31, 2019 were $263.8 million compared to $261.2 million at December 31, 2018. Nonaccrual loans increased $2.6 million during the year ended December 31, 2019 due primarily to loan balances transferred to nonaccrual status of $147.3 million, advances on nonaccrual loans of $7.9 million and recoveries of charge-offs of $7.2 million. Offsetting these increases were $119.7 million of repayments, charge-offs of uncollectible balances of $18.1 million, reinstatements to accrual status of $14.1 million, and transfers to other property owned of $10.9 million. At December 31, 2019, total nonaccrual loans were primarily in the field crops (25.67 percent of the total), poultry (10.23 percent), rural home loan (8.04 percent), cattle (7.98 percent), grains (6.57 percent), corn (6.19 percent), tree fruits and nuts (5.54 percent), dairy (5.38 percent), and forestry (5.25 percent) segments. Nonaccrual loans were 0.86 percent of total loans outstanding at December 31, 2019 compared to 0.88 percent and 0.84 percent at December 31, 2018 and 2017, respectively.

Troubled Debt Restructurings

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank and District Associations would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms, rates, or amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by the Bank and District Associations. TDRs totaled $202.0 million at December 31, 2019, compared to $192.7 million at December 31, 2018. At December 31, 2019, TDRs were comprised of $132.4 million of accruing restructured loans and $69.6 million of nonaccrual restructured loans. Restructured loans were primarily in the field crops (17.33 percent of the total), poultry (13.03 percent), nursery/greenhouse (11.25 percent), tree fruits and nuts (8.10 percent), cattle (7.74 percent), forestry (5.52 percent), dairy (5.15 percent), and cotton (5.01 percent) segments.

Other Property Owned

Other property owned (OPO) consists primarily of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank and District Associations (or a lender group) in satisfaction of secured loans. OPO may be comprised of real estate, equipment, and equity interests in companies or partnerships. OPO decreased $2.8 million during 2019 to $19.7 million at December 31, 2019 due to disposals of $12.4 million and writedowns of OPO of $2.6 million, partially offset by property received in settlement of loans of $12.2 million. At December 31, 2019, the largest OPO holding was in the forestry segment and totaled $4.5 million (22.83 percent of the total OPO balance). See discussion of OPO expense in the *Noninterest Expenses* section above.

The recorded investment in a 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 direct writedown of the investment.

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

	December 31, 2019				
(dollars in thousands)	**30 Through 89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**
Real estate mortgage	$ 73,100	$ 52,907	$ 126,007	$ 15,536,667	$ 15,662,674
Production and intermediate-term	41,973	60,918	102,891	6,894,527	6,997,418
Loans to cooperatives	–	–	–	616,106	616,106
Processing and marketing	457	2,984	3,441	1,910,278	1,913,719
Farm-related business	4,158	547	4,705	360,825	365,530
Communication	–	–	–	610,278	610,278
Power and water/waste disposal	–	–	–	592,303	592,303
Rural residential real estate	48,571	8,246	56,817	3,768,441	3,825,258
International	–	–	–	158,384	158,384
Lease receivables	–	–	–	12,075	12,075
Loans to OFIs	–	–	–	142,754	142,754
Other (including Mission Related)	293	–	293	63,055	63,348
Total	$ 168,552	$ 125,602	$ 294,154	$ 30,665,693	$ 30,959,847

	December 31, 2018				
(dollars in thousands)	**30 Through 89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**
Real estate mortgage	$ 72,251	$ 47,109	$ 119,360	$ 14,851,257	$ 14,970,617
Production and intermediate-term	42,690	50,526	93,216	7,070,380	7,163,596
Loans to cooperatives	68	–	68	574,160	574,228
Processing and marketing	285	3,338	3,623	1,661,911	1,665,534
Farm-related business	2,462	961	3,423	379,386	382,809
Communication	–	–	–	531,726	531,726
Power and water/waste disposal	–	–	–	603,938	603,938
Rural residential real estate	44,708	9,040	53,748	3,547,720	3,601,468
International	–	–	–	122,936	122,936
Lease receivables	213	188	401	10,279	10,680
Loans to OFIs	–	–	–	134,721	134,721
Other (including Mission Related)	–	339	339	73,491	73,830
Total	$ 162,677	$ 111,501	$ 274,178	$ 29,561,905	$ 29,836,083

	December 31, 2017				
(dollars in thousands)	**30 Through 89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**
Real estate mortgage	$ 57,790	$ 42,995	$ 100,785	$ 14,116,210	$ 14,216,995
Production and intermediate-term	36,022	56,464	92,486	7,022,256	7,114,742
Loans to cooperatives	–	–	–	663,838	663,838
Processing and marketing	459	2,761	3,220	1,444,785	1,448,005
Farm-related business	2,348	247	2,595	362,268	364,863
Communication	–	–	–	467,502	467,502
Power and water/waste disposal	–	–	–	631,817	631,817
Rural residential real estate	55,025	6,266	61,291	3,379,607	3,440,898
International	–	–	–	98,952	98,952
Lease receivables	–	–	–	12,390	12,390
Loans to OFIs	–	–	–	131,818	131,818
Other (including Mission Related)	367	546	913	74,352	75,265
Total	$ 152,011	$ 109,279	$ 261,290	$ 28,405,795	$ 28,667,085

Each District institution maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within its respective loan and finance lease portfolios as of each reported balance sheet date. The District increases the allowance by recording a provision for loan losses in the income statement. Loan losses are recorded against and serve to decrease the allowance when management determines that any portion of a loan or lease is uncollectible. Any subsequent recoveries are added to the allowance. Management's evaluations consider factors which include, among other things, loan loss experience, portfolio quality, loan portfolio composition, current agricultural production conditions, and general economic conditions.

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

(dollars in thousands)	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivables	Other Loans **	Total
Activity related to allowance for credit losses:										
Balance at December 31, 2018	$ 86,078	$ 90,661	$ 19,387	$ 2,647	$ 1,209	$ 8,055	$ 504	$ 433	$ 683	$ 209,657
Charge-offs	(4,874)	(10,523)	(2,492)	–	(1)	(217)	–	–	–	(18,107)
Recoveries	1,408	5,241	197	–	1	583	–	–	–	7,430
Provision for loan losses	5,618	6,178	(627)	(299)	1,454	(105)	(43)	(45)	(34)	12,097
Loan type reclassification	244	–	–	–	–	–	–	–	(244)	–
Balance at December 31, 2019	$ 88,474	$ 91,557	$ 16,465	$ 2,348	$ 2,663	$ 8,316	$ 461	$ 388	$ 405	$ 211,077
Balance at December 31, 2017	$ 82,686	$ 86,037	$ 10,977	$ 2,237	$ 2,935	$ 7,262	$ 151	$ 54	$ 728	$ 193,067
Charge-offs	(1,689)	(11,254)	(906)	–	(304)	(371)	–	(16)	–	(14,540)
Recoveries	1,933	5,519	171	–	2	278	–	–	–	7,903
Provision for loan losses	3,046	10,356	9,145	410	(1,424)	886	353	331	124	23,227
Loan type reclassification	102	3	–	–	–	–	–	64	(169)	–
Balance at December 31, 2018	$ 86,078	$ 90,661	$ 19,387	$ 2,647	$ 1,209	$ 8,055	$ 504	$ 433	$ 683	$ 209,657
Balance at December 31, 2016	$ 77,629	$ 81,548	$ 10,342	$ 2,987	$ 3,040	$ 6,008	$ 186	$ 38	$ 822	$ 182,600
Charge-offs	(2,873)	(6,007)	(133)	–	–	(401)	–	(1)	–	(9,415)
Recoveries	3,423	2,577	265	–	16	173	–	29	28	6,511
Provision for loan losses	4,404	7,744	503	(750)	(121)	1,482	(35)	(37)	181	13,371
Loan type reclassification	103	175	–	–	–	–	–	25	(303)	–
Balance at December 31, 2017	$ 82,686	$ 86,037	$ 10,977	$ 2,237	$ 2,935	$ 7,262	$ 151	$ 54	$ 728	$ 193,067
Allowance on loans evaluated for impairment:										
Individually	$ 4,846	$ 17,087	$ 1,069	$ –	$ –	$ 574	$ –	$ 83	$ 92	$ 23,751
Collectively	83,628	74,470	15,396	2,348	2,663	7,742	461	305	313	187,326
PCI***	–	–	–	–	–	–	–	–	–	–
Balance at December 31, 2019	$ 88,474	$ 91,557	$ 16,465	$ 2,348	$ 2,663	$ 8,316	$ 461	$ 388	$ 405	$ 211,077
Individually	$ 6,348	$ 20,838	$ 3,983	$ –	$ –	$ 1,057	$ –	$ 108	$ 377	$ 32,711
Collectively	79,730	69,823	15,404	2,647	1,209	6,998	504	325	306	176,946
PCI***	–	–	–	–	–	–	–	–	–	–
Balance at December 31, 2018	$ 86,078	$ 90,661	$ 19,387	$ 2,647	$ 1,209	$ 8,055	$ 504	$ 433	$ 683	$ 209,657
Individually	$ 3,942	$ 13,291	$ 17	$ –	$ –	$ 844	$ –	$ –	$ 624	$ 18,718
Collectively	78,744	72,746	10,960	2,237	2,935	6,418	151	54	104	174,349
PCI***	–	–	–	–	–	–	–	–	–	–
Balance at December 31, 2017	$ 82,686	$ 86,037	$ 10,977	$ 2,237	$ 2,935	$ 7,262	$ 151	$ 54	$ 728	$ 193,067
Recorded investment in loans evaluated for impairment:										
Individually	$ 338,417	$ 157,023	$ 10,903	$ –	$ –	$ 1,034,596	$ –	$ 310	$ 3,956	$ 1,545,205
Collectively	15,323,616	6,840,395	2,884,452	610,278	592,303	2,790,627	158,384	11,765	202,146	29,413,966
PCI***	641	–	–	–	–	35	–	–	–	676
Ending balance at December 31, 2019	$ 15,662,674	$ 6,997,418	$ 2,895,355	$ 610,278	$ 592,303	$ 3,825,258	$ 158,384	$ 12,075	$ 206,102	$ 30,959,847
Individually	$ 330,684	$ 164,389	$ 10,420	$ –	$ –	$ 1,280,829	$ –	$ 567	$ 8,503	$ 1,795,392
Collectively	14,637,896	6,999,207	2,612,151	531,726	603,938	2,320,592	122,936	10,113	200,048	28,038,607
PCI***	2,037	–	–	–	–	47	–	–	–	2,084
Ending balance at December 31, 2018	$ 14,970,617	$ 7,163,596	$ 2,622,571	$ 531,726	$ 603,938	$ 3,601,468	$ 122,936	$ 10,680	$ 208,551	$ 29,836,083
Individually	$ 320,369	$ 144,163	$ 6,062	$ –	$ –	$ 1,414,184	$ –	$ 229	$ 8,918	$ 1,893,925
Collectively	13,894,608	6,970,579	2,470,644	467,502	631,817	2,026,655	98,952	12,161	198,165	26,771,083
PCI***	2,018	–	–	–	–	59	–	–	–	2,077
Ending balance at December 31, 2017	$ 14,216,995	$ 7,114,742	$ 2,476,706	$ 467,502	$ 631,817	$ 3,440,898	$ 98,952	$ 12,390	$ 207,083	$ 28,667,085

* *Includes the loan types Loans to cooperatives, Processing and marketing, and Farm-related business.*
** *Includes Loans to OFIs and Mission Related loans.*
*** *Purchased credit impaired loans.*

The allowance for loan losses was $211.1 million at December 31, 2019, as compared with $209.7 million and $193.1 million at December 31, 2018 and 2017, respectively. Activity which increased the allowance during 2019 included provision expense of $12.1 million and loan recoveries of $7.4 million, partially offset by charge-offs of $18.1 million. Recoveries during 2019 were related primarily to borrowers in the nursery/greenhouse (37.47 percent of the total), field crops (11.17 percent), poultry (10.82 percent), cattle (10.20 percent), and forestry (7.23 percent) segments. The largest commodity segments included in charge-offs during 2019 were the field crops (31.58 percent of the total), poultry (18.07 percent), processing (12.31 percent), and forestry (11.22 percent) segments. See *Provision for Loan Losses* section above for details regarding changes to the allowance from provision expense (reversal). The allowance at December 31, 2019 included specific reserves of $23.8 million (11.25 percent of the total) and $187.3 million (88.75 percent) of general reserves. The largest commodity segments included in the allowance at December 31, 2019 were the poultry (13.91 percent of the total), field crops (13.25 percent), forestry (9.84 percent), cattle (8.15 percent), and grains (7.31 percent) segments. The allowance for loan losses was 0.69 percent, 0.71 percent, and 0.68 percent of total loans outstanding at December 31, 2019, 2018, and 2017, respectively.

Due to positive economic conditions impacting borrowers in economically sensitive segments combined with management's emphasis on underwriting standards, the credit quality of the District loan portfolio has remained sound. Periods of uncertainty in the general economic environment create the potential for prospective risks in the loan portfolio.

INVESTMENTS

The Bank is responsible for meeting the District's funding, liquidity and asset/liability management needs. Along with normal cash flows associated with lending operations, the District has two primary sources of liquidity: the capacity to issue Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation; and cash and investments. The Bank also maintains several repurchase agreement facilities. In addition, the System has established lines of credit in the event contingency funding is needed to meet obligations of System banks. The Bank's investments are primarily classified as available-for-sale investments. Refer to the Bank's 2019 Annual Report for additional information related to investments. District Associations have regulatory authority to enter into certain guaranteed investments, generally mortgage-backed or asset-backed securities which are classified as held-to-maturity investments.

The following summarizes investments in debt securities at period end:

	December 31, 2019			
(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
District Bank investments	$ 7,880,510	$ 83,235	$ (27,334)	$ 7,936,411
District Association investments	43,292	3,221	(201)	46,312
Total District investments	$ 7,923,802	$ 86,456	$ (27,535)	$ 7,982,723

	December 31, 2018			
(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
District Bank investments	$ 8,030,676	$ 49,432	$ (96,018)	$ 7,984,090
District Association investments	48,267	2,312	(453)	50,126
Total District investments	$ 8,078,943	$ 51,744	$ (96,471)	$ 8,034,216

	December 31, 2017			
(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
District Bank investments	$ 8,142,254	$ 53,371	$ (68,680)	$ 8,126,945
District Association investments	63,525	2,670	(822)	65,373
Total District investments	$ 8,205,779	$ 56,041	$ (69,502)	$ 8,192,318

During 2018, the FCA approved the Bank's request to include its held-to-maturity RHMS securities, which totaled approximately $341.4 million at December 31, 2018, in its liquidity portfolio. The Bank then reclassified these securities, all of which had short remaining tenors, to available-for-sale.

CAPITAL

Capital serves to support future asset growth, investment in new products and services, and to provide protection against credit, interest rate, and other risks, as well as operating losses. A sound capital position is critical to provide protection to investors in Systemwide Debt Securities and to ensure long-term financial success.

Total District shareholders' equity at December 31, 2019 was $6.673 billion, compared to $6.474 billion and $6.249 billion at December 31, 2018 and 2017, respectively. The $199.4 million increase in 2019 resulted primarily from an increase in retained earnings from net income of $552.8 million and a decrease in net unrealized losses on investments of $101.7 million. These increases in shareholders' equity were offset by decreases from cash distributions declared of $322.3

million, retained earnings retired of $87.9 million, and employee benefit plans adjustments of $44.5 million. The $224.4 million increase in 2018 resulted primarily from an increase in retained earnings from net income of $586.5 million and an increase of $39.5 million in employee benefit plans adjustments. These increases in shareholders' equity were offset by decreases from cash distributions declared of $274.4 million, retained earnings retired of $82.7 million, increases in net unrealized losses on investments of $29.5 million, and net capital stock and participation certificates retired of $14.1 million.

The following table summarizes AOCI balances at period end:

(dollars in thousands)	December 31, 2019	2018	2017
Accumulated Other Comprehensive Income (Loss)			
Unrealized gain (loss) on investment securities	$ 52,606	$ (49,129)	$ (19,635)
Derivatives and hedging activity	533	886	18
Employee benefit plans activity	(367,486)	(322,942)	(362,435)
Total accumulated other comprehensive income (loss)	$ (314,347)	$ (371,185)	$ (382,052)

The Farm Credit Administration sets minimum regulatory capital requirements for Banks and Associations. These ratios are calculated using a three-month average daily balance.

Regulatory Capital Requirements and Ratios

As of December 31, 2019	Primary Components of Numerator	Regulatory Minimums	Minimum with Buffer*	Bank	District Associations
Risk adjusted:					
Common equity tier 1 (CET1) capital ratio	Unallocated retained earnings (URE), common cooperative equities (qualifying capital stock and allocated equity)[1]	4.50%	7.00%	18.90%	14.31% - 37.11%
Tier 1 capital ratio	CET1 capital, non-cumulative perpetual preferred stock	6.00%	8.50%	19.29%	14.31% - 37.11%
Total capital ratio	Tier 1 capital, allowance for loan losses[2], common cooperative equities[3] and term preferred stock and subordinated debt[4]	8.00%	10.50%	19.45%	15.13% - 38.25%
Permanent capital ratio	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	7.00%	7.00%	19.32%	14.43% - 37.51%
Non-risk adjusted:					
Tier 1 leverage ratio	Tier 1 capital	4.00%	5.00%	7.10%	13.48% - 34.83%
URE and URE equivalents leverage ratio	URE and URE equivalents	1.50%	1.50%	6.17%	8.27% - 35.50%

**The new capital requirements have a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. There is no phase-in of the leverage buffer. Amounts shown reflect the full capital conservation buffer which became effective January 1, 2020.*
[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

EMPLOYEE BENEFIT PLANS

The Bank and certain District Associations participate in two District sponsored defined benefit pension plans. These plans include the multiemployer AgFirst Farm Credit Retirement Plan which is a final average pay plan (FAP Plan) and the multiemployer Independent Associations' Retirement Plan (IAR Plan), which is also a final average pay plan. In addition, the Bank and 18 District Associations participate in a multiemployer defined benefit other postretirement benefits plan (OPEB Plan), the Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plan, and the Bank and all 19 District Associations participate in the Farm Credit Benefits Alliance (FCBA) 401(k) Plan (401(k) Plan), a multiemployer defined contribution 401(k) plan. In addition to the multiemployer defined benefit plans above, one Association also sponsors a single employer defined benefit plan, the First South Farm Credit, ACA Retirement Plan (FS Plan).

The FAP Plan covers eligible employees of 15 Associations and AgFirst hired prior to January 1, 2003. The IAR Plan covers eligible employees of three ACAs whose employment date is prior to January 1, 2009. The FS Plan covers eligible employees of a single ACA whose employment date is prior to January 1, 2009. Each plan is noncontributory. The "Projected Unit

Credit" actuarial method is used for financial reporting purposes. Pension benefits are primarily based on eligible compensation and years of service. The District entities funded $35.7 million, $48.5 million, and $45.4 million into these retirement plans for each of the three years ended December 31, 2019, 2018, and 2017, respectively. The expenses of these retirement plans included in noninterest expenses were $37.0 million for 2019, $34.5 million for 2018, and $42.7 million for 2017. The plans' respective prepaid retirement expenses or liabilities are reflected in Other Assets or Other Liabilities in the District's Combined Balance Sheets.

In addition to providing pension benefits, the District provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the District employees may become eligible for the benefits if they reach early retirement age while working for the Bank or District Associations. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. In addition, substantially all District employees who retired on or before December 1, 2007, after reaching early retirement age are provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Bank or District Associations and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the District's Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in salaries and employee benefit costs on the District's Statements of Income were $8.0 million for 2019, $7.7 million for 2018, and $7.0 million for 2017. At December 31, 2019, the total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition is $209.5 million.

The District also participates in the defined contribution 401(k) Plan which qualifies as a 401(k) plan as defined by the Internal Revenue Code. The District contributes $0.50 or $1.00 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 or 6.00 percent of total compensation, dependent upon each District entity's policy. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $15.8 million, $14.4 million, and $13.3 million for the years ended December 31, 2019, 2018, and 2017, respectively. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees who are not covered under the FAP Plan, the IAR Plan, or the FS Plan.

In addition to the multiemployer plans above, AgFirst and certain District Associations individually sponsor defined benefit and defined contribution retirement plans and offer a FCBA supplemental 401(k) plan for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the District's Combined Balance Sheets in Other Liabilities. The District entities contributed $1.2 million for each of the years ended December 31, 2019, 2018 and 2017 into these supplemental retirement plans. The supplemental retirement plans are unfunded and had a projected benefit obligation of $29.2 million and a net under-funded status of $29.2 million at December 31, 2019. The expenses of these nonqualified plans included in the District's noninterest expenses were $2.7 million, $2.8 million, and $2.4 million for the years ended December 31, 2019, 2018, and 2017, respectively.

The funding status and the amounts recognized in the Combined Balance Sheet of the District for postretirement benefit plans follows:

	Pension Benefits			
(dollars in thousands)	**FAP Plan**	**IAR Plan**	**FS Plan**	**Unfunded Benefit Plans**
December 31, 2019				
Projected benefit obligations	$ 1,039,901	$ 89,310	$ 122,125	$ 29,231
Fair value of plan assets	910,376	74,707	93,276	–
Funded (unfunded) status	(129,525)	(14,603)	(28,849)	(29,231)
Accumulated benefit obligation	$ 971,256	$ 76,287	$ 111,418	$ 24,258
Assumptions used to determine benefit obligations:				
Discount rate	3.30%	3.40%	4.40%	3.30%
Expected long-term rate of return	5.05%	4.75%	6.50%	N/A*
Rate of compensation increase	3.90%	5.10%	5.00%	Varies

(dollars in thousands)	Pension Benefits FAP Plan	IAR Plan	FS Plan	Unfunded Benefit Plans
December 31, 2018				
Projected benefit obligations	$ 903,317	$ 74,494	$ 103,636	$ 25,231
Fair value of plan assets	809,023	65,868	76,558	–
Funded (unfunded) status	(94,294)	(8,626)	(27,078)	(25,231)
Accumulated benefit obligation	$ 840,500	$ 64,241	$ 94,493	$ 20,791
Assumptions used to determine benefit obligations:				
Discount rate	4.45%	4.55%	3.75%	4.40%
Expected long-term rate of return	5.80%	5.50%	6.50%	N/A*
Rate of compensation increase	3.90%	5.10%	5.00%	Varies

(dollars in thousands)	Pension Benefits FAP Plan	IAR Plan	FS Plan	Unfunded Benefit Plans
December 31, 2017				
Projected benefit obligations	$ 1,022,337	$ 82,918	$ 110,149	$ 27,822
Fair value of plan assets	883,485	67,840	84,537	–
Funded (unfunded) status	(138,852)	(15,078)	(25,612)	(27,822)
Accumulated benefit obligation	$ 941,583	$ 69,467	$ 98,737	$ 21,926
Assumptions used to determine benefit obligations:				
Discount rate	3.70%	3.75%	4.30%	3.75%
Expected long-term rate of return	5.90%	5.40%	7.50%	N/A*
Rate of compensation increase	3.90%	5.10%	5.00%	Varies

** Not applicable.*

REGULATORY MATTERS

On February 13, 2020, the Farm Credit Administration approved a rule that clarifies the factors that System institutions should consider when categorizing high-risk loans and placing them in nonaccrual status. The rule also revises the criteria by which loans are reinstated to accrual status, and revises the application of the criteria to certain loans in nonaccrual status to distinguish between the types of risk that cause loans to be placed in nonaccrual status.

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

On September 23, 2019, the Farm Credit Administration issued a proposed rule that would ensure the System's capital requirements, including certain regulatory disclosures, reflect the current expected credit losses methodology, which revises the accounting for credit losses under U.S. generally accepted accounting principles. The proposed rule identifies which credit loss allowances under the Current Expected Credit Losses (CECL) methodology in the Financial Accounting Standards Board's "Measurement of Credit Losses on Financial Instruments" are eligible for inclusion in a System institution's regulatory capital. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-maturity debt securities would be included in a System institution's Tier 2 capital up to 1.25 percent of the System institution's total risk weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not be eligible for inclusion in a System institution's Tier 2 capital. In addition, the proposed regulation does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution's regulatory capital ratios. The public comment period ended on November 22, 2019.

Future of LIBOR

In 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced its intention to stop persuading or compelling the group of major banks that sustains LIBOR to submit rate quotations after 2021. As a result, it is uncertain whether LIBOR will continue to be quoted after 2021. The District has exposure to LIBOR, including in financial instruments that reference LIBOR that mature after 2021.

The exposure arises from loans made to customers, investment securities purchased, Systemwide Debt Securities that are issued by the Funding Corporation on the Bank's behalf, and issued preferred stock. Alternative reference rates that replace LIBOR may not yield the same or similar economic results over the lives of the financial instruments, which could adversely affect the value of, and return on, instruments held. The LIBOR transition could result in paying higher interest rates on current LIBOR-indexed Systemwide Debt Securities, adversely affect the yield on, and fair value of, the instruments held that reference LIBOR, and increase the costs of or affect the ability to effectively use derivative instruments to manage interest rate risk. In addition, to the extent that a successful transition of the LIBOR-based financial instruments to an alternative rate based index that is endorsed or supported by regulators and generally accepted by the market as a replacement to LIBOR, there could be other ramifications including those that may arise as a result of the need to redeem or terminate such instruments.

Due to the uncertainty regarding the transition of LIBOR-based financial instruments, including when it will happen, the manner in which an alternative reference rate will apply, and the mechanisms for transitioning LIBOR-based instruments to instruments with an alternative rate, the expected financial impact of the LIBOR transition cannot yet be reasonably estimated.

The FCA has issued guidelines for System institutions to follow as they prepare for the expected phase-out of LIBOR. The guidelines direct each System institution to develop a LIBOR transition plan designed to provide an orderly roadmap of actions that will reduce LIBOR exposure over time. The FCA identified the following as important considerations in the development of each entity's transition plan:

- a governance structure to manage the transition,
- an assessment of exposures to LIBOR,
- an assessment of the fallback provisions in contracts and the impact of a LIBOR phase-out under those provisions,
- the establishment of strategies for reducing each type of LIBOR exposure,
- an assessment of the operational processes that need to be changed,
- a communication strategy for customers and shareholders,
- the establishment of a process to stay abreast of industry developments and best practices,
- the establishment of a process to ensure a coordinated approach, to the extent possible, across the District, and
- a timeframe and action steps for completing key objectives.

The District will continue to analyze potential risks associated with the LIBOR transition, including financial, accounting, operational, legal, reputational and compliance risks.

At this time, it is difficult to predict whether or when LIBOR will cease to be available or if SOFR will become the benchmark to replace LIBOR. Because transactions occur involving financial instruments that reference LIBOR, these developments could have a material impact on the District, borrowers, investors, and counterparties.

The following is a summary of District variable-rate financial instruments with LIBOR exposure at December 31, 2019:

(dollars in millions)	**Due in 2020**	**Due in 2021**	**Due in 2022 and Thereafter**
Investments	$ –	$ 9	$ 2,194
Loans	785	947	3,677
Total	$ 785	$ 956	$ 5,871
Systemwide debt securities	$ 1,565	$ 1,195	$ 310
Preferred stock	–	–	49
Total	$ 1,565	$ 1,195	$ 359

OTHER MATTERS

See the *Direct Notes* section of *Management's Discussion & Analysis of Financial Condition & Results of Operations* in the 2019 AgFirst Farm Credit Bank Annual Report for a discussion of the Bank's funding to District Associations.

Combined Balance Sheets

(unaudited)

(dollars in thousands)	As of December 31, 2019	2018	2017
Assets			
Cash	**$ 488,366**	$ 471,436	$ 499,451
Cash equivalents	**650,000**	100,000	272,519
Investments in debt securities:			
Available-for-sale (amortized cost of $7,843,244, $7,988,624, and $7,683,631, respectively)	**7,895,569**	7,939,196	7,663,605
Held to maturity (fair value of $87,154, $95,020, and $528,713, respectively)	**80,558**	90,319	522,148
Total investments in debt securities	**7,976,127**	8,029,515	8,185,753
Loans	**30,718,991**	29,592,224	28,451,807
Allowance for loan losses	**(211,077)**	(209,657)	(193,067)
Net loans	**30,507,914**	29,382,567	28,258,740
Loans held for sale	**8,291**	4,175	14,046
Accrued interest receivable	**261,595**	261,660	227,323
Accounts receivable	**100,307**	47,846	49,339
Equity investments in other Farm Credit institutions	**47,763**	44,089	40,292
Other investments	**1,039**	—	—
Premises and equipment, net	**213,206**	208,196	197,492
Other property owned	**19,749**	22,538	14,655
Other assets	**57,339**	53,710	50,958
Total assets	**$ 40,331,696**	$ 38,625,732	$ 37,810,568
Liabilities			
Systemwide bonds payable	**$ 27,291,279**	$ 25,807,367	$ 24,829,679
Systemwide and other notes payable	**5,525,414**	5,619,167	5,949,507
Accrued interest payable	**106,793**	112,345	83,221
Accounts payable	**365,529**	321,166	316,960
Advanced conditional payments	**5,981**	4,360	10,175
Other liabilities	**363,749**	287,775	371,902
Total liabilities	**33,658,745**	32,152,180	31,561,444
Shareholders' Equity			
Perpetual preferred stock	**49,250**	49,250	49,250
Protected borrower equity	**501**	502	502
Capital stock and participation certificates	**165,997**	158,734	169,716
Additional paid-in-capital	**82,573**	82,573	82,573
Retained earnings			
Allocated	**2,195,441**	2,154,332	2,097,179
Unallocated	**4,493,536**	4,399,346	4,231,956
Accumulated other comprehensive income (loss)	**(314,347)**	(371,185)	(382,052)
Total shareholders' equity	**6,672,951**	6,473,552	6,249,124
Total liabilities and equity	**$ 40,331,696**	$ 38,625,732	$ 37,810,568

Combined Statements of Income

(unaudited)

(dollars in thousands)	For the year ended December 31, 2019	2018	2017
Interest Income			
Investments	**$ 221,309**	$ 199,533	$ 153,102
Loans	**1,571,525**	1,462,622	1,316,611
Other	**5,060**	1,093	53
Total interest income	**1,797,894**	1,663,248	1,469,766
Interest Expense	**743,232**	628,151	430,960
Net interest income	**1,054,662**	1,035,097	1,038,806
Provision for loan losses	**12,097**	23,227	13,371
Net interest income after provision for loan losses	**1,042,565**	1,011,870	1,025,435
Noninterest Income			
Loan fees	**32,551**	31,477	30,917
Fees for financially related services	**11,819**	11,461	10,811
Lease income	**4,776**	3,412	3,650
Net impairment losses on investments	**(83)**	—	—
Gains (losses) on investments, net	**—**	13	(258)
Gains (losses) on debt extinguishment	**(30,034)**	150	(4,528)
Gains (losses) on other transactions	**9,942**	5,422	6,086
Insurance premium refund	**7,051**	21,086	—
Other noninterest income	**13,456**	13,278	11,448
Total noninterest income	**49,478**	86,299	58,126
Noninterest Expenses			
Salaries and employee benefits	**315,177**	304,769	290,015
Occupancy and equipment	**46,792**	43,834	42,897
Insurance Fund premiums	**23,891**	22,465	36,622
Other operating expenses	**149,849**	138,864	(235)
Losses (gains) from other property owned	**2,973**	1,172	6,830
Total noninterest expenses	**538,682**	511,104	376,129
Income before income taxes	**553,361**	587,065	707,432
Provision for income taxes	**596**	593	1,105
Net income	**$ 552,765**	$ 586,472	$ 706,327

DISTRICT ASSOCIATIONS

Associations	Direct Notes	% of Direct Note Total	Total Assets	Total Allowance and Capital	Total Regulatory Capital Ratio	Nonperforming Loans as a % of Total Loans	ROA
(dollars in thousands)							
AgCarolina	$ 893,705	4.99%	$ 1,196,826	$ 288,270	21.33%	2.53%	2.16%
AgChoice	1,731,992	9.66	2,201,814	434,151	18.41	0.57	2.54
AgCredit	1,654,570	9.23	2,056,990	358,922	21.31	0.98	2.76
AgGeorgia	683,143	3.81	947,963	250,572	24.20	4.25	2.30
AgSouth	1,481,914	8.27	1,923,777	427,195	21.97	1.21	2.81
ArborOne	453,022	2.53	555,741	101,413	17.99	3.48	1.51
Cape Fear	747,905	4.17	989,160	224,430	22.47	2.01	3.25
Carolina	1,302,343	7.27	1,680,229	340,015	20.87	1.52	2.39
Central Florida	463,711	2.59	590,424	116,560	20.48	2.67	2.23
Central Kentucky	452,919	2.53	555,664	99,810	18.80	1.33	2.30
Colonial	489,386	2.73	698,742	190,707	26.99	0.41	2.45
First South	1,845,304	10.30	2,358,536	458,054	17.97	0.32	1.93
Florida	1,005,717	5.61	1,311,794	287,655	19.81	0.60	2.22
MidAtlantic	2,192,656	12.23	2,917,399	693,742	21.81	2.73	2.22
Northwest Florida	200,279	1.12	291,389	88,504	29.46	1.29	2.26
Puerto Rico	99,911	0.56	157,693	56,407	38.25	6.99	1.43
River Valley	437,014	2.44	552,912	103,076	20.07	1.86	2.25
Southwest Georgia	433,972	2.42	538,449	94,673	15.13	0.81	2.25
Virginias	1,353,895	7.55	1,846,167	452,225	24.23	1.64	2.47

AgFirst Farm Credit Bank

AgFirst Farm Credit Bank
1901 Main Street
Columbia, SC 29201
800-845-1745
www.agfirst.com

AgFirst District Associations

AgCarolina Farm Credit, ACA
4000 Poole Road
Raleigh, NC 27610
919-250-9500
http://www.agcarolina.com

AgChoice Farm Credit, ACA
300 Winding Creek Blvd.
Mechanicsburg, PA 17050
717-796-9372
http://www.agchoice.com

AgCredit Agricultural Credit Association
610 W. Lytle Street
Fostoria, OH 44830-3422
419-435-7758
http://www.agcredit.net

AgGeorgia Farm Credit, ACA
468 Perry Parkway
Perry, GA 31069
478-987-8300
http://www.aggeorgia.com

AgSouth Farm Credit, ACA
26 South Main Street
Statesboro, GA 30458
912-764-9091
http://www.agsouthfc.com

ArborOne, ACA
800 Woody Jones Blvd.
Florence, SC 29501
843-662-1527
http://www.arborone.com

Cape Fear Farm Credit, ACA
333 East Russell Street
Fayetteville, NC 28302
910-323-9188
http://www.capefearfarmcredit.com

Carolina Farm Credit, ACA
146 Victory Lane
Statesville, NC 28625
704-873-0276
http://www.carolinafarmcredit.com

Central Kentucky Agricultural Credit Association
640 S. Broadway
Lexington, KY 40508
859-253-3249
http://www.agcreditonline.com

Colonial Farm Credit, ACA
7104 Mechanicsville Turnpike
Mechanicsville, VA 23111
804-746-1252
http://www.colonialfarmcredit.com

Farm Credit of Central Florida, ACA
115 S. Missouri Ste. 400
Lakeland, FL 33815
863-682-4117
http://www.farmcreditcfl.com

Farm Credit of Florida, ACA
11903 Southern Boulevard Ste. 200
West Palm Beach, FL 33411
800-432-4156
http://farmcreditfl.com

Farm Credit of Northwest Florida, ACA
5052 Highway 90 East
Marianna, FL 32446
850-526-4910
http://www.farmcredit-fl.com

Farm Credit of the Virginias, ACA
106 Sangers Lane
Staunton, VA 24401
540-886-3435
http://www.farmcreditofvirginias.com

First South Farm Credit, ACA
574 Highland Colony Parkway, Ste. 100
Ridgeland, MS 39157
601-977-8396
http://www.firstsouthfarmcredit.com

MidAtlantic Farm Credit, ACA
45 Aileron Court
Westminster, MD 21157
410-848-1033
http://www.mafc.com

Puerto Rico Farm Credit, ACA
213 Domenech Ave.
Hato Rey, PR 00918
787-753-0579
http://www.prfarmcredit.com

River Valley AgCredit, ACA
408 East Broadway
Mayfield, KY 42066
270-247-5613
http://www.rivervalleyagcredit.com

Southwest Georgia Farm Credit, ACA
305 Colquitt Highway
Bainbridge, GA 39817
229-246-0384
http://www.swgafarmcredit.com

AGFIRST
FARM CREDIT BANK

1901 Main Street
Columbia, SC 29201

AgFirst.com