FARM CREDIT
ILLINOIS
Helping Farm Families Succeed

ANNUAL REPORT

2019
A YEAR OF **RESILIENCE**

Farm Credit Illinois supports farm families and Rural America – – **Helping Farm Families Succeed** today and tomorrow. The farmer-owned and directed agricultural cooperative serves the southern 60 counties of Illinois with competitive and flexible financing, crop insurance expertise, and Rural 1st financing for country living.

Cooperative Headquarters
1100 Farm Credit Drive
Mahomet, IL 61853
217-590-2200

Regional Office Locations

DECATUR	800-327-1105
EFFINGHAM	800-331-9825
HIGHLAND	800-281-1344
JACKSONVILLE	800-537-3088
JERSEYVILLE	800-537-3087
LAWRENCEVILLE	800-247-7953
MAHOMET	800-327-2141
MARION	800-398-7538
MT. VERNON	855-862-5280
PARIS	800-345-6258
RED BUD	800-261-3522
SHERMAN	800-475-6103
TAYLORVILLE	800-635-1057
WATSEKA	800-808-5431

2019: A YEAR OF RESILIENCE

Farm Credit Illinois

Through the record-breaking spring rains, turbulent trade negotiations, continued tight margins, and unexpected loss of a leader and friend in former CEO Tom Tracy, farm families and the Farm Credit Illinois cooperative faced significant challenges in 2019. In a year of uncontrollable realities, farmer-members and the FCI team exhibited determination and strength – choosing to focus on what they could control.

Farm Credit Illinois is dedicated to **Helping Farm Families Succeed** through both the prosperous and challenging cycles of agriculture. Each day we are inspired by the resilience of farm families in these volatile times. And FCI is proud to deliver reliable, consistent credit and crop insurance expertise no matter what mother nature and the markets have in store.

The cooperative maintains its time-tested strategy of focusing on credit quality, stable earnings, and growth – in that order. Credit quality and net earnings both remained stable at 95.6% acceptable credit quality and $75.4 million in earnings. The Association distributed an inaugural $20 million of cash patronage to stockholders in June. This new tradition of delivering additional cooperative value will continue in 2020 with $28 million of cash patronage.

FCI continues its commitment to the next generation of farmers through the **FreshRoots** young and beginning farmers program, which has redeemed $1.1 million in learning incentives and booked $209.5 million in loan commitments to 872 members since the 2018 kickoff.

The Association's network of crop insurance expertise played a crucial role during a growing season with record-setting prevent planting claims. Working closely with FCI agents, farmers were able to understand options and take full advantage of policy coverage during the stressful spring. The Association grew insured acres to 1.36 million – a 7.31% increase from 2018.

FCI continually pursues ways to pass interest rate savings to member-borrowers. In today's historically low interest rate climate, FCI delivers nearly seamless loan conversions when there is an opportunity to reduce a member's interest rate or mitigate longer-term interest rate risk.

Looking to the future, the Association continues focusing on creating an exceptional member experience. Technology and process improvements will create tangible advances over the next few years in areas such as loan turnaround time, bills and statements, and online banking. In 2019, FCI restructured departments and roles to improve efficiency and focus on members' needs.

FCI also expanded services to include Rural 1st® lending for country living. Launching Rural 1st allows the cooperative to increase its commitment to healthy rural communities by helping people realize their country living dreams.

Together, we faced the challenges and setbacks of 2019 with resilience and strength. We are honored to stand by you today and tomorrow. Thank you for your Farm Credit Illinois membership. We wish you a safe and successful 2020.

Sincerely,

Eric J. Mosbey
Board Chair

Aaron S. Johnson
President & CEO

2019 HIGHLIGHTS

Business Results

	2019	2018	Change
Owned and Managed Loans	$4.474 B	$4.416 B	**+1.3%**
Non-Adverse Credit Quality	97.4%	97.4%	**0.0%**
Multi-Peril Crop Insurance Premiums	$44.0 M	$40.3 M	**+9.2%**
Total Capital	$1.018 B	$972 M	**+4.7%**
Total Regulatory Capital	20.2%	19.2%	**+5.2%**
Net Earnings	$75.4 M	$72.4 M	**+4.1%**
Cash Patronage Declared*	$28 M	$20 M	**+40.0%**

*Patronage is paid from the previous year's earnings

Farm Credit Illinois

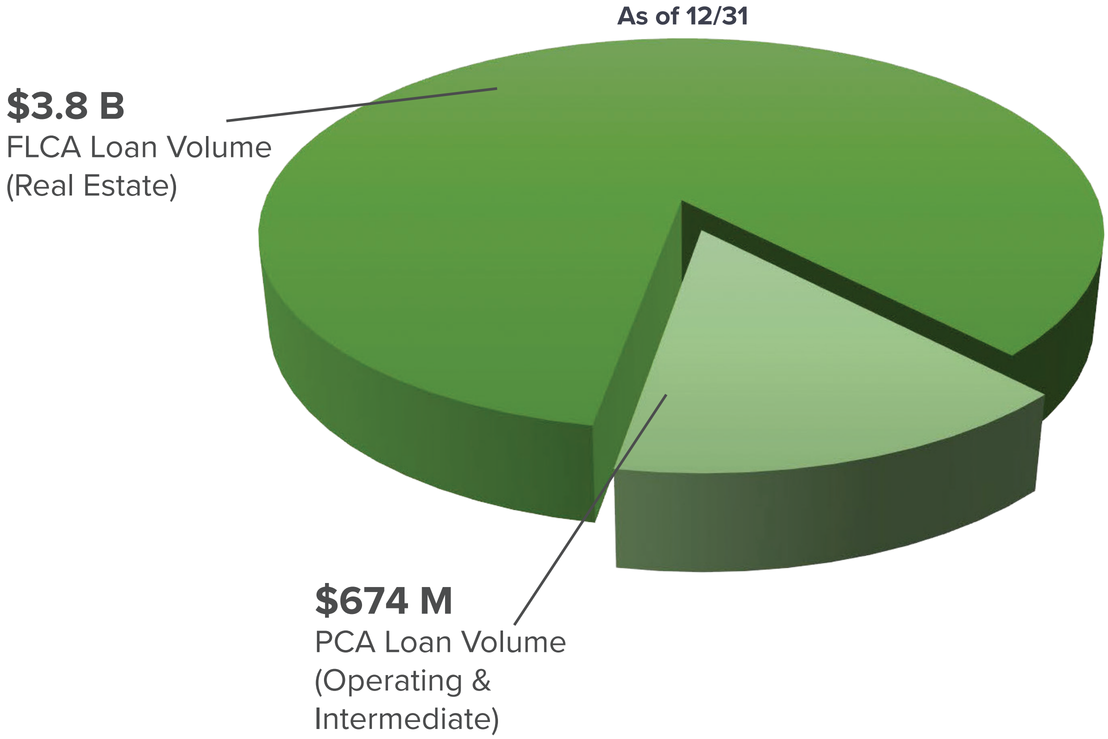
7,684
Farm Family Member-Owners

231
Full-time Employees

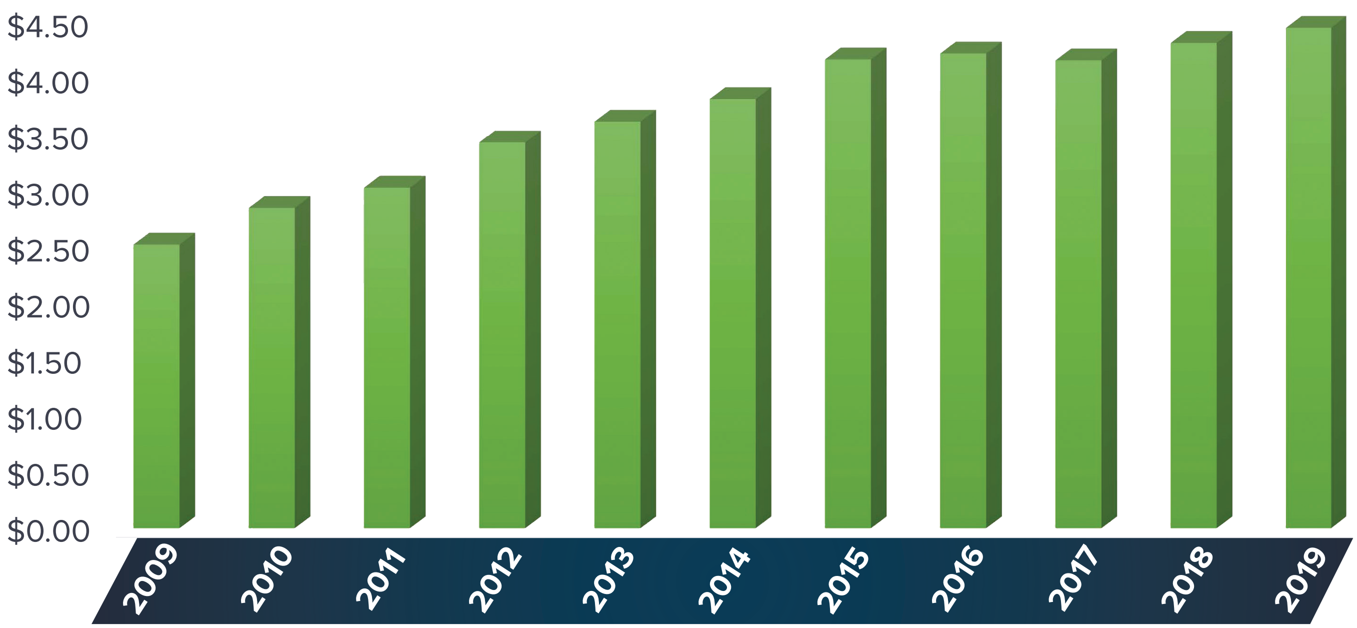
$4.5
Billion Total Loans

14
Regional Offices

Loan Portfolio



Total Owned & Managed



Owned and managed as of 12/31 annually in billions

Board of Directors

Member-owners elect **12 peers** to the board of directors and **2 outside directors** are appointed – ensuring FCI carries out its **cooperative mission** (listed below by director region and county).

Region 1

Wes Durbin, **Vice Chair**, Shelby
Clayton Bloome, Christian
Adam Brown, Macon
Mike Carls, Cass

Region 2

Eric Mosbey, **Board Chair**, Crawford
David Haase, Iroquois
Steve Hettinger, Champaign
Kevin Miller, Jasper

Region 3

Marc Bremer, Massac
Kent Brinkmann, Clinton
Lisa Helmink, Clinton
Vacant director position

Outside Appointed

Michael Donohoe, Champaign
K. Bridget Schneider, Logan

2020 Board of Directors

Senior Management

Aaron Johnson was named Farm Credit Illinois president and CEO by the cooperative's board of directors in December 2019. Johnson brings nearly 35 years of experience to the role.

FCI's senior team **sets strategic direction and protects the financial well-being of the Association**.

2020 Senior Management Team

L-R: **Jackie Martinie**, Chief Credit Officer; **Bob Rhode**, General Counsel; **Aaron Johnson**, President & CEO; **Shaun Murray**, Chief Operations Officer; **Steve Carson**, Executive Vice President & Chief Risk Officer; **Ryan Berg**, Chief Administrative Officer; **Kelly Loschen**, Chief Financial Officer

CASH PATRONAGE

- Low upfront interest rates
- Capitalizing for the future
- FreshRoots young & beginning farmer support
- Employee training, succession, & retention
- Member learning workshops
- Rural marketplace investments

CASH PATRONAGE

In June 2019, FCI delivered its inaugural cash patronage to stockholder-members, creating additional cooperative value for members. Patronage is distributed equitably based on the business value each member contributed to the cooperative.

Cash patronage is the newest way FCI creates cooperative value for members and the marketplace, while remaining committed to providing low upfront interest rate pricing, a strong capital position for the future, and initiatives supporting members and local communities.

Celebrate 2019

- **$20 M** delivered
- **27.6%** of Association's 2018 net earnings

Anticipate 2020

- **$28 M** delivered
- **37.1%** of Association's 2019 net earnings

CORE PURPOSE

Dedicated to Helping Farm Families Succeed

Products & Services

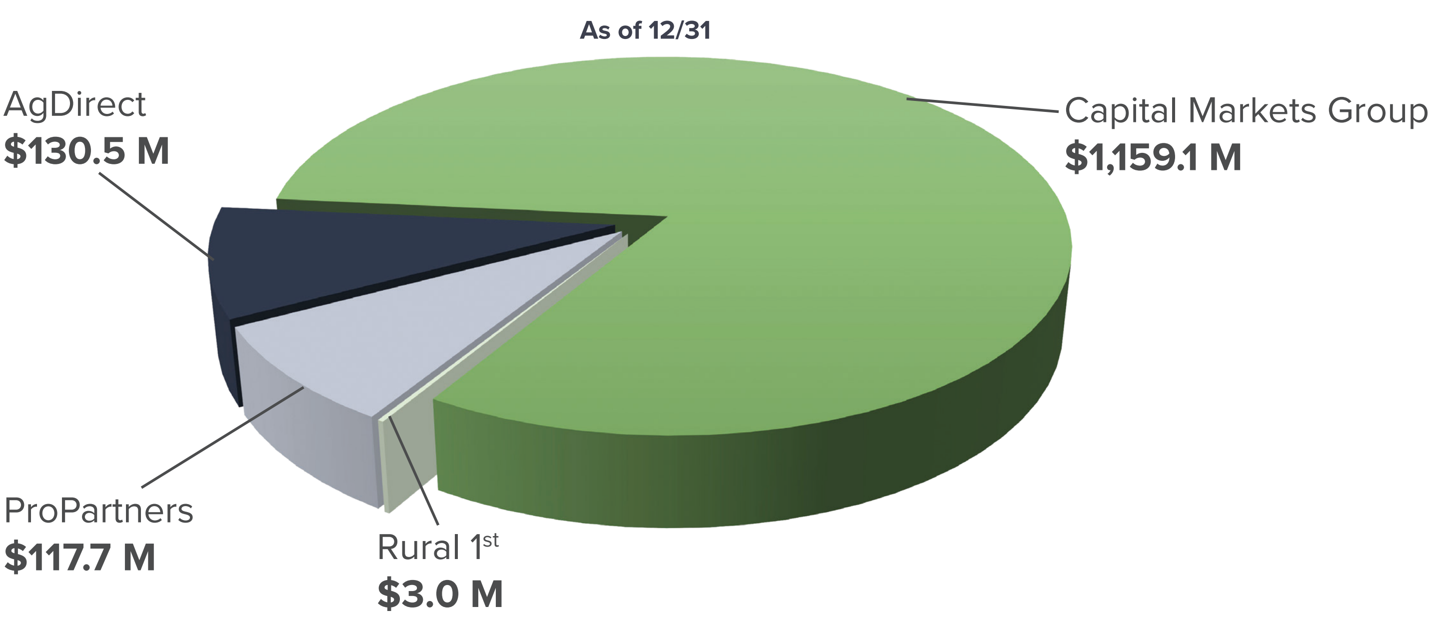
The products and services at the core of FCI's business help **fulfill its mission**.

- Farm Real Estate Loans
- Operating Lines of Credit
- Machinery, Structure, and Livestock Loans
- **FreshRoots** Young and Beginning Farmer Loans
- Crop Insurance
- Agribusiness Financing
- Real Estate Appraisals
- Farm Cash Management
- Funds Held

System Collaborations

FCI partners with other Farm Credit Associations, **generating additional income and diversifying the portfolio**.

- AgDirect — equipment financing
- ProPartners — input financing
- Rural 1st — country living loans
- Capital Markets Group — agribusiness loans



Introducing Lending for Country Living

Whatever rural life you envision, Farm Credit Illinois now has the **financing to make it happen** with Rural 1st. As the leader in country living lending, Rural 1st provides a complete range of loan options.

- Rural Home
- Construction
- Recreational Land
- Rural Lots

Rural 1st Lending Officers

Luke Fraley

Kristie Hayes

Taryn Wolf

RURAL 1st®

Lending for Country Living

Rural 1st® is the tradename and a registered trademark of Farm Credit Mid-America (NMLS 407249). Rural 1st is also available to consumers within the territories of participating Farm Credit System Associations, including Farm Credit Illinois NMLS 1844469. All loans subject to credit approval and eligibility.

EQUAL HOUSING LENDER

MEMBER ENGAGEMENT

Nominating Committee

The 2020 nominating committee nominates candidates for the 2021 board of directors and nominating committee elections (listed below by region and county).

Region 1

Nominating Committee

David Dorn Jr., Christian
Alec Murphy, Logan
John Rundquist, Montgomery
Mike Stacey, Macon

Alternates

Christopher Dussold, Bond
Blake Furness, Montgomery
William Kuebrich, Jersey
Clifford Nolte, Calhoun

Region 2

Nominating Committee

Scott Bidner, Champaign
Ryan Gilbert, Edgar
Greg Pool, Ford
Brian Walk, Cumberland

Alternates

Aaron Bartlow, Piatt
Stan Catlett, Vermilion
David Punke, Ford
Allen Walters, Clark

Region 3

Nominating Committee

Scott Knop, Randolph
David Krebel, Monroe
Arthur Matecki, Washington
Alan Neuhaus, Jackson

Alternates

Allen Gramenz, Randolph
Charles Lambdin, Union
Rick Pytlinski, Jefferson
Michael Weilbacher, St. Clair

Interested in serving as a director or nominating committee member?

Submit a candidate interest form at

www.farmcreditIL.com/candidate

FARM CREDIT ILLINOIS

Member Advisory Council

A group of members with diverse operations exchange ideas with cooperative leadership, recommending future member experience initiatives (listed below by region and county).

Region 1

Penny Bliler, Christian
Rick Dean, DeWitt
Lisa Hadden, Morgan
Dennis Kunken, Menard
Cory Maher, Greene
Derek Martin, Logan
Nate & Jennifer Monke, Macoupin
Grant Noland, Macon
Kenny O'Brien, Christian
Rudy Pate, Morgan
Brian Rincker, Shelby
David Smith Jr., Greene

Region 2

Ryan Butzow, Iroquois
Clayton Coulter, Champaign
Chris Emken, Lawrence
Brad Homann, Coles
Gregory & Carter Ingram, Edgar
Jason Johnson, Ford
Rory Keigher, Iroquois
Bernie Magsamen, Champaign
Mark & Jeanette Niebrugge, Effingham
Christopher & Jack Plunk, Piatt
Ryan Probst, Jasper
Andy Schumacher, Cumberland
Kevin Wienke, Champaign
Tim & Dennis Zehner, Lawrence

Region 3

Phillip Arentsen, Clinton
Marc Bremer, Massac
John Hannan, Pulaski
Scott & Neil Heins, Jackson
Jared Kellerman, Perry
Donnie Laird, Jefferson
Roger Loyd, Franklin
Bryan Tomm, White
Nicholas Wiseman, Edwards

FreshRoots Directors Cup

The Directors Cup presented by the FCI board celebrates young and beginning farmers committed to continuous learning and intentional living for a brighter future for their farm family business and community. Six members were named the inaugural honorees in 2019 and each received **$5,000**.

Read more about each honoree at www.farmcreditIL.com/freshroots.

Levi Bailey of Louisville (Clay County)

FARMING ENTERPRISES
Corn and soybeans

FARMING CAREER
Began farming in 2013 and is now the sole proprietor of his third generation family farm

FAMILY LIFE
He and his wife Amanda have three children – Rylie, Lyla, and Owen

WORDS TO LIVE BY
"A person can get ahead and build a business with hard work and a willingness to try new things. We have to keep up with the ever-changing industry to create profit opportunities for our farm and family."

DIRECTORS CUP HONOREES

FARM CREDIT ILLINOIS

Ben Briggs of Stonington (Christian County)

FARMING ENTERPRISES
Corn and soybeans

FARMING CAREER
Began farming in 2011 and is now the sixth generation sole proprietor of his family farm

FAMILY LIFE
He and his wife Abby have two children – Olivia and Will

WORDS TO LIVE BY
"It's impossible to know everything, so don't try. Instead, surround yourself with trustworthy people who will have the answers you need. FCI learning workshops have instilled the importance of building working capital and living conservatively to ensure future financial stability and happiness on and off the farm."

Faith Kemme of Altamont (Effingham County)

FARMING ENTERPRISES
Corn and soybeans

FARMING CAREER
Began farming in 2016 and works with her father and brother-in-law as a third generation farmer

FAMILY LIFE
She and her husband Matt have one son – Leo – and are expecting

WORDS TO LIVE BY
"Success is no accident; there's always something to learn and room for improvement. Focusing on improving the farmland and resources you already have is an opportunity for all farmers."

Derek and Renee Martin of Mt. Pulaski (Logan County)

FARMING ENTERPRISES
Corn and soybeans

FARMING CAREER
As the seventh generation, they farm with Derek's brother Doug and his wife Erin; Derek began farming in 2013 and Renee joined full-time in 2018

FAMILY LIFE
Have two sons – Dean and Reid

WORDS TO LIVE BY
"Embracing technology allows you to become more efficient and profitable and provides the next generation with opportunities. Sometimes even implementing old practices with new twists, like strip-till and no-till, can help you achieve your goals."

Bob Schroeder of Mahomet (Champaign County)

FARMING ENTERPRISES
Corn and soybeans

FARMING CAREER
Began farming in 2011 and works with his father and brother-in-law as the sixth generation

FAMILY LIFE
He and his wife Katelin have one daughter Lia

WORDS TO LIVE BY
"Annually looking at each farm's results and challenges allows you to implement specific solutions. Constantly testing new ideas lets you see how they can impact the business' bottom line."

Nathan Wentworth of Warrensburg (Macon County)

FARMING ENTERPRISES
Corn and soybeans

FARMING CAREER:
Began farming in 2005 and works full-time with his father and cousin as the sixth generation; partners with other cousins to increase efficiency

FAMILY LIFE
He and his wife Jessica have two children – Owen and Josie

WORDS TO LIVE BY
“Data collected from on-farm research drives future product and practice choices. Understanding cost of production and projecting net farm income helps remove emotion from marketing and can improve working capital and ownership equity.”

Directors Cup

FCI celebrates young and beginning farmers committed to continuous learning and intentional living for a brighter future for their farm family business and community with the Directors Cup Award.

As of January 1 of the application year, applicants must be up to age 40 or in their first 10 years of farming and have had an FCI loan for at least three years. Recipients will be selected annually by a panel of industry representatives and an FCI board member.

$5,000 Cash award

Application available at www.farmcreditIL.com/freshroots

RURAL MARKETPLACE SERVICE

Volunteer Hours

Employees **give back on behalf of FCI** to the communities where they live and work.

In 2019

- **169** employee participants
- **813** hours in support of youth development
- **790** hours in support of community service
- **613** hours in support of ag-vocacy
- **2,216** TOTAL volunteer service hours

Habitat for Humanity Fundraiser

Packaged Meals for Local Foodbank

Women Changing the Face of Agriculture

FFA Financial Presentation

Sandbag Filling for 2019 Floods

RURAL MARKETPLACE INVESTMENTS

2019 Farm Credit Illinois Agriculture Scholars

Scholarships and Grants

Scholarships **support college students** studying agriculture and community improvement grants help 4-H clubs and FFA chapters **deliver tangible value** in their community.

In 2019

- **$81,000** invested in youth programs
- **28** FCI scholars
- **50** grant recipients

2019 Community Improvement Grant Recipients

Mahomet-Seymour FFA Chapter

Mad Hatters 4-H Club

Fowler Farms - Grow & Learn Pavilion

Farmer Veteran Coalition

Farm Credit College

In 2019

- $306,129 youth development
- $ 35,353 ag-vocacy
- $ 57,877 farmer development
- $ 27,924 community charities
- $ 427,283 **TOTAL investments**

Funding for the Future

A growing portion of net earnings are **returned to the rural marketplace** with cash, in-kind, and endowment gifts.

Farmer development funds support external organizations delivering learning programs for young, beginning, small, women, urban, and veteran farmers.

Organizations with Farm Credit Illinois endowments:

- Ag-vocacy Fund at the Community Foundation of East Central Illinois
- *farmdoc*
- Illinois 4-H
- Illinois Agricultural Leadership Foundation
- Illinois FFA
- Illinois Farm Bureau Young Leaders
- Lake Land College
- Southern Illinois University College of Agricultural Sciences
- University of Illinois College of ACES

2019 REFLECTIONS

FARM CREDIT ILLINOIS

Summer Interns

Farm Progress Show

FreshRoots Retreat

Remembering Our Late Chief Tom Tracy, President & CEO 2015-2019

“Tom was an extraordinary leader with a brilliant financial mind and a kind and charitable heart. FCI will carry his legacy forward, supporting one another and **Helping Farm Families Succeed** today and tomorrow.” — Eric Mosbey, Board Chair

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Farm Credit Illinois, ACA

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Farm Credit Illinois, ACA

(dollars in thousands)

As of December 31	2019	2018	2017	2016	2015
Statement of Condition Data					
Loans	**$ 4,286,417**	$ 4,193,053	$ 4,073,787	$ 3,942,719	$ 3,824,454
Allowance for loan losses	**8,699**	8,798	7,111	6,420	5,489
Net loans	**4,277,718**	4,184,255	4,066,676	3,936,299	3,818,965
Investment in AgriBank, FCB	**118,610**	109,647	95,206	95,206	96,697
Investment securities	**9,559**	--	--	--	--
Other assets	**115,640**	121,761	102,292	82,522	74,978
Total assets	**$ 4,521,527**	$ 4,415,663	$ 4,264,174	$ 4,114,027	$ 3,990,640
Obligations with maturities of one year or less	**$ 61,880**	$ 56,841	$ 30,872	$ 3,267,063	$ 3,213,038
Obligations with maturities greater than one year	**3,441,433**	3,387,272	3,314,191	--	--
Total liabilities	**3,503,313**	3,444,113	3,345,063	3,267,063	3,213,038
Protected members' equity	**--**	--	4	5	6
Capital stock and participation certificates	**7,489**	7,554	7,922	8,035	8,305
Unallocated surplus	**1,011,847**	964,705	912,270	838,924	769,291
Accumulated other comprehensive loss	**(1,122)**	(709)	(1,085)	--	--
Total members' equity	**1,018,214**	971,550	919,111	846,964	777,602
Total liabilities and members' equity	**$ 4,521,527**	$ 4,415,663	$ 4,264,174	$ 4,114,027	$ 3,990,640

For the year ended December 31	2019	2018	2017	2016	2015
Statement of Income Data					
Net interest income	**$ 95,526**	$ 98,663	$ 93,806	$ 96,090	$ 84,297
Provision for loan losses	**672**	1,952	983	2,111	1,522
Other expenses, net	**19,468**	24,276	19,477	24,346	21,630
Net income	**$ 75,386**	$ 72,435	$ 73,346	$ 69,633	$ 61,145
Key Financial Ratios					
For the Year					
Return on average assets	**1.7%**	1.7%	1.8%	1.8%	1.7%
Return on average members' equity	**7.5%**	7.6%	8.3%	8.6%	8.2%
Net interest income as a percentage of average earning assets	**2.3%**	2.4%	2.4%	2.5%	2.5%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%	0.0%	0.0%
At Year End					
Members' equity as a percentage of total assets	**22.5%**	22.0%	21.6%	20.6%	19.5%
Allowance for loan losses as a percentage of loans	**0.2%**	0.2%	0.2%	0.2%	0.1%
Capital ratios effective beginning January 1, 2017:					
Common equity tier 1 ratio	**20.0%**	18.9%	18.2%	N/A	N/A
Tier 1 capital ratio	**20.0%**	18.9%	18.2%	N/A	N/A
Total capital ratio	**20.2%**	19.2%	18.3%	N/A	N/A
Permanent capital ratio	**20.1%**	19.0%	18.2%	N/A	N/A
Tier 1 leverage ratio	**21.4%**	20.3%	20.0%	N/A	N/A
Capital ratios effective prior to 2017:					
Permanent capital ratio	**N/A**	N/A	N/A	17.2%	16.6%
Total surplus ratio	**N/A**	N/A	N/A	17.0%	16.4%
Core surplus ratio	**N/A**	N/A	N/A	17.0%	16.4%
Net Income Distributed					
For the Year					
Paid for prior year's patronage:					
Cash	**$ 20,166**	$ --	$ --	$ --	$ --

MANAGEMENT'S DISCUSSION AND ANALYSIS

Farm Credit Illinois, ACA

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Illinois, ACA (the Association) and its subsidiaries, Farm Credit Illinois, FLCA and Farm Credit Illinois, PCA and provides additional specific information. The accompanying Consolidated Financial Statements and Notes to the Consolidated Financial Statements also contain important information about our financial condition and results of operations.

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of January 1, 2020, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 68 customer-owned cooperative lending institutions (associations). The System serves all 50 states, Washington D.C., and Puerto Rico. This network of financial cooperatives is owned and governed by the rural customers the System serves.

AgriBank, FCB (AgriBank), a System Farm Credit Bank, and its District associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). We are an association in the District.

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

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of AgriBank financial reports, contact us at:

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

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St. Paul, MN 55101
(651) 282-8800
www.agribank.com
financialreporting@agribank.com

Our Annual Report is available on our website no later than 75 days after the end of the calendar year and members are provided a copy of such report no later than 90 days after the end of the calendar year. The Quarterly Reports are available on our website no later than 40 days after the end of each calendar quarter. To request free copies of our Annual or Quarterly Reports, contact us as stated above.

FORWARD-LOOKING INFORMATION

This Annual Report includes forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. Words such as "anticipate", "believe", "estimate", "may", "expect", "intend", "outlook", and similar expressions are used to identify such forward-looking statements. These statements reflect our current views with respect to future events. However, actual results may differ materially from our expectations due to a number of risks and uncertainties, which may be beyond our control. These risks and uncertainties include, but are not limited to:

- Political (including trade policies), legal, regulatory, financial markets, and economic conditions and developments in the United States (U.S.) and abroad
- Economic fluctuations in the agricultural, international, and farm-related business sectors
- Weather-related, disease, and other adverse climatic or biological conditions that periodically occur and can impact agricultural productivity and income
- Changes in U.S. government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government, other government-sponsored enterprises, and other financial institutions
- Actions taken by the Federal Reserve System in implementing monetary policy
- Credit, interest rate, and liquidity risks inherent in our lending activities
- Changes in our assumptions for determining the allowance for loan losses, other-than-temporary impairment, and fair value measurements
- Industry outlooks for agricultural conditions

AGRICULTURAL AND ECONOMIC CONDITIONS

With more than half of 2019 Illinois corn acres and 80% of soybean acres planted after June 1, 2019, an unusually high percentage of crops remained standing late into the year. As of the final Illinois Crop Progress and Conditions report, issued November 25, 2019, corn harvest was shown at 88% complete and soybean harvest at 95% complete. Fall work is essentially finished in most years by the end of November. Due to the very late planting season, yields were down from 2018, but better than were expected mid-year. The Illinois Crop Production report issued January 10, 2020 projected 2019 Illinois corn production at 181.0 bushels per acre compared to 210.0 bushels per acre in 2018. Soybean yield was shown at 54.0 bushels per acre versus 63.5 bushels per acre in 2018.

The February 11, 2019 U.S. Department of Agriculture (USDA) World Agricultural Supply and Demand Estimates reflect no change in the U.S. corn supply and use outlook compared to last month's report with production at 13.7 billion bushels and a national average yield of 167.0 bushels per acre. Compared to 2018, U.S. production was down more than 4% and ending stocks are down nearly 15%. The season average farm price for corn is projected at $3.85 per bushel, up $0.24 per bushel from the 2018/2019 marketing year. Soybean-harvested acres are down 12.6 million from last year with a yield of 47.4 bushels per acre as compared to 50.6 bushels per acre in 2018. Despite a year-to-year drop in U.S. soybean production of 20%, global oilseed production is up. The season average farm price is projected to be $8.75 per bushel, down $0.25 per bushel from last month's report, but up $0.27 per bushel from the previous marketing year.

There is some optimism regarding world trade, as the first phase of an agreement, in principle, has been reached between the U.S. and China. The agreement was signed in mid-January with projections for an increase in demand for U.S. farm goods of $32 billion annually. Many market analysts are skeptical of that level of nearby demand for many reasons, including Brazil having taken the opportunity over the past two years to gain market share in the world soybean export market. A revised U.S.-Mexico-Canada Agreement was signed on December 10, 2019, with the U.S. House of Representatives approving the deal on December 19, 2019. The Senate signed the measure on January 29, 2020. Among other provisions, the agreement will provide new market access for American dairy and poultry products and wheat trade will be treated more fairly. It is expected that the pact will mean an additional $2 billion in farm exports.

Given the unusual nature of the 2019 growing season, many questions remain as to the next round of production estimates. Coupled with questions surrounding trade agreements, corn and soybean price projections going forward into 2020 are highly variable. Net income projections for farms enrolled in Illinois Farm Business Farm Management cover operations across all categories of size, tenure and financial structure. Analysis of those records, provided by the University of Illinois, shows a drop in 2019 farm net income and in estimates of farm net income for 2020. The expected cost of production is essentially unchanged across the 2018, 2019, and 2020 figures. In 2018, Market Facilitation Payments (MFP) accounted for an average of $61.50 per acre (on a 50%/50% corn-soybean rotation) of the $819 per acre in average gross revenue. Net income in 2018 was calculated at $98 per acre. For 2019, with projected yields, corn and soybean prices of $3.90 and $9.00, respectively, and average MFP of $82 per acre, average gross revenue is projected at $761 per acre with net income of $40 per acre. Assuming trend line yields in 2020, and with stable corn and soybean prices, average gross revenues are estimated at $695 per acre. With constant expense figures, net income would be a loss of $26 per acre. This assumes no MFP or crop insurance proceeds. Many factors could lead to positive net income for 2020 including a return to above-average yields or a continuation of the MFP. Finalizing trade agreements could aid in commodity price prospects, however, barring a boost in prices, and without MFP payments, net income on Illinois farms could be negative in 2020.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $4.3 billion at December 31, 2019, an increase of $93.4 million from December 31, 2018.

Components of Loans

(in thousands)

As of December 31	**2019**	2018	2017
Accrual loans:			
Real estate mortgage	**$ 2,485,197**	$ 2,408,766	$ 2,275,124
Production and intermediate-term	**705,746**	747,105	862,854
Agribusiness	**815,263**	786,537	742,575
Other	**275,819**	244,010	187,694
Nonaccrual loans	**4,392**	6,635	5,540
Total loans	**$ 4,286,417**	$ 4,193,053	$ 4,073,787

The other category is primarily composed of rural infrastructure and agricultural export finance related loans and certain assets originated under the mission related investment authority.

We have sold to AgriBank participation interests in certain loans as part of pool programs. Beginning in 2018, we sold to AgriBank a 100% participation interest in production and intermediate-term loans associated with the ProPartners Financial (ProPartners) alliance. The total outstanding participation interests in these programs were $305.3 million, $334.1 million, and $265.8 million at December 31, 2019, 2018, and 2017, respectively.

Our production and intermediate-term loan portfolio exhibits some seasonality relating to patterns of operating loans made to crop producers. These 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.

We offer variable, fixed, indexed, and adjustable interest rate loan programs to our borrowers**.** We determine interest margins charged on each lending program based on cost of funds, credit risk, market conditions, and the need to generate sufficient earnings.

Portfolio Distribution

We are chartered to serve certain counties in Illinois. Approximately 87.9% of our total loan portfolio was in the state of Illinois at December 31, 2019. The remainder of our portfolio is purchased outside of the state to support rural America and to diversify our portfolio risk. No county comprised more than 5.0% of our total loan portfolio at December 31, 2019.

Agricultural Concentrations

As of December 31	**2019**	2018	2017
Corn and soybeans	**55.8%**	56.9%	60.2%
Landlords	**10.6%**	8.5%	8.6%
Production and services	**8.2%**	10.4%	9.8%
Ancillary agriculture products	**8.2%**	5.0%	5.7%
Livestock	**4.9%**	8.0%	6.1%
Other	**12.3%**	11.2%	9.6%
Total	**100.0%**	100.0%	100.0%

Commodities are based on the borrower's primary intended commodity at the time of loan origination and may change due to borrower business decisions as a result of changes in weather, prices, input costs, and other circumstances.

Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2018. Adversely classified loans were 2.6% of the portfolio at December 31, 2019, and 2018. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances government agency guarantee programs are used to reduce the risk of loss. At December 31, 2019, $199.7 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands)

As of December 31	**2019**	2018	2017
Loans:			
Nonaccrual	**$ 4,392**	$ 6,635	$ 5,540
Accruing restructured	**40**	67	110
Accruing loans 90 days or more past due	**2,201**	--	--
Total risk loans	**6,633**	6,702	5,650
Other property owned	**--**	--	--
Total risk assets	**$ 6,633**	$ 6,702	$ 5,650
Total risk loans as a percentage of total loans	**0.2%**	0.2%	0.1%
Nonaccrual loans as a percentage of total loans	**0.1%**	0.2%	0.1%
Current nonaccrual loans as a percentage of total nonaccrual loans	**72.2%**	51.0%	45.1%
Total delinquencies as a percentage of total loans	**0.2%**	0.4%	0.2%

Note: Accruing loans include accrued interest receivable.

The decrease in nonaccrual loans was primarily due to the charge-off of a capital markets account. Nonaccrual loans remained at an acceptable level at December 31, 2019, 2018, and 2017.

There was an increase in accruing loans 90 days or more past due in 2019. Our accounting policy requires loans past due 90 days or more to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, accruing loans 90 days or more past due were eligible to remain in accruing status.

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans inherent in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on the periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Allowance Coverage Ratios

As of December 31	**2019**	2018	2017
Allowance as a percentage of:			
Loans	**0.2%**	0.2%	0.2%
Nonaccrual loans	**198.1%**	132.6%	128.4%
Total risk loans	**131.1%**	131.3%	125.9%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%
Adverse assets to total regulatory capital	**12.8%**	12.4%	12.4%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2019.

Additional loan information is included in Notes 3, 11, 12, and 13 to the accompanying Consolidated Financial Statements.

INVESTMENT SECURITIES

In addition to loans, we held investment securities beginning in 2019. Investment securities totaled $9.6 million at December 31, 2019. Our investment securities consisted of securities containing loans guaranteed by the Small Business Administration (SBA). All of our investment securities were fully guaranteed by the SBA at December 31, 2019.

The investment portfolio is evaluated for other-than-temporary impairment. For the years ended December 31, 2019, we have not recognized any impairment on our investment portfolio.

Additional investment securities information is included in Note 5 to the accompanying Consolidated Financial Statements.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands)

For the year ended December 31	**2019**	2018	2017
Net income	**$ 75,386**	$ 72,435	$ 73,346
Return on average assets	**1.7%**	1.7%	1.8%
Return on average members' equity	**7.5%**	7.6%	8.3%

Changes in the chart above relate directly to:

- Changes in income discussed below
- Changes in assets discussed in the Loan Portfolio and Investment Securities sections
- Changes in capital discussed in the Capital Adequacy section

Changes in Significant Components of Net Income

	For the year ended December 31			Increase (decrease) in net income	
(in thousands)	**2019**	2018	2017	**2019 vs 2018**	2018 vs 2017
Net interest income	**$ 95,526**	$ 98,663	$ 93,806	**$ (3,137)**	$ 4,857
Provision for loan losses	**672**	1,952	983	**1,280**	(969)
Non-interest income	**39,362**	37,261	32,679	**2,101**	4,582
Non-interest expense	**57,725**	62,741	51,869	**5,016**	(10,872)
Provision for (benefit from) income taxes	**1,105**	(1,204)	287	**(2,309)**	1,491
Net income	**$ 75,386**	$ 72,435	$ 73,346	**$ 2,951**	$ (911)

Net Interest Income

Changes in Net Interest Income

(in thousands)

For the year ended December 31	**2019 vs 2018**	2018 vs 2017
Changes in volume	**$ 2,050**	$ 5,464
Changes in interest rates	**(5,133)**	(545)
Changes in nonaccrual income and other	**(54)**	(62)
Net change	**$ (3,137)**	$ 4,857

Net interest income included income on nonaccrual loans that totaled $340 thousand, $394 thousand and $456 thousand in 2019, 2018, and 2017, respectively. Nonaccrual income is recognized when received in cash, collection of the recorded investment is fully expected, and prior charge-offs have been recovered.

Net interest margin (net interest income as a percentage of average earning assets) was 2.3%, 2.4%, and 2.4% in 2019, 2018, and 2017, respectively.

Provision for Loan Losses

The fluctuation in the provision for loan losses was related to our estimate of losses in our portfolio for the applicable years. More specifically, the decrease was due to the participations sold to AgriBank at the end of 2018 and the charge-off of a capital markets account in 2019. Additional discussion is included in Note 3 to the accompanying Consolidated Financial Statements.

Non-Interest Income

The change in non-interest income was primarily due to patronage income and Allocated Insurance Reserve Accounts (AIRA) distribution.

We may receive patronage from AgriBank and other Farm Credit Institutions. Patronage distributions from AgriBank and other Farm Credit Institutions are declared solely at the discretion of each institution's Board of Directors.

Patronage Income

(in thousands)

For the year ended December 31	**2019**	2018	2017
Wholesale patronage	**$ 18,417**	$ 17,667	$ 16,271
Pool program patronage	**7,875**	6,016	6,273
AgDirect partnership distribution	**1,143**	1,018	792
Other Farm Credit Institution patronage	**18**	12	15
Total patronage income	**$ 27,453**	$ 24,713	$ 23,351
Form of patronage distributions:			
Cash	**$ 18,490**	$ 24,713	$ 23,351
Stock	**8,963**	--	--
Total patronage income	**$ 27,453**	$ 24,713	$ 23,351

Wholesale patronage income is based on the average balance of our note payable to AgriBank. The patronage rates were 55.9 basis points, 54.1 basis points, and 52.1 basis points in 2019, 2018, and 2017, respectively. AgriBank may distribute patronage in the form of stock or cash as determined by AgriBank's capital plan. See the Relationship with AgriBank section for further discussion on patronage income.

We have participated in pool programs in which we sell participation interests in certain loans to AgriBank. As part of these programs, we received patronage income in an amount that approximated the net earnings of the loans, less certain expenses. Net earnings represents the net interest income associated with these loans adjusted for certain fees and costs specific to the related loans as well as adjustments deemed appropriate by AgriBank related to the credit performance of the loans, as applicable. The patronage recorded in 2019 and 2018 included $71 thousand and $210 thousand, respectively, of our share of distributions from the AIRA related to the participations sold to AgriBank. The AIRA was established by the FCSIC when premiums collected increased the level of the Insurance Fund beyond the required secured base amount of 2.0% of insured debt. There were no AIRA distributions in 2017.

We also received a partnership distribution resulting from our participation in the AgDirect trade credit financing program. The AgDirect trade credit financing program is facilitated by another AgriBank District association through a limited liability partnership (AgDirect, LLP), in which we are a partial owner. AgriBank purchases a 100% participation interest in the program loans from AgDirect, LLP. Patronage distributions are paid to AgDirect, LLP, which in turn pays partnership distributions to the participating associations. We received a partnership distribution in an amount that approximated our share of the net earnings of the loans in the program, adjusted for required return on capital and servicing and origination fees.

The fluctuation in AIRA was due to our share of distributions from AIRA of $939 thousand and $2.3 million in 2019 and 2018, respectively. The AIRA was established by the FCSIC when premiums collected increased the level of the Insurance Fund beyond the required secured base amount of 2.0% of insured debt. There were no AIRA distributions in 2017.

Non-Interest Expense

Components of Non-interest Expense

(dollars in thousands) For the year ended December 31		2019		2018		2017
Salaries and employee benefits	**$**	**30,884**	$	30,768	$	29,846
Other operating expense:						
Purchased and vendor services		**10,157**		12,947		3,771
Communications		**676**		965		932
Occupancy and equipment		**2,871**		3,286		3,190
Advertising and promotion		**1,666**		1,541		2,207
Examination		**1,244**		1,171		1,127
Farm Credit System insurance		**2,952**		2,987		4,831
Other		**7,238**		8,405		5,629
Other non-interest expense		**37**		671		336
Total non-interest expense	**$**	**57,725**	$	62,741	$	51,869
Operating rate		**1.4%**		1.5%		1.3%

Purchased and vendor services decreased from the prior year due to the Farm Credit Financial Partners, Inc. (FPI) software conversion, which took place in 2018.

Provision for (Benefit from) Income Taxes

The variance in provision for (benefit from) income taxes was related to our estimate of taxes based on taxable income. Additional discussion is included in Note 9 to the accompanying Consolidated Financial Statements. In 2019, we recorded a 100% valuation allowance for our net deferred tax assets given our expectations regarding the ability to recognize the benefit from such deferred tax assets.

FUNDING AND LIQUIDITY

We borrow from AgriBank, under a note payable, in the form of a line of credit, as described in Note 7 to the accompanying Consolidated Financial Statements. This line of credit is our primary source of liquidity and is used to fund operations and meet current obligations. At December 31, 2019, we had $1.0 billion available under our line of credit. We generally apply excess cash to this line of credit. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

Note Payable Information

(dollars in thousands) For the year ended December 31		2019		2018		2017
Average balance	**$**	**3,281,482**	$	3,262,456	$	3,118,326
Average interest rate		**2.7%**		2.5%		2.0%

The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. However, we maintain some exposure to interest rates, including London Inter-bank Offered Rate (LIBOR), primarily from loans to customers, which may not have a component of our line of credit with an exact repricing attribute. Regulators in the U.S. and worldwide have expressed their desire to phase out LIBOR, and other inter-bank offered rates, by the end of 2021. They have indicated that the reliability and stability of LIBOR as a benchmark rate after 2021 cannot be assured. The Farm Credit System has established a LIBOR transition workgroup to provide leadership in addressing the LIBOR phase-out across System entities. While many factors can impact our net interest income, we expect that financial performance will remain relatively consistent under most interest rate environments over the next 12 months. At December 31, 2019, gross loans were funded 80.3% by the direct note and 19.7% by unallocated surplus.

CAPITAL ADEQUACY

Total members’ equity was $1,018.2 million, $971.6 million, and $919.1 million at December 31, 2019, 2018, and 2017, respectively. Total members’ equity increased $46.6 million from December 31, 2018, primarily due to net income for the year partially offset by $28.1 million patronage distribution accruals. The change in accumulated other comprehensive loss is the amortization impact of prior service cost and unamortized actuarial gain/loss related to the Pension Restoration Plan, and a reduction to our Investment in FPI related to its pension plan. Additional Pension Restoration Plan information is included in Note 10 to the accompanying Consolidated Financial Statements.

The FCA Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage.

Regulatory Capital Requirements and Ratios

As of December 31	**2019**	2018	2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:						
Common equity tier 1 ratio	**20.0%**	18.9%	18.2%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**20.0%**	18.9%	18.2%	6.0%	2.5%*	8.5%
Total capital ratio	**20.2%**	19.2%	18.3%	8.0%	2.5%*	10.5%
Permanent capital ratio	**20.1%**	19.0%	18.2%	7.0%	N/A	7.0%
Non-risk-adjusted:						
Tier 1 leverage ratio	**21.4%**	20.3%	20.0%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**23.0%**	21.6%	21.1%	1.5%	N/A	1.5%

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums was phased in over three years under the FCA capital requirements. The phase in period ended December 31, 2019.

Our capital plan is designed to maintain an adequate amount of surplus and allowance for loan losses, which represents our reserve for adversity prior to impairment of stock. We manage our capital to allow us to meet member needs and protect member interests, both now and in the future.

Capital ratios are directly impacted by changes in capital, assets, and off-balance sheet commitments. Refer to the Loan Portfolio and the Investment Securities sections for further discussion of the changes in assets. Additional discussion of regulatory ratios and members' equity information is included in Note 8 to the accompanying Consolidated Financial Statements.

In addition to these regulatory requirements, we establish an optimum total capital target. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. Our optimum total capital target is 17.0%, as defined in our 2020 capital plan.

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. We do not foresee any events that would result in this prohibition in 2020.

RELATIONSHIP WITH AGRIBANK

Borrowing

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement (GFA), as discussed in Note 7 to the accompanying Consolidated Financial Statements, governs this lending relationship.

The components of cost of funds under the GFA include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing and liquidity
- A bank profitability component
- A risk premium component, if applicable

In the periods presented, we were not subject to the risk premium component. Certain factors may impact our cost of funds, which primarily include market interest rate changes impacting marginal cost of debt as well as changes to pricing methodologies impacting the spread components described above.

The marginal cost of debt approach simulates matching the cost of underlying debt with similar terms as the anticipated terms of our loans to borrowers. This approach substantially protects us from market interest rate risk. We may occasionally engage in funding strategies that result in limited interest rate risk with approval by AgriBank's Asset/Liability Committee.

Investment

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing distributed AgriBank surplus. During 2019, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable, with an additional amount required on association growth in excess of a targeted growth rate, if the District is also growing above a targeted growth rate. Effective January 1, 2020, the required rate was increased to 2.50% with similar growth rate requirements as 2019.

We are also required to hold additional investment in AgriBank based on contractual agreements under pool programs.

As an AgDirect, LLP partnering association, we are required to purchase stock in AgDirect, which purchases an equivalent amount of stock in AgriBank. Specifically, the AgDirect trade credit financing program is required to own stock in AgriBank in the amount of 6.0% of the AgDirect program's outstanding participation loan balance at quarter end plus 6.0% of the expected balance to be originated during the following quarter.

Patronage

AgriBank's 2019 capital plan is intended to provide for adequate capital at AgriBank under capital regulations as well as to create a path to long-term capital optimization within the AgriBank District. The plan optimizes capital at AgriBank; distributing available AgriBank earnings in the form of patronage, either cash or stock. The plan is designed to maintain capital adequacy such that sufficient earnings will be retained in the form of unallocated retained earnings and allocated stock to meet the leverage ratio target and other regulatory or policy constraints prior to any cash patronage distributions.

We receive the below types of discretionary patronage from AgriBank. Patronage income earned may be paid in cash and AgriBank stock. Patronage income for 2019 was paid in cash and AgriBank stock. Patronage income in 2018 and 2017 was paid in cash.

- Wholesale patronage which includes:
  - Patronage on our note payable with AgriBank
  - Equalization patronage based on our excess stock in AgriBank
- Pool program patronage based on the net earnings of loan participation interests sold to AgriBank
- Distributions based on our share of the net earnings of the loans in the AgDirect trade credit financing program, adjusted for required return on capital and servicing and origination fees

Purchased Services

We purchase various services from AgriBank and SunStream Business Services (Sunstream), a division of AgriBank. The services include certain retail systems, financial reporting services, tax reporting services, and insurance services. The total cost of services we purchased from AgriBank was $764 thousand, $1.1 million and $931 thousand in 2019, 2018, and 2017, respectively. In January 2020, the FCA provided regulatory approval for the formation of a separate service entity, SunStream. Subsequent to the formation of SunStream, effective April 1, 2020, we will continue to purchase services from SunStream.

Impact on Members' Investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our members' investment.

OTHER RELATIONSHIPS AND PROGRAMS

Relationships with Other Farm Credit Institutions

ProPartners Financial: We participate in ProPartners Financial (ProPartners) with certain other associations in the Farm Credit System to provide producer financing through agribusinesses that sell crop inputs. ProPartners is directed by representatives from participating associations. Through November 30, 2018, the income, expense, and credit risks were allocated based on each association's participation interest of the ProPartners volume. Each association's allocation was established based on mutual agreement of the owners. We had $101.6 million of ProPartners volume at December 31, 2017. On December 1, 2018, we sold to AgriBank our entire interest in the loans associated with ProPartners. As part of this program, we receive discretionary patronage income from AgriBank that approximates the net earnings of the loans. AgriBank immediately purchases a 100% participation interest in all new ProPartners loans; therefore, we had no remaining ProPartners balance at December 31, 2019, or 2018.

Capital Markets Group: We participate in the Capital Markets Group (CMG) with two other AgriBank District associations. The CMG focuses on generating revenue and loan volume for the financial benefit of all three participating associations. Management for each association has direct decision-making authority over the loans purchased and serviced for their respective association. The business arrangement provides additional means for diversifying each participant's portfolio, helps reduce concentration risk, and positions the participants for continued growth. We had $1.2 billion, $1.1 billion, and $966.2 million of CMG volume at December 31, 2019, 2018, and 2017, respectively.

Farm Credit Leasing Services Corporation: We have an agreement with Farm Credit Leasing Services Corporation (FCL), a System service corporation, which specializes in leasing products and provides industry expertise. Leases are originated and serviced by FCL and we purchase a participation interest in the cash flows of the transaction. This arrangement provides our members with a broad selection of product offerings and enhanced lease expertise.

CoBank, ACB: We have a relationship with CoBank, ACB (CoBank), a System bank, which involves purchasing and selling participation interests in loans. As part of this relationship, our equity investment in CoBank was $79 thousand at December 31, 2019, 2018, and 2017.

Farm Credit Foundations: We have a relationship with Farm Credit Foundations (Foundations), a System service corporation, which involves purchasing human resource information systems, and benefit, payroll, and workforce management services. As of December 31, 2019, 2018, and 2017, our investment in Foundations was $29 thousand. The total cost of services we purchased from Foundations was $194 thousand, $176 thousand, and $255 thousand in 2019, 2018, and 2017, respectively.

Farm Credit Financial Partners, Inc.: Beginning in 2018, our customer relationship, reporting, internet, network security, loan accounting, loan origination, and general ledger systems are provided by FPI, a System service corporation, which provides technology and other operational services to its owners. As part of this relationship, we had an equity investment in FPI of $9.8 million, $10.3 million, and $10.0 million as of December 31, 2019, 2018, and 2017, respectively. The total cost of services we purchased from FPI was $7.6 million in 2019. The total cost of services we purchased from FPI in 2018 consisted of $6.6 million in conversion expense and $2.8 million in core service fees. We incurred $791 thousand in conversion expense in 2017.

Rural Business Investment Company: We and other Farm Credit Institutions are among the limited partners for Rural Business Investment Companies (RBICs). Refer to Note 6 to the accompanying Consolidated Financial Statements for further discussion.

Unincorporated Business Entities (UBEs)

In certain circumstances, we may establish separate entities to acquire and manage complex collateral, primarily for legal liability purposes.

AgDirect, LLP: We participate in the AgDirect trade credit financing program, which includes origination and refinancing of agriculture equipment loans through independent equipment dealers. The program is facilitated by another AgriBank District association through a limited liability partnership in which we are a partial owner. Our investment in AgDirect, LLP, was $8.4 million, $8.0 million, and $6.9 million at December 31, 2019, 2018, and 2017, respectively.

Programs

We are involved in a program designed to improve our credit delivery, related services, and marketplace presence.

Agriculture and Rural Community (ARC) Bond Program: We participated in the ARC Bond program authorized during 2006 by the FCA in order to meet the changing needs of agriculture and rural America by making investments that support farmers, ranchers, agribusinesses, and their rural communities and businesses. The FCA Board voted to conclude the program effective December 31, 2014. The Board's action permits each System institution to hold its ARC Bond program investments through the maturity dates for the investments, provided the institution continues to meet all approval conditions. The ARC Bond program is part of our mission related investments. These investments will help to increase rural communities' and businesses' well-being and prosperity by providing an adequate flow of capital into rural areas. We had $12.2 million, $17.6 million, and $20.0 million of volume under this program at December 31, 2019, 2018, and 2017, respectively.

REGULATORY MATTERS

Investment Securities Eligibility

On September 19, 2019, the FCA issued a proposed regulation regarding investment eligibility. The proposed regulation amends the regulations that became effective January 1, 2019, and would allow associations to purchase and hold portions of certain loans that non-Farm Credit System institutions originate and sell in the secondary market, and that the USDA unconditionally guarantees as to the timely payment of principal and interest. The comment period for this proposed rulemaking ended on November 18, 2019, and the final regulation has not yet been issued.

REPORT OF MANAGEMENT

Farm Credit Illinois, ACA

We prepare the Consolidated Financial Statements of Farm Credit Illinois, ACA (the Association) and are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Consolidated Financial Statements, in our opinion, fairly present the financial condition of the Association. Other financial information included in the Annual Report is consistent with that in the Consolidated Financial Statements.

To meet our responsibility for reliable financial information, we depend on accounting and internal control systems designed to provide reasonable, but not absolute assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the benefits derived when designing accounting and internal control systems. Financial operations audits are performed to monitor compliance. PricewaterhouseCoopers LLP, our independent auditors, audit the Consolidated Financial Statements. They also consider internal controls to the extent necessary to design audit procedures that comply with auditing standards generally accepted in the United States of America. The Farm Credit Administration also performs examinations for safety and soundness as well as compliance with applicable laws and regulations.

The Board of Directors has overall responsibility for our system of internal control and financial reporting. The Board of Directors and its Audit Committee consults regularly with us and meets periodically with the independent auditors and other auditors to review the scope and results of their work. The independent auditors have direct access to the Board of Directors, which is composed solely of directors who are not officers or employees of the Association.

The undersigned certify we have reviewed the Association's Annual Report, which has been prepared in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Eric J. Mosbey

Eric J. Mosbey
Chairperson of the Board
Farm Credit Illinois, ACA

Aaron S. Johnson

Aaron S. Johnson
President and Chief Executive Officer
Farm Credit Illinois, ACA

Kelly D. Loschen

Kelly D. Loschen
Chief Financial Officer
Farm Credit Illinois, ACA

March 12, 2020

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Farm Credit Illinois, ACA

The Farm Credit Illinois, ACA (the Association) principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2019. In making the assessment, management used the 2013 framework in Internal Control — Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2019, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2019.

Aaron S. Johnson

Aaron S. Johnson
President and Chief Executive Officer
Farm Credit Illinois, ACA

Kelly D. Loschen

Kelly D. Loschen
Chief Financial Officer
Farm Credit Illinois, ACA

March 12, 2020

REPORT OF AUDIT COMMITTEE

Farm Credit Illinois, ACA

The Consolidated Financial Statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of a subset of the Board of Directors of Farm Credit Illinois, ACA (the Association). The Audit Committee oversees the scope of the Association's internal audit program, the approval, and independence of PricewaterhouseCoopers LLP (PwC) as independent auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's actions with respect to recommendations arising from those auditing activities. The Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

Management is responsible for internal controls and the preparation of the Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the Consolidated Financial Statements in accordance with auditing standards generally accepted in the United States of America and to issue their report based on their audit. The Audit Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Audit Committee reviewed and discussed the audited Consolidated Financial Statements for the year ended December 31, 2019, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards AU-C 260, *The Auditor's Communication with Those Charged with Governance*, and both PwC and the internal auditors directly provided reports on any significant matters to the Audit Committee.

The Audit Committee had discussions with and received written disclosures from PwC confirming its independence. The Audit Committee also reviewed the non-audit services provided by PwC, if any, and concluded these services were not incompatible with maintaining PwC's independence. The Audit Committee discussed with management and PwC any other matters and received any assurances from them as the Audit Committee deemed appropriate.

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended that the Board of Directors include the audited Consolidated Financial Statements in the Annual Report for the year ended December 31, 2019.

Kevin Miller
Chairperson of the Audit Committee
Farm Credit Illinois, ACA

Kent Brinkmann
Michael Donohoe
Adam Brown

March 12, 2020

Report of Independent Auditors

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

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of Farm Credit Illinois, ACA and its subsidiaries as of December 31, 2019, 2018, and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 12, 2020

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

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Illinois, ACA

(in thousands)

As of December 31	**2019**	2018	2017
ASSETS			
Loans	**$ 4,286,417**	$ 4,193,053	$ 4,073,787
Allowance for loan losses	**8,699**	8,798	7,111
Net loans	**4,277,718**	4,184,255	4,066,676
Investment in AgriBank, FCB	**118,610**	109,647	95,206
Investment securities	**9,559**	--	--
Accrued interest receivable	**56,687**	54,569	49,442
Deferred tax assets, net	**--**	1,120	--
Other assets	**58,953**	66,072	52,850
Total assets	**$ 4,521,527**	$ 4,415,663	$ 4,264,174
LIABILITIES			
Note payable to AgriBank, FCB	**$ 3,441,433**	$ 3,387,272	$ 3,314,191
Accrued interest payable	**21,393**	22,244	16,341
Deferred tax liabilities, net	**--**	--	145
Patronage distribution payable	**28,078**	20,000	--
Other liabilities	**12,409**	14,597	14,386
Total liabilities	**3,503,313**	3,444,113	3,345,063
Contingencies and commitments (Note 12)			
MEMBERS' EQUITY			
Protected members' equity	**--**	--	4
Capital stock and participation certificates	**7,489**	7,554	7,922
Unallocated surplus	**1,011,847**	964,705	912,270
Accumulated other comprehensive loss	**(1,122)**	(709)	(1,085)
Total members' equity	**1,018,214**	971,550	919,111
Total liabilities and members' equity	**$ 4,521,527**	$ 4,415,663	$ 4,264,174

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Farm Credit Illinois, ACA

(in thousands)

For the year ended December 31	2019	2018	2017
Interest income	**$ 185,005**	$ 178,723	$ 154,629
Interest expense	**89,479**	80,060	60,823
Net interest income	**95,526**	98,663	93,806
Provision for loan losses	**672**	1,952	983
Net interest income after provision for loan losses	**94,854**	96,711	92,823
Non-interest income			
Patronage income	**27,453**	24,713	23,351
Financially related services income	**7,525**	7,085	6,880
Fee income	**3,060**	2,788	1,833
Allocated Insurance Reserve Accounts distribution	**939**	2,318	--
Other non-interest income	**385**	357	615
Total non-interest income	**39,362**	37,261	32,679
Non-interest expense			
Salaries and employee benefits	**30,884**	30,768	29,846
Other operating expense	**26,804**	31,302	21,687
Other non-interest expense	**37**	671	336
Total non-interest expense	**57,725**	62,741	51,869
Income before income taxes	**76,491**	71,231	73,633
Provision for (benefit from) income taxes	**1,105**	(1,204)	287
Net income	**$ 75,386**	$ 72,435	$ 73,346
Other comprehensive (loss) income			
Employee benefit plans activity	**$ (413)**	$ 376	$ --
Total other comprehensive (loss) income	**(413)**	376	--
Comprehensive income	**$ 74,973**	$ 72,811	$ 73,346

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Illinois, ACA

(in thousands)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance as of December 31, 2016	$ 5	$ 8,035	$ 838,924	$ --	$ 846,964
Net income	--	--	73,346	--	73,346
Other comprehensive loss and other	--	--	--	(1,085)	(1,085)
Capital stock and participation certificates issued	--	511	--	--	511
Capital stock and participation certificates retired	(1)	(624)	--	--	(625)
Balance as of December 31, 2017	4	7,922	912,270	(1,085)	919,111
Net income	--	--	72,435	--	72,435
Other comprehensive income	--	--	--	376	376
Unallocated surplus designated for patronage distributions	--	--	(20,000)	--	(20,000)
Capital stock and participation certificates issued	--	429	--	--	429
Capital stock and participation certificates retired	(4)	(797)	--	--	(801)
Balance as of December 31, 2018	--	7,554	964,705	(709)	971,550
Net income	**--**	**--**	**75,386**	**--**	**75,386**
Other comprehensive loss	**--**	**--**	**--**	**(413)**	**(413)**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(28,244)**	**--**	**(28,244)**
Capital stock and participation certificates issued	**--**	**451**	**--**	**--**	**451**
Capital stock and participation certificates retired	**--**	**(516)**	**--**	**--**	**(516)**
Balance as of December 31, 2019	**$ --**	**$ 7,489**	**$ 1,011,847**	**$ (1,122)**	**$ 1,018,214**

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Farm Credit Illinois, ACA

(in thousands)

For the year ended December 31		**2019**		2018		2017
Cash flows from operating activities						
Net income	**$**	**75,386**	$	72,435	$	73,346
Depreciation on premises and equipment		**764**		879		999
Loss (gain) on sale of premises and equipment, net		**--**		3		(90)
Amortization of premiums on loans and investment securities		**5,479**		2,410		277
Provision for loan losses		**672**		1,952		983
Stock patronage received from AgriBank, FCB		**(8,963)**		--		(1)
Changes in operating assets and liabilities:						
Increase in accrued interest receivable		**(2,324)**		(5,801)		(5,470)
Decrease (increase) in other assets		**7,901**		(6,172)		(5,562)
(Decrease) increase in accrued interest payable		**(851)**		5,903		4,265
(Decrease) increase in other liabilities		**(2,601)**		442		(1,054)
Net cash provided by operating activities		**75,463**		72,051		67,693
Cash flows from investing activities						
Increase in loans, net		**(99,250)**		(128,758)		(130,140)
Purchases of investment in AgriBank, FCB, net		**--**		(14,441)		--
Redemptions (purchases) of investment in other Farm Credit Institutions, net		**65**		(1,303)		(10,646)
Increase in investment securities, net		**(9,568)**		--		--
Purchases of premises and equipment, net		**(491)**		(192)		(437)
Net cash used in investing activities		**(109,244)**		(144,694)		(141,223)
Cash flows from financing activities						
Increase in note payable to AgriBank, FCB, net		**54,161**		73,081		73,704
Patronage distributions paid		**(20,166)**		--		--
Capital stock and participation certificates retired, net		**(214)**		(438)		(174)
Net cash provided by financing activities		**33,781**		72,643		73,530
Net change in cash		**--**		--		--
Cash at beginning of year		**--**		--		--
Cash at end of year	**$**	**--**	$	--	$	--
Supplemental schedule of non-cash activities						
Stock financed by loan activities	**$**	**149**	$	256	$	366
Stock applied against loan principal		**--**		190		304
Stock applied against loan interest		**--**		--		2
Interest transferred to loans		**206**		674		1,435
Patronage distributions payable to members		**28,078**		20,000		--
(Decrease) increase in members' equity from employee benefits		**(413)**		376		(1,085)
Supplemental information						
Interest paid	**$**	**90,330**	$	74,157	$	56,558
Taxes (refunded) paid, net		**--**		(443)		680

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Farm Credit Illinois, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

Farm Credit System and District

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of January 1, 2020, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 68 customer-owned cooperative lending institutions (associations). AgriBank, FCB (AgriBank), a System Farm Credit Bank, and its District associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). At January 1, 2020, the District consisted of 14 Agricultural Credit Associations (ACA) that each have wholly-owned Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries.

FLCAs are authorized to originate long-term real estate mortgage loans. PCAs are authorized to originate short-term and intermediate-term loans. ACAs are authorized to originate long-term real estate mortgage loans and short-term and intermediate-term loans either directly or through their subsidiaries. In addition, loans that are purchased from other entities are classified as FLCA loans. Associations are authorized to provide lease financing options for agricultural purposes and are also authorized to purchase and hold certain types of investments. AgriBank provides funding to all associations chartered within the District.

Associations are authorized to provide, either directly or in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers may include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related service businesses. In addition, associations can participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a System lending institution, but have operations that are functionally similar to the activities of eligible borrowers.

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

The Farm Credit Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used to ensure the timely payment of principal and interest on Farm Credit Systemwide debt obligations, to ensure the retirement of protected borrower capital at par or stated value, and for other specified purposes.

At the discretion of the FCSIC, the Insurance Fund is also available to provide assistance to certain troubled System institutions and for the operating expenses of the FCSIC. Each System bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2.0% of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. This percentage of aggregate obligations can be changed by the FCSIC, at its sole discretion, to a percentage it determines to be actuarially sound. The basis for assessing premiums is debt outstanding with adjustments made for nonaccrual loans and impaired investment securities which are assessed a surcharge while guaranteed loans and investment securities are deductions from the premium base. AgriBank, in turn, assesses premiums to District associations each year based on similar factors.

Association

Farm Credit Illinois, ACA (the Association) and its subsidiaries, Farm Credit Illinois, FLCA and Farm Credit Illinois, PCA (subsidiaries) are lending institutions of the System. We are a customer-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Alexander, Bond, Calhoun, Cass, Champaign, Christian, Clark, Clay, Clinton, Coles, Crawford, Cumberland, DeWitt, Douglas, Edgar, Edwards, Effingham, Fayette, Ford, Franklin, Gallatin, Greene, Hamilton, Hardin, Iroquois, Jackson, Jasper, Jefferson, Jersey, Johnson, Lawrence, Logan, Macon, Macoupin, Madison, Marion, Massac, Menard, Monroe, Montgomery, Morgan, Moultrie, Perry, Piatt, Pope, Pulaski, Randolph, Richland, Saline, Sangamon, Scott, Shelby, St. Clair, Union, Vermillion, Wabash, Washington, Wayne, White, and Williamson in the state of Illinois.

We borrow from AgriBank and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries.

We offer crop hail and multi-peril crop insurance to borrowers and those eligible to borrow. We also offer fee appraisals and producer education services to our members.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Reporting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. Preparing financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Certain amounts in prior years' financial statements have been reclassified to conform to the current year's presentation.

Principles of Consolidation

The Consolidated Financial Statements present the consolidated financial results of Farm Credit Illinois, ACA and its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

Loans: Loans are carried at their principal amount outstanding net of any unearned income, cumulative charge-offs, unamortized deferred fees and costs on originated loans, and unamortized premiums or discounts on purchased loans. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Origination fees, net of related costs, are deferred and recognized over the life of the loan as an adjustment to net interest income.

Generally we place loans in nonaccrual status when principal or interest is delinquent for 90 days or more (unless the loan is well secured and in the process of collection) or circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status, we reverse current year accrued interest to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment of the loan, unless the net realizable value is less than the recorded investment in the loan, then it is charged-off against the allowance for loan losses. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior charge-offs. In these circumstances interest is credited to income when cash is received. Loans are charged-off at the time they are determined to be uncollectible. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, the borrower has demonstrated payment performance, and the loan is not classified as doubtful or loss.

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a formally restructured loan for regulatory purposes. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as troubled debt restructurings are considered risk loans (as defined below).

Loans that are sold as participations are transferred as entire financial assets, groups of entire financial assets, or participating interests in the loans. The transfers of such assets or participating interests are structured such that control over the transferred assets, or participating interests have been surrendered and that all of the conditions have been met to be accounted for as a sale.

Allowance for Loan Losses: The allowance for loan losses is our best estimate of the amount of losses on loans inherent in our portfolio as of the date of the financial statements. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Loans in our portfolio that are considered impaired are analyzed individually to establish a specific allowance. A loan is impaired when it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. We generally measure impairment based on the net realizable value of the collateral. Risk loans include nonaccrual loans, accruing restructured loans, and accruing loans 90 days or more past due. All risk loans are considered to be impaired loans**.**

We record a specific allowance to reduce the carrying amount of the risk loan by the amount the recorded investment exceeds the net realizable value of collateral. When we deem a loan to be uncollectible, we charge the loan principal and prior year(s) accrued interest against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses.

An allowance is recorded for probable and estimable credit losses as of the financial statement date for loans that are not individually assessed as impaired. We use a two-dimensional loan risk rating model that incorporates a 14-point rating scale to identify and track the probability of borrower default and a separate 6-point scale addressing the loss severity. The combination of estimated default probability and loss severity is the primary basis for recognition and measurement of loan collectability of these pools of loans. These estimated losses may be adjusted for relevant current environmental factors.

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

Investment in AgriBank: Our stock investment in AgriBank is on a cost plus allocated equities basis.

Investment Securities: We are authorized to purchase and hold certain types of investments. If we have the positive intent and ability to hold these investments to maturity, they have been classified as held-to-maturity and are carried at cost adjusted for the amortization of premiums and accretion of discounts. If an investment is determined to be other-than-temporarily impaired, the carrying value of the security is written down to fair value. The impairment loss is separated into credit related and non-credit related components. The credit related component is expensed through "Net income" in the Consolidated Statements of Comprehensive Income in the period of impairment. The non-credit related component is recognized in other comprehensive income. Purchased premiums and discounts are amortized or accreted using the interest method over the terms of the respective securities. Realized gains and losses are determined using specific identification method and are recognized in current operations.

Other Investments: The carrying amount of the investments in the Rural Business Investment Companies, in which we are a limited partner and hold a non-controlling interest, are at cost and are included in "Other assets" in the Consolidated Statements of Condition. The investments are assessed for impairment. If impairment exists, losses are included in "Net income" in the Consolidated Statements of Comprehensive Income in the year of impairment. Income on the investments are limited to distributions received. In circumstances when distributions exceed our share of earnings after the date of the investment, these distributions are applied to reduce the carrying value of the investment and are not recognized as income.

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation and is included in “Other assets” in the Consolidated Statements of Condition. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets. Gains or losses on disposition are included in “Other non-interest income” or “Other non-interest expense” in the Consolidated Statements of Comprehensive Income. Depreciation and maintenance and repair expenses are included in “Other operating expenses” in the Consolidated Statements of Comprehensive Income and improvements are capitalized. All purchases of premises and equipment greater than $5 thousand are capitalized.

Post-Employment Benefit Plans: The District has various post-employment benefit plans in which our employees participate. Expenses related to these plans, except for the AgriBank District Pension Restoration Plan, are included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income.

Certain employees participate in the AgriBank District Retirement Plan. The plan is comprised of two benefit formulas. At their option, employees hired prior to October 1, 2001, are on the cash balance formula or on the final average pay formula. Benefits eligible employees hired between October 1, 2001, and December 31, 2006, are on the cash balance formula. Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. The AgriBank District Retirement Plan utilizes the "Projected Unit Credit" actuarial method for financial reporting and funding purposes.

Certain employees also participate in the AgriBank District Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits. Beginning in 2017, the pension liability attributable to the Pension Restoration Plan at the Association and the related accumulated other comprehensive loss are included in the Consolidated Statements of Condition. The components of net periodic cost other than the service cost component, are included in the line item “Other operating expenses” on the Consolidated Statements of Comprehensive Income. Service costs are included in the line item “Salaries and employee benefits” on the Consolidated Statements of Comprehensive Income.

We also provide certain health insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated cost of these benefits is accrued during the employees’ active service period.

The defined contribution plan allows eligible employees to save for their retirement either pre-tax, post-tax, or both, with an employer match on a percentage of the employee’s contributions. We provide benefits under this plan for those employees that do not participate in the AgriBank District Retirement Plan in the form of a fixed percentage of salary contribution in addition to the employer match. Employer contributions are expensed when incurred.

Certain employees also participate in the Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the Internal Revenue Service (IRS), are either a Chief Executive Officer or President of a participating employer, or have previously elected pre-tax deferrals in 2006 under predecessor nonqualified deferred compensation plans. Under this plan the employee may defer a portion of his/her salary, bonus, and other compensation. Additionally, the plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the retirement savings plan if it were not for certain IRS limitations.

Income Taxes: The ACA and PCA accrue federal and state income taxes. Deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance. The expected future tax benefits and consequences of uncertain income tax positions are accrued.

The FLCA is exempt from federal and other taxes to the extent provided in the Farm Credit Act.

Patronage Program: We accrue patronage distributions according to a prescribed formula approved by the Board of Directors.

Off-Balance Sheet Credit Exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. Commercial letters of credit are agreements to pay a beneficiary under specific conditions. Any reserve for unfunded lending commitments and unexercised letters of credit is based on management’s best estimate of losses inherent in these instruments, but the commitments have not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement are utilized in determining a reserve, if needed. Based on our assessment, any reserve is recorded in “Other liabilities” in the Consolidated Statements of Condition and a corresponding loss is recorded in “Provision for credit losses” in the Consolidated Statements of Comprehensive Income. However, no such reserve was necessary as of December 31, 2019, 2018, or 2017.

Cash: For purposes of reporting cash flow, cash includes cash on hand.

Fair Value Measurement: The accounting guidance describes three levels of inputs that may be used to measure fair value.

Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, quoted prices that are not current, or principal market information that is not released publicly
- Inputs that are observable such as interest rates and yield curves, prepayment speeds, credit risks, and default rates
- Inputs derived principally from or corroborated by observable market data by correlation or other means

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own judgments about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business. While we are a nonpublic entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements in alignment with other System institutions, whichever is earlier.

Standard and effective date	Description	Adoption status and financial statement impact
In February 2016, the FASB issued Accounting Standards Updated (ASU) 2016-02 "Leases." In July 2018, the FASB issued ASU 2018-11 "Leases (Topic 842): Targeted Improvements." The guidance was effective for public business entities in its first quarter of 2019 and early adoption was permitted.	The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases. Upon adoption, a liability for lease obligations and a corresponding right-of-use asset is recognized on the Consolidated Statements of Condition for all lease arrangements spanning more than 12 months. The guidance includes an optional transition method where an entity is permitted to apply the guidance as of the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings.	We adopted this guidance on January 1, 2019. The adoption of this guidance did not have a material impact on our financial condition, results of operations, and financial statement disclosures, and had no impact on cash flows.
In June 2016, the FASB issued ASU 2016-13 "Financial Instruments - Credit Losses." The guidance was originally effective for non-U.S. Securities Exchange Commission filers for our first quarter of 2021. In November 2019, the FASB issued ASU 2019-10 which amends the mandatory effective date for this guidance for certain institutions. We have determined we qualify for the deferral of the mandatory effective date. As a result of the change, the standard is effective for our first quarter of 2023 and early adoption is permitted.	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	We are evaluating the deferral and have not yet determined if we will early adopt the standard. We have reviewed the accounting standard, selected and substantially completed development and testing of our system, and are in the process of drafting disclosures. Significant implementation matters yet to be addressed include drafting of accounting policies and designing processes and controls. We are currently unable to estimate the impact on our financial statements.

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)	**2019**		2018		2017	
As of December 31	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 2,489,082**	**58.1%**	$ 2,412,305	57.5%	$ 2,278,901	55.9%
Production and intermediate-term	**706,237**	**16.5%**	747,936	17.8%	864,617	21.2%
Agribusiness	**815,280**	**19.0%**	788,801	18.8%	742,575	18.2%
Other	**275,818**	**6.4%**	244,011	5.9%	187,694	4.7%
Total	**$ 4,286,417**	**100.0%**	$ 4,193,053	100.0%	$ 4,073,787	100.0%

The other category is primarily composed rural infrastructure and agricultural export finance related loans and certain assets originated under the mission related investment authority.

Portfolio Concentrations

Concentrations exist when there are amounts loaned to multiple borrowers engaged in similar activities, which could cause them to be similarly impacted by economic conditions. We lend primarily within agricultural industries.

Total loans plus any unfunded commitments represent a proportionate maximum potential credit risk. However, substantial portions of our lending activities are collateralized. Accordingly, the credit risk associated with lending activities is less than the recorded loan principal. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland, equipment, and income-producing property, such as crops and livestock. Long-term real estate loans are secured by the first liens on the underlying real property.

Participations

We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, or comply with the limitations of the FCA Regulations or General Financing Agreement (GFA) with AgriBank.

Participations Purchased and Sold

	AgriBank Participations		Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations		Total Participations	
(in thousands) **As of December 31, 2019**	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	**$ --**	**$ (186,634)**	**$ 91,347**	**$ (701)**	**$ 164,178**	**$ --**	**$ 255,525**	**$ (187,335)**
Production and intermediate-term	**--**	**(117,675)**	**197,870**	**--**	**--**	**--**	**197,870**	**(117,675)**
Agribusiness	**--**	**(1,010)**	**727,859**	**(5,282)**	**12,556**	**--**	**740,415**	**(6,292)**
Other	**--**	**--**	**263,489**	**--**	**--**	**--**	**263,489**	**--**
Total	**$ --**	**$ (305,319)**	**$ 1,280,565**	**$ (5,983)**	**$ 176,734**	**$ --**	**$ 1,457,299**	**$ (311,302)**

	AgriBank Participations		Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations		Total Participations	
As of December 31, 2018	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (222,278)	$ 66,289	$ (454)	$ 141,466	$ --	$ 207,755	$ (222,732)
Production and intermediate-term	--	(110,655)	185,015	--	--	--	185,015	(110,655)
Agribusiness	--	(1,133)	715,302	(5,846)	11,142	--	726,444	(6,979)
Other	--	--	226,119	--	--	--	226,119	--
Total	$ --	$ (334,066)	$ 1,192,725	$ (6,300)	$ 152,608	$ --	$ 1,345,333	$ (340,366)

	AgriBank Participations		Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations		Total Participations	
As of December 31, 2017	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (264,528)	$ 83,233	$ (1,266)	$ 50,836	$ --	$ 134,069	$ (265,794)
Production and intermediate-term	--	--	154,848	--	--	--	154,848	--
Agribusiness	--	(1,253)	671,528	(6,330)	5,911	--	677,439	(7,583)
Other	--	(43)	167,702	--	--	--	167,702	(43)
Total	$ --	$ (265,824)	$ 1,077,311	$ (7,596)	$ 56,747	$ --	$ 1,134,058	$ (273,420)

Information in the preceding chart excludes loans entered into under our mission related investment authority.

Credit Quality and Delinquency

We utilize the FCA Uniform Classification System to categorize loans into five credit quality categories. The categories are:

- Acceptable – loans are non-criticized loans representing the highest quality. They are expected to be fully collectible. This category is further differentiated into various probabilities of default.
- Other assets especially mentioned (Special Mention) – loans are currently collectible but exhibit some potential weakness. These loans involve increased credit risk, but not to the point of justifying a substandard classification.
- Substandard – loans exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – loans exhibit similar weaknesses as substandard loans. Doubtful loans have additional weaknesses in existing factors, conditions, and values that make collection in full highly questionable.
- Loss – loans are considered uncollectible.

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

Credit Quality of Loans

(dollars in thousands)	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2019	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 2,427,699**	**96.0%**	**$ 40,695**	**1.6%**	**$ 59,849**	**2.4%**	**$ 2,528,243**	**100.0%**
Production and intermediate-term	**661,119**	**91.8%**	**32,036**	**4.4%**	**27,013**	**3.8%**	**720,168**	**100.0%**
Agribusiness	**790,906**	**96.6%**	**4,967**	**0.6%**	**22,518**	**2.8%**	**818,391**	**100.0%**
Other	**268,807**	**97.3%**	**1,747**	**0.6%**	**5,709**	**2.1%**	**276,263**	**100.0%**
Total	**$ 4,148,531**	**95.6%**	**$ 79,445**	**1.8%**	**$ 115,089**	**2.6%**	**$ 4,343,065**	**100.0%**

	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2018	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 2,364,782	96.6%	$ 24,521	1.0%	$ 59,970	2.4%	$ 2,449,273	100.0%
Production and intermediate-term	707,036	92.8%	23,563	3.1%	30,987	4.1%	761,586	100.0%
Agribusiness	771,380	97.4%	2,583	0.3%	18,356	2.3%	792,319	100.0%
Other	239,384	97.9%	5,060	2.1%	--	0.0%	244,444	100.0%
Total	$ 4,082,582	96.1%	$ 55,727	1.3%	$ 109,313	2.6%	$ 4,247,622	100.0%

	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2017	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 2,222,633	96.2%	$ 28,687	1.2%	$ 59,187	2.6%	$ 2,310,507	100.0%
Production and intermediate-term	817,990	93.1%	28,988	3.3%	31,890	3.6%	878,868	100.0%
Agribusiness	733,217	98.4%	1,687	0.2%	10,676	1.4%	745,580	100.0%
Other	188,274	100.0%	--	0.0%	--	0.0%	188,274	100.0%
Total	$ 3,962,114	96.1%	$ 59,362	1.4%	$ 101,753	2.5%	$ 4,123,229	100.0%

Note: Accruing loans include accrued interest receivable.

Aging Analysis of Loans

(in thousands) **As of December 31, 2019**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$ 3,573**	**$ 2,958**	**$ 6,531**	**$ 2,521,712**	**$ 2,528,243**	**$ 2,201**
Production and intermediate-term	**431**	**409**	**840**	**719,328**	**720,168**	**--**
Agribusiness	**--**	**17**	**17**	**818,374**	**818,391**	**--**
Other	**--**	**--**	**--**	**276,263**	**276,263**	**--**
Total	**$ 4,004**	**$ 3,384**	**$ 7,388**	**$ 4,335,677**	**$ 4,343,065**	**$ 2,201**

As of December 31, 2018	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 13,939	$ 2,207	$ 16,146	$ 2,433,127	$ 2,449,273	$ --
Production and intermediate-term	1,319	744	2,063	759,523	761,586	--
Agribusiness	--	--	--	792,319	792,319	--
Other	890	--	890	243,554	244,444	--
Total	$ 16,148	$ 2,951	$ 19,099	$ 4,228,523	$ 4,247,622	$ --

As of December 31, 2017	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 1,953	$ 1,677	$ 3,630	$ 2,306,877	$ 2,310,507	$ --
Production and intermediate-term	1,842	1,284	3,126	875,742	878,868	--
Agribusiness	293	--	293	745,287	745,580	--
Other	--	--	--	188,274	188,274	--
Total	$ 4,088	$ 2,961	$ 7,049	$ 4,116,180	$ 4,123,229	$ --

Note: Accruing loans include accrued interest receivable.

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. Interest income recognized and cash payments received on nonaccrual risk loans are applied as described in Note 2.

Risk Loan Information

(in thousands) As of December 31	**2019**	2018	2017
Nonaccrual loans:			
Current as to principal and interest	**$ 3,171**	$ 3,383	$ 2,500
Past due	**1,221**	3,252	3,040
Total nonaccrual loans	**4,392**	6,635	5,540
Accruing restructured loans	**40**	67	110
Accruing loans 90 days or more past due	**2,201**	--	--
Total risk loans	**$ 6,633**	$ 6,702	$ 5,650
Volume with specific allowance	**$ 104**	$ 2,273	$ 679
Volume without specific allowance	**6,529**	4,429	4,971
Total risk loans	**$ 6,633**	$ 6,702	$ 5,650
Total specific allowance	**$ 104**	$ 713	$ 529

For the year ended December 31	**2019**	2018	2017
Income on accrual risk loans	**$ 42**	$ 64	$ 29
Income on nonaccrual loans	**340**	394	456
Total income on risk loans	**$ 382**	$ 458	$ 485
Average risk loans	**$ 7,156**	$ 7,202	$ 6,327

Note: Accruing loans include accrued interest receivable.

Nonaccrual Loans by Loan Type

(in thousands) As of December 31	**2019**	2018	2017
Real estate mortgage	**$ 3,884**	$ 3,540	$ 3,777
Production and intermediate-term	**491**	831	1,763
Agribusiness	**17**	2,264	--
Total	**$ 4,392**	$ 6,635	$ 5,540

Additional Impaired Loan Information by Loan Type

	As of December 31, 2019			**For the year ended December 31, 2019**	
(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	**$ --**	**$ --**	**$ --**	**$ --**	**$ --**
Production and intermediate-term	**87**	**88**	**87**	**137**	**--**
Agribusiness	**17**	**302**	**17**	**1,362**	**--**
Total	**$ 104**	**$ 390**	**$ 104**	**$ 1,499**	**$ --**
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	**$ 6,085**	**$ 6,033**	**$ --**	**$ 4,959**	**$ 112**
Production and intermediate-term	**444**	**789**	**--**	**698**	**270**
Agribusiness	**--**	**641**	**--**	**--**	**--**
Total	**$ 6,529**	**$ 7,463**	**$ --**	**$ 5,657**	**$ 382**
Total impaired loans:					
Real estate mortgage	**$ 6,085**	**$ 6,033**	**$ --**	**$ 4,959**	**$ 112**
Production and intermediate-term	**531**	**877**	**87**	**835**	**270**
Agribusiness	**17**	**943**	**17**	**1,362**	**--**
Total	**$ 6,633**	**$ 7,853**	**$ 104**	**$ 7,156**	**$ 382**

	As of December 31, 2018			For the year ended December 31, 2018	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ --	$ --	$ --	$ --	$ --
Production and intermediate-term	9	9	9	32	--
Agribusiness	2,264	2,284	704	307	--
Total	$ 2,273	$ 2,293	$ 713	$ 339	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 3,540	$ 3,438	$ --	$ 3,909	$ 156
Production and intermediate-term	889	1,293	--	2,954	302
Agribusiness	--	--	--	--	--
Total	$ 4,429	$ 4,731	$ --	$ 6,863	$ 458
Total impaired loans:					
Real estate mortgage	$ 3,540	$ 3,438	$ --	$ 3,909	$ 156
Production and intermediate-term	898	1,302	9	2,986	302
Agribusiness	2,264	2,284	704	307	--
Total	$ 6,702	$ 7,024	$ 713	$ 7,202	$ 458

	As of December 31, 2017			For the year ended December 31, 2017	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ --	$ --	$ --	$ --	$ --
Production and intermediate-term	679	705	529	1,156	--
Agribusiness	--	--	--	--	--
Total	$ 679	$ 705	$ 529	$ 1,156	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 3,777	$ 3,704	$ --	$ 3,136	$ 166
Production and intermediate-term	1,194	3,050	--	2,035	319
Agribusiness	--	--	--	--	--
Total	$ 4,971	$ 6,754	$ --	$ 5,171	$ 485
Total impaired loans:					
Real estate mortgage	$ 3,777	$ 3,704	$ --	$ 3,136	$ 166
Production and intermediate-term	1,873	3,755	529	3,191	319
Agribusiness	--	--	--	--	--
Total	$ 5,650	$ 7,459	$ 529	$ 6,327	$ 485

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

Unpaid principal balance represents the contractual principal balance of the loan.

We did not have any material commitments to lend additional money to borrowers whose loans were classified as risk loans at December 31, 2019.

Troubled Debt Restructurings (TDRs)

Included within our loans are TDRs. These loans have been modified by granting a concession in order to maximize the collection of amounts due when a borrower is experiencing financial difficulties. All risk loans, including TDRs, are analyzed within our allowance for loan losses.

We completed TDRs of certain production and intermediate-term loans during the years ended December 31, 2018 and 2017. Our recorded investment in these loans just prior to restructuring was $78 thousand and $217 thousand during the years ended December 31, 2018 and 2017, respectively. Our recorded investment in these loans immediately following the restructuring was $78 thousand and $216 thousand during the years ended December 31, 2018 and 2017, respectively. The recorded investment in the loan is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment. There were no new TDRs in 2019.

The primary types of modification included extension of maturity and forgiveness of interest.

There were no TDRs that defaulted during the year ended December 31, 2019, in which the modification was within twelve months of the respective reporting period. We had TDRs in the production and intermediate-term loan category of $19 thousand and $49 thousand that defaulted during the years ended December 31, 2018 and 2017, respectively, in which the modifications were within twelve months of the respective reporting period.

TDRs Outstanding in the Production and Intermediate-Term Loan Category

(in thousands) As of December 31	**2019**	2018	2017
TDRs in accrual status	**$ 40**	$ 67	$ 110
TDRs in nonaccrual status	**10**	9	254
Total TDRs	**$ 50**	$ 76	$ 364

There were no commitments to lend to borrowers whose loans have been modified in a TDR at December 31, 2019.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) For the year ended December 31	**2019**	2018	2017
Balance at beginning of year	**$ 8,798**	$ 7,111	$ 6,420
Provision for loan losses	**672**	1,952	983
Loan recoveries	**20**	478	464
Loan charge-offs	**(791)**	(743)	(756)
Balance at end of year	**$ 8,699**	$ 8,798	$ 7,111

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

(in thousands)	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2018	**$ 1,239**	**$ 2,923**	**$ 4,139**	**$ 497**	**$ 8,798**
Provision for (reversal of) loan losses	**27**	**(932)**	**1,433**	**144**	**672**
Loan recoveries	**--**	**20**	**--**	**--**	**20**
Loan charge-offs	**--**	**(10)**	**(781)**	**--**	**(791)**
Balance as of December 31, 2019	**$ 1,266**	**$ 2,001**	**$ 4,791**	**$ 641**	**$ 8,699**
Ending balance: individually evaluated for impairment	**$ --**	**$ 87**	**$ 17**	**$ --**	**$ 104**
Ending balance: collectively evaluated for impairment	**$ 1,266**	**$ 1,914**	**$ 4,774**	**$ 641**	**$ 8,595**
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2019	**$ 2,528,243**	**$ 720,168**	**$ 818,391**	**$ 276,263**	**$ 4,343,065**
Ending balance: individually evaluated for impairment	**$ 6,085**	**$ 531**	**$ 17**	**$ --**	**$ 6,633**
Ending balance: collectively evaluated for impairment	**$ 2,522,158**	**$ 719,637**	**$ 818,374**	**$ 276,263**	**$ 4,336,432**

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2017	$ 1,175	$ 3,537	$ 1,990	$ 409	$ 7,111
Provision for (reversal of) loan losses	249	(534)	2,149	88	1,952
Loan recoveries	1	477	--	--	478
Loan charge-offs	(186)	(557)	--	--	(743)
Balance as of December 31, 2018	$ 1,239	$ 2,923	$ 4,139	$ 497	$ 8,798
Ending balance: individually evaluated for impairment	$ --	$ 9	$ 704	$ --	$ 713
Ending balance: collectively evaluated for impairment	$ 1,239	$ 2,914	$ 3,435	$ 497	$ 8,085
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2018	$ 2,449,273	$ 761,586	$ 792,319	$ 244,444	$ 4,247,622
Ending balance: individually evaluated for impairment	$ 3,540	$ 898	$ 2,264	$ --	$ 6,702
Ending balance: collectively evaluated for impairment	$ 2,445,733	$ 760,688	$ 790,055	$ 244,444	$ 4,240,920

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2016	$ 768	$ 3,476	$ 1,701	$ 475	$ 6,420
Provision for (reversal of) loan losses	400	360	289	(66)	983
Loan recoveries	7	457	--	--	464
Loan charge-offs	--	(756)	--	--	(756)
Balance as of December 31, 2017	$ 1,175	$ 3,537	$ 1,990	$ 409	$ 7,111
Ending balance: individually evaluated for impairment	$ --	$ 529	$ --	$ --	$ 529
Ending balance: collectively evaluated for impairment	$ 1,175	$ 3,008	$ 1,990	$ 409	$ 6,582
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2017	$ 2,310,507	$ 878,868	$ 745,580	$ 188,274	$ 4,123,229
Ending balance: individually evaluated for impairment	$ 3,777	$ 1,873	$ --	$ --	$ 5,650
Ending balance: collectively evaluated for impairment	$ 2,306,730	$ 876,995	$ 745,580	$ 188,274	$ 4,117,579

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

NOTE 4: INVESTMENT IN AGRIBANK

During 2019, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable, with an additional amount required on association growth in excess of a targeted growth rate, if the District is also growing above a targeted growth rate. During 2019, the District did not grow beyond the targeted growth rate, therefore we were not required to purchase any additional stock as of December 31, 2019. Effective January 1, 2020, the required rate was increased to 2.50% with similar growth rate requirements as 2019.

We are also required to hold AgriBank stock related to our participation in pool programs. The required investment amount varies by pool program and is generally a percentage of the loan balance in the pool.

AgriBank's capital plan provides for annual retirement of AgriBank stock and optimizes capital at the Bank by distributing all available Bank earnings in the form of patronage, either in cash or stock. The plan is designed to maintain capital adequacy such that sufficient earnings will be retained in the form of allocated retained earnings and allocated stock to meet the leverage ratio target and other regulatory or policy constraints prior to any cash patronage distributions.

NOTE 5: INVESTMENT SECURITIES

We held investment securities of $9.6 million at December 31, 2019. Our investment securities consisted of securities containing loans guaranteed by the Small Business Administration (SBA). All of our investment securities were fully guaranteed by the SBA at December 31, 2019. We held no investment securities in 2018 or 2017.

The investment securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. For the year ended December 31, 2019, we have not recognized any impairment on our investment portfolio.

Additional Investment Securities Information

(dollars in thousands) As of December 31	**2019**	2018	2017
Amortized cost	**$ 9,559**	$ --	$ --
Unrealized gains	**14**	--	--
Unrealized losses	**(11)**	--	--
Fair value	**$ 9,562**	$ --	$ --
Weighted average yield	**2.1%**	--	--

Investment income is recorded in "Interest income" in the Consolidated Statements of Comprehensive Income and totaled $8 thousand in 2019.

NOTE 6: OTHER INVESTMENTS

We and other Farm Credit Institutions are among the limited partners for Rural Business Investment Companies (RBICs). Our total commitment is $9.0 million, with varying commitment end dates through December 2029. Certain commitments may have an option to extend under certain circumstances. Our investment in the RBICs totaled $1.0 million and $143 thousand at December 31, 2019 and 2018 respectively, which is included in "Other assets" in the Consolidated Statements of Condition. We had no investments in RBICs at December 31, 2017.

The investments were evaluated for impairment. For the years ended December 31, 2019 and 2018, we have not recognized any impairment on these investments.

NOTE 7: NOTE PAYABLE TO AGRIBANK

Our note payable to AgriBank represents borrowings, in the form of a line of credit, to fund our loan portfolio. The line of credit is governed by a GFA and substantially all of our assets serve as collateral.

Note Payable Information

(dollars in thousands) As of December 31	**2019**	2018	2017
Line of credit	**$ 4,500,000**	$ 4,500,000	$ 4,500,000
Outstanding principal under the line of credit	**3,441,433**	3,387,272	3,314,191
Interest rate	**2.5%**	2.7%	2.1%

Our note payable is scheduled to mature on July 31, 2022. The note payable will be renegotiated no later than the maturity date.

The GFA provides for limitations on our ability to borrow funds based on specified factors or formulas relating primarily to outstanding balances, credit quality, and financial condition. Additionally, we have requirements to maintain an effective program of internal controls over financial reporting. At December 31, 2019, and throughout the year, we were not declared in default under any GFA covenants or provisions.

NOTE 8: MEMBERS' EQUITY

Capitalization Requirements

In accordance with the Farm Credit Act, each borrower is required to invest in us as a condition of obtaining a loan. As authorized by the Agricultural Credit Act and our capital bylaws, the Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2.0% of the customer's total loan(s) or one thousand dollars, whichever is less. The purchase of a $5.00 participation certificate is required of all non-stockholder customers who purchase financial services. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The borrower acquires ownership of the capital stock at the time the loan is made. The aggregate par value of the stock is added to the principal amount of the related obligation unless guaranteed by a federal program or required by the title company at closing, in which case cash is collected for the value of the stock. We retain a first lien on the stock or participation certificates owned by customers.

Regulatory Capitalization Requirements

Regulatory Capital Requirements and Ratios

As of December 31	**2019**	2018	2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:						
Common equity tier 1 ratio	**20.0%**	18.9%	18.2%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**20.0%**	18.9%	18.2%	6.0%	2.5%*	8.5%
Total capital ratio	**20.2%**	19.2%	18.3%	8.0%	2.5%*	10.5%
Permanent capital ratio	**20.1%**	19.0%	18.2%	7.0%	N/A	7.0%
Non-risk-adjusted:						
Tier 1 leverage ratio	**21.4%**	20.3%	20.0%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**23.0%**	21.6%	21.1%	1.5%	N/A	1.5%

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums was phased in over three years under the FCA capital requirements. The phase in period ended December 31, 2019.

Risk-adjusted assets have been defined by the FCA Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets.

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the inclusion of the allowance for loan losses as a deduction to risk-adjusted assets for the permanent capital ratio.

These ratios are based on a three-month average daily balance in accordance with FCA Regulations and are calculated as follows (not all items below may be applicable to our Association):

- Common equity tier 1 ratio is statutory minimum purchased member stock, other required member stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to retirement, unallocated retained earnings as regulatorily prescribed, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required member stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt, and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for credit losses subject to certain limitations, less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings as regulatorily prescribed, paid-in capital, subordinated debt, and preferred stock subject to certain limitations, less certain allocated and purchased investments in other System institutions divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- Unallocated retained earnings and equivalents leverage ratio is unallocated retained earnings as regulatorily prescribed, paid-in capital, allocated surplus not subject to retirement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

The regulatory capital requirements allow for allotment agreements for only the permanent capital ratio and, as such, any stock in excess of our AgriBank required investment was not included in the common equity tier 1, tier 1 capital, total capital, or leverage ratios. We had no allocated excess stock at December 31, 2019, 2018, or 2017.

Description of Equities

The following represents information regarding classes and number of shares of stock and participation certificates outstanding. All shares and participation certificates are stated at a $5.00 par value.

	Number of Shares		
As of December 31	**2019**	2018	2017
Class A common stock (protected)	**--**	--	738
Class C common stock (at-risk)	**1,495,238**	1,506,390	1,579,854
Participation certificates (at-risk)	**2,554**	4,529	4,670

Under our bylaws, we are also authorized to issue Class B and Class D common stock. The Class B common stock is at-risk and nonvoting with a $5.00 par value per share, and Class D common stock is at-risk and nonvoting with a one thousand dollar par value per share. Currently, no stock of these classes has been issued.

Only holders of Class C common stock have voting rights. Our bylaws do not prohibit us from paying dividends on any classes of stock. However, no dividends have been declared to date.

Our bylaws generally permit stock and participation certificates to be retired at the discretion of our Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2019, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

In the event of our liquidation or dissolution, according to our bylaws, any remaining assets after payment or retirement of all liabilities will be distributed in the following order of priority:

- First, pro rata to all classes of preferred stock (if any) at par value
- Second, to the holders pro rata of all classes of common stock and participation certificates at par value

In the event of impairment, losses will be absorbed pro rata by all classes of common stock and participation certificates then by preferred stock, if any.

All classes of stock are transferable to other customers who are eligible to hold such class as long as we meet the regulatory minimum capital requirements.

Patronage Distributions

We accrued patronage distributions of $28.1 million and $20.0 million December 31, 2019 and 2018 respectively. No patronage distributions were accrued as of December 31, 2017. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements. All patronage distributions must be paid on an equitable and nondiscriminatory basis as determined by the Board of Directors and will be paid within eight-and-a-half months after year end. The patronage distributions are expected to be paid in cash.

The FCA Regulations prohibit patronage distributions to the extent they would reduce our permanent capital ratio below the minimum permanent capital adequacy standards. Additionally, patronage distributions may be restricted or prohibited without prior FCA approval if capital ratios fall below the total requirements, including the buffer amounts.

NOTE 9: INCOME TAXES

The Tax Cuts and Jobs Act (the Act) was enacted in December of 2017. This Act contained various tax law changes, including a federal statutory tax rate change to 21% from 34%, effective January 1, 2018. Because deferred tax assets and liabilities are expected to be recognized in the Association's tax return in a future year, when the new statutory tax rate would be applicable, the deferred tax assets and liabilities as of December 31, 2017, were valued using a blended federal/state effective tax rate based on the new federal statutory tax rate. The effect of this revaluation was recognized in our provision for income taxes for the year ended December 31, 2017.

Provision for (Benefit from) Income Taxes

Provision for (Benefit from) Income Taxes

(dollars in thousands)

For the year ended December 31	2019	2018	2017
Current:			
Federal	**$ (15)**	$ 61	$ (157)
State	**--**	--	(55)
Total current	**$ (15)**	$ 61	$ (212)
Deferred:			
Federal	**$ 9**	$ (1,443)	$ 403
State	**(329)**	(364)	96
Increase in valuation allowance	**1,440**	542	--
Total deferred	**1,120**	(1,265)	499
Provision for (benefit from) income taxes	**$ 1,105**	$ (1,204)	$ 287
Effective tax rate	**1.4%**	(1.7%)	0.4%

Reconciliation of Taxes at Federal Statutory Rate to Provision for (Benefit from) Income Taxes

(in thousands)

For the year ended December 31	2019	2018	2017
Federal tax at statutory rates	**$ 16,063**	$ 14,959	$ 25,035
State tax, net	**(99)**	(417)	34
Effect of non-taxable entity	**(16,341)**	(16,125)	(24,812)
Change in statutory tax rates due to the Tax Cuts and Jobs Act	**--**	--	10
Increase in valuation allowance	**1,440**	542	--
Other	**42**	(163)	20
Provision for (benefit from) income taxes	**$ 1,105**	$ (1,204)	$ 287

Deferred Income Taxes

Tax laws require certain items to be included in our tax returns at different times than the items are reflected on our Consolidated Statements of Comprehensive Income. Some of these items are temporary differences that will reverse over time. We record the tax effect of temporary differences as deferred tax assets and liabilities netted on our Consolidated Statements of Condition.

Deferred Tax Assets and Liabilities

(in thousands) As of December 31	**2019**	2018	2017
Allowance for loan losses	**$ 714**	$ 1,211	$ 616
Postretirement benefit accrual	**406**	409	413
Net operating loss carryforward	**1,863**	542	--
Accrued incentive	**543**	530	441
Accrued patronage income not received	**(288)**	--	(397)
AgriBank 2002 allocated stock	**(390)**	(390)	(390)
Accrued pension asset	**(841)**	(553)	(630)
Other liabilities	**(25)**	(87)	(198)
Total deferred tax assets (liabilities)	**1,982**	1,662	(145)
Valuation allowance	**(1,982)**	(542)	--
Deferred tax assets (liabilities), net	**$ --**	$ 1,120	$ (145)
Gross deferred tax assets	**$ 3,526**	$ 2,692	$ 1,470
Gross deferred tax liabilities	**$ (1,544)**	$ (1,030)	$ (1,615)

A valuation reserve for the deferred tax assets was necessary at December 31, 2019 because we determined that the net deferred tax asset was not realizable due to our minimal projected future tax liability, primarily as a result of our patronage program.

We have not provided for deferred income taxes on patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. Our total permanent investment in AgriBank is $20.6 million. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $981.3 million, as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

Our income tax returns are subject to review by various United States taxing authorities. We record accruals for items that we believe may be challenged by these taxing authorities. However, we had no uncertain income tax positions at December 31, 2019. In addition, we believe we are no longer subject to income tax examinations for years prior to 2016.

NOTE 10: EMPLOYEE BENEFIT PLANS

Pension and Post-Employment Benefit Plans

Complete financial information for the pension and post-employment benefit plans may be found in the AgriBank 2019 Annual Report.

The Farm Credit Foundations Plan Sponsor and Trust Committees provide oversight of the benefit plans. These governance committees are comprised of elected or appointed representatives (senior leadership and/or Board of Director members) from the participating organizations. The Plan Sponsor Committee is responsible for employer decisions regarding all benefit plans including retirement benefits. These decisions could include plan design changes, vendor changes, determination of employer subsidies (if any), and termination of specific benefit plans. Any action to change or terminate the retirement plan can only occur at the direction of the AgriBank District participating employers. The Trust Committee is responsible for fiduciary and plan administrative functions.

Pension Plan: Certain employees participate in the AgriBank District Retirement Plan, a District-wide multi-employer defined benefit retirement plan. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan’s benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan’s termination is contingent on the sufficiency of the plan’s net assets to provide benefits at that time. This plan is noncontributory and covers certain eligible District employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers’ retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if we choose to stop participating in the plan, we may be required to pay an amount based on the underfunded status of the plan. Because of the nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee transfers to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

AgriBank District Retirement Plan Information

(in thousands) As of December 31		2019		2018		2017
Unfunded liability	**$**	**220,794**	$	274,450	$	352,516
Projected benefit obligation		**1,421,126**		1,272,063		1,371,013
Fair value of plan assets		**1,200,332**		997,613		1,018,497
Accumulated benefit obligation		**1,298,942**		1,125,682		1,184,550

For the year ended December 31		2019		2018		2017
Total plan expense	**$**	**36,636**	$	51,900	$	44,730
Our allocated share of plan expenses		**1,724**		2,418		2,351
Contributions by participating employers		**90,000**		90,000		90,000
Our allocated share of contributions		**4,191**		4,216		4,604

The unfunded liability reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these Consolidated Financial Statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The accumulated benefit obligation is the actuarial present value of the benefits attributed to employee service rendered before the measurement date and based on current employee service and compensation. The funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. We recognize our proportional share of expense and contribute a proportional share of funding. Our allocated share of plan expenses is included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income.

Benefits paid to participants in the District were $68.8 million in 2019. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total District employer contributions expected to be paid into the pension plan during 2020 is $90.0 million. Our allocated share of these pension contributions is expected to be $4.4 million. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the District financial statements.

Nonqualified Retirement Plan: We also participate in the District-wide nonqualified defined benefit Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits.

Pension Restoration Plan Information

(in thousands) As of December 31		2019		2018		2017
Our unfunded liability	**$**	**805**	$	818	$	957

For the year ended December 31		2019		2018		2017
Our allocated share of plan expenses	**$**	**152**	$	191	$	212
Our cash contributions		**90**		148		567

The nonqualified plan is funded as the benefits are paid; therefore, there are no assets in the plan and the unfunded liability is equal to the projected benefit obligation. The recognition of the unfunded liability includes the impact of prior service cost and unamortized gain/loss. The increase in the liability was offset against accumulated other comprehensive loss and had no impact to net income. The amount of the pension benefits funding status is subject to many variables including interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their participants in the plan. Our allocated share of the components of net periodic benefit cost other than the service cost component, are included in “Other operating expenses” in the Consolidated Statements of Comprehensive Income. Service costs related to the plan are included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income. The Pension Restoration Plan is unfunded and we make annual contributions to fund benefits paid to our retirees covered by the plan. Our cash contributions are equal to the benefits paid. There were no benefits paid under the Pension Restoration Plan to our senior officers who were actively employed during the year.

Retiree Medical Plans: District employers also provide certain health insurance benefits to eligible retired employees according to the terms of the benefit plans. The anticipated costs of these benefits are accrued during the period of the employee's active status.

Retiree Medical Plan Information

(in thousands) For the year ended December 31	**2019**	2018	2017
Postretirement benefit (income) expense	**$ (24)**	$ (30)	$ 65
Our cash contributions	**87**	84	92

The 2019 and 2018 postretirement benefit income is due to an actuarial gain. Postretirement benefit (income) expense is included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income. Our cash contributions are equal to the benefits paid.

Defined Contribution Plans

We participate in a District-wide defined contribution plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2.0% and 50 cents on the dollar on the next 4.0% on both pre-tax and post-tax contributions. The maximum employer match is 4.0%. For employees hired after December 31, 2006, we contribute 3.0% of the employee's compensation and will match employee contributions dollar for dollar up to a maximum of 6.0% on both pre-tax and post-tax contributions. The maximum employer contribution is 9.0%. In March 2019, we contributed a one time additional 1% employer contribution to all eligible employees.

We also participate in a District-wide Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the IRS, are either a Chief Executive Officer or President of a participating employer, or have previously elected pre-tax deferrals in 2006 under predecessor nonqualified deferred compensation plans. Under this plan, the employee may defer a portion of his/her salary, bonus, and other compensation. Additionally, the plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the defined contribution plan if it were not for certain IRS limitations.

Employer contribution expenses for these plans, included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income, were $1.8 million, $1.7 million, and $1.4 million in 2019, 2018, and 2017, respectively. These expenses were equal to our cash contributions for each year.

NOTE 11: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members, and other organizations with which such persons may be associated. Such transactions may be subject to special approval requirements contained in the FCA Regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with other persons. In our opinion, none of these loans outstanding at December 31, 2019, involved more than a normal risk of collectability.

Related Party Loans Information

(in thousands) As of December 31	**2019**	2018	2017
Total related party loans	**$ 33,356**	$ 34,257	$ 35,319
For the year ended December 31	**2019**	2018	2017
Advances to related parties	**$ 11,043**	$ 8,394	$ 12,262
Repayments by related parties	**7,195**	7,756	8,424

The related parties can be different each year end primarily due to changes in the composition of the Board of Directors and the mix of organizations with which such persons may be associated. Information in the preceding chart is related to those considered related parties at year-end.

As discussed in Note 7**,** we borrow from AgriBank, in the form of a line of credit, to fund our loan portfolio. All interest expense as shown on the Consolidated Statements of Comprehensive Income was paid to AgriBank.

Total patronage received from AgriBank, which includes a partnership distribution from AgDirect, LLP, was $27.4 million, $24.7 million, and $23.3 million in 2019, 2018, and 2017, respectively. Patronage income for 2019 was paid in cash and AgriBank stock. Patronage income for 2018 and 2017 was paid in cash.

In addition, we received compensation from AgriBank for servicing loans of $409 thousand, $482 thousand, and $563 thousand in 2019, 2018, and 2017, respectively.

Refer to Note 3 for information on participations sold to AgriBank and Note 4 for stock investment in AgriBank information.

We purchase various services from AgriBank and SunStream Business Services (Sunstream), a division of AgriBank. The services include certain retail systems, financial reporting services, tax reporting services, and insurance services. The total cost of services we purchased from AgriBank was $764 thousand, $1.1 million and $931 thousand in 2019, 2018, and 2017, respectively. In January 2020, the FCA provided regulatory approval for the formation of a separate service entity, SunStream. Subsequent to the formation of SunStream, effective April 1, 2020, we will continue to purchase services from SunStream.

Beginning in 2018, our customer relationship, reporting, internet, network security, loan accounting, loan origination, and general ledger systems are provided by Farm Credit Financial Partners, Inc. (FPI), a System service corporation, which provides technology and other operational services to its owners. As part of this relationship, we had an equity investment in FPI of $9.8 million, $10.3 million, and $10.0 million as of December 31, 2019, 2018, and 2017, respectively. The total cost of services we purchased from FPI were $7.6 million, $9.4 million, and $791 thousand in 2019, 2018, and 2017, respectively.

We also purchase human resource information systems, and benefit, payroll, and workforce management services from Farm Credit Foundations (Foundations). As of December 31, 2019, 2018, and 2017, our investment in Foundations was $29 thousand. The total cost of services purchased from Foundations was $194 thousand, $176 thousand, and $255 thousand in 2019, 2018, and 2017, respectively.

NOTE 12: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk that may be recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2019, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $992.2 million. Additionally, we had $11.8 million of issued standby letters of credit as of December 31, 2019.

Commitments to extend credit and letters of credit generally have fixed expiration dates or other termination clauses and we may require payment of a fee. If commitments to extend credit and letters of credit remain unfulfilled or have not expired, they may have credit risk not recognized in the financial statements. We evaluated outstanding commitments and no allowances were deemed material. Many of the commitments to extend credit and letters of credit will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Certain letters of credit may have recourse provisions that would enable us to recover from third parties amounts paid under guarantees, thereby limiting our maximum potential exposure. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers and we apply the same credit policies. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on management's credit evaluation of the borrower.

We are among the limited partners in RBICs. Refer to Note 6 for additional discussion regarding this commitment.

NOTE 13: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at December 31, 2019, 2018, or 2017.

Non-Recurring

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)

As of December 31, 2019	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	**$ --**	**$ --**	**$ --**	**$ --**

As of December 31, 2018	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ --	$ 1,638	$ 1,638

As of December 31, 2017	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ --	$ 157	$ 157

Valuation Techniques

Impaired loans: Represents the carrying amount of loans, which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as Level 3.

NOTE 14: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 12, 2020, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our 2019 Consolidated Financial Statements or disclosure in the Notes to Consolidated Financial Statements.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

Farm Credit Illinois, ACA

(Unaudited)

Description of Business

General information regarding the business is incorporated herein by reference from Note 1 to the Consolidated Financial Statements in this Annual Report.

The description of significant business developments, if any, is incorporated herein by reference from the Management's Discussion and Analysis section of this Annual Report.

Description of Property

Property Information

Location	Description	Usage
Belleville	Owned	Held for Sale[1]
Decatur	Owned	Branch
Effingham	Owned	Branch
Highland	Owned	Branch
Jacksonville	Owned	Branch
Jerseyville	Owned	Branch
Marion	Owned	Branch
Lawrenceville	Owned	Branch
Mahomet	Owned	Headquarters/Branch
Mt. Vernon	Owned	Branch
Paris	Owned	Branch
Red Bud	Owned	Branch
Sherman	Owned	Branch
Taylorville	Owned	Branch
Watseka	Owned	Branch

[1]The Belleville building was sold during 2017, however there is an attached lot that remains for sale.

Legal Proceedings

Information regarding legal proceedings is discussed in Notes 12 to the Consolidated Financial Statements in this Annual Report. We were not subject to any enforcement actions as of December 31, 2019.

Additional Regulatory Capital Disclosure

Regulatory Capital Ratios Pursuant to FCA Regulation 620.5

As of December 31	2014	2013	2012
Permanent capital ratio	16.8%	15.9%	14.7%
Total surplus ratio	16.6%	15.7%	14.4%
Core surplus ratio	16.6%	15.7%	14.4%

Refer to the Consolidated Five-Year Summary of Selected Financial Data at the beginning of this Annual Report for capital ratio calculations for the past five years.

Description of Capital Structure

Information regarding our capital structure is discussed in Note 8 to the Consolidated Financial Statements in this Annual Report.

Description of Liabilities

Information regarding liabilities is discussed in Notes 7, 8, 9, 10, and 12 to the Consolidated Financial Statements in this Annual Report. All debt and other liabilities in the financial statements are uninsured.

Selected Financial Data

The Consolidated Five-Year Summary of Selected Financial Data is presented at the beginning of this Annual Report.

Management's Discussion and Analysis

Information regarding any material aspects of our financial condition, changes in financial condition, and results of operations are discussed in the Management's Discussion and Analysis section of this Annual Report.

Board of Directors

Board of Directors as of December 31, 2019, including business experience during the last five years

Name	Term	Principal occupation and other business affiliations
Clayton Bloome(3) Service Began: 2017	2017-2020	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Director: Rural Electric Convenience Cooperative
Kent Brinkmann(2) Service Began: 1998	2018-2021	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** President: Carlyle FFA Alumni
Mike Carls Service Began: 2014	2018-2021	**Principal Occupation:** Self-employed grain farmer
Michael Donohoe(2) Appointed Director Service Began: 2019	2019-2022	**Principal Occupation:** Associate Professor of Accountancy at the University of Illinois at Urbana-Champaign **Other Affiliations:** Director & Officer: Pixels by Emily Donohoe, Inc. (photography studio) Director & Officer: Sunchaser Consulting Corp. (expert witness and litigation consulting)
Wesley Durbin(3) Vice Chairperson Service Began: 2010	2019-2022	**Principal Occupation:** Self-employed grain and livestock farmer **Other Affiliations:** Treasurer: Shelby County Pork Producers Director: Shelby County Land Assessment
David Haase(2) Service Began: 2017	2018-2021	**Principal Occupation:** Self-employed grain farmer
Larry Hasheider(4) Service Began: 2005	2016-2019	**Principal Occupation:** Self-employed grain and livestock farmer
Lisa Helmink(3) Service Began: 2017	2017-2020	**Principal Occupation:** Self-employed grain and livestock farmer Clinic Manager: Clinton County Veterinary Services, Ltd. **Other Affiliations:** Treasurer: Breese District 12 Band Boosters
Steve Hettinger(3) Service Began: 2018	2018-2020	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Director: Premier Cooperative, a grain elevator Owner of seed dealership Co-owner of Precision Planting
Kevin Miller(1) (2) Service Began: 2012	2016-2019	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Director: South American Soy, a Brazilian farm investment group Director: Lutheran Care Center Chairperson: North Island Creek Drainage District Treasurer: South Island Creek Drainage District

Mark Miller[4] Service Began: 1997	2016-2019	**Principal Occupation:** Self-employed grain farmer and seed dealer **Other Affiliations:** Director: Farmers Grain Co. of Central Illinois
Eric J. Mosbey[3] Chairperson Service Began: 2015	2019-2022	**Principal Occupation:** Self-employed grain farmer General Manager: Lincolnland Agri-Energy, LLC **Other Affiliations:** President: Mosbey Farms, Inc.
Karen Neff[2] [5] Service Began: 2007	2019-2022	**Principal Occupation:** Self-employed grain and livestock farmer Project Manager: Sawdy Solutions Part owner: AirBnB Former Project Manager: Unisys
K. Bridget Schneider[2] [3] Appointed Director Service Began: 2010	2017-2020	**Principal Occupation:** Certified Financial Planner™ Professional Managing Member: Connections Financial Advisors, LLC Managing Member: G&S Properties of Illinois, LLC

(1)Re-elected in January 2020 to a term that expires December 2023

(2)Member of the Audit Committee

(3)Member of the Executive Committee & Compensation Committee

(4)Term ended as of December 31, 2019

(5)Resigned from the Board as of December 6, 2019

Our Board of Directors has established an Audit Committee, a Compensation Committee, and an Executive Committee. The purpose of the Audit Committee is to oversee financial reporting, the adequacy of our internal control systems, the scope of our internal audit program, the independence of outside auditors, and the processes for monitoring compliance with laws and regulations and the code of ethics. The Audit Committee also oversees the adequacy of management's action with respect to recommendations arising from auditing activities. The Compensation Committee assists the Board of Directors in fulfilling its responsibility for oversight of the compensation plan for senior officers and employees of Farm Credit Illinois. The Association's compensation programs are to be designed to attract and retain the best personnel to allow the Association to achieve its goals and maintain its competitive posture. The Executive Committee consults with the CEO of the Association to identify and prioritize issues to be presented to the full Board of Directors and approves the Board of Directors' meeting agendas.

Pursuant to our bylaws, directors are paid a reasonable amount for attendance at board meetings, committee meetings, or other special assignments. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or assignments. Effective in the 4th quarter of 2019, our Board of Directors adopted a meeting per diem rate of $600 per day, an increase from $500 per day. Board members also receive a $3.5 thousand per quarter retainer fee, increased from $2.5 thousand. The Vice Chairperson receives a $4.0 thousand per quarter retainer fee, increased from $3.0 thousand. The Chairperson receives $4.5 thousand per quarter, increased from $3.5 thousand.

Information regarding compensation paid to each director who served during 2019 follows:

	Number of Days Served		Compensation Paid for Service on Audit Committee	Compensation Paid for Service on Executive Committee	Compensation Paid for Service on Compensation Committee		
Name	Board Meetings	Other Official Activities				Name of Committee	Total Compensation Paid in 2019
Clayton Bloome	6.0	5.0	$ 500	$ 1,350	$ 250	Executive, Compensation	$ 18,600
Kent Brinkmann	8.0	25.0	2,100	--	--	Audit	31,400
Mike Carls	8.0	14.0	--	--	--		23,500
Michael Donohoe(1)	7.0	3.0	2,100	--	--	Audit	21,900
Wesley Durbin	7.5	15.0	250	1,100	250	Executive, Compensation	27,350
David Haase	8.0	24.0	2,100	--	--	Audit	31,000
Larry Hasheider(2)	8.0	24.0	--	--	--		25,400
Lisa Helmink	8.0	10.0	--	1,350	750	Executive, Compensation	22,900
Steve Hettinger	7.0	31.0	--	250	250	Executive, Compensation	32,900
Kevin Miller	8.0	23.0	2,100	--	--	Audit	30,350
Mark Miller(2)	8.0	10.0	--	--	--		17,900
Eric J. Mosbey	8.0	23.0	--	800	800	Executive, Compensation	33,850
Karen Neff(3)	6.0	17.0	1,600	--	--	Audit	22,600
K. Bridget Schneider	8.0	10.0	500	1,100	800	Audit, Executive, Compensation	24,200
							$ 363,850

(1)Newly appointed in 2019

(2)Term ended as of December 31, 2019

(3)Resigned from the Board as of December 6, 2019

Senior Officers

Senior Officers as of December 31, 2019, including business experience during the last five years

Name and Position	Business experience and other business affiliations
Aaron S. Johnson Interim President/Chief Executive Officer[1]	**Business experience:** Interim President and Chief Executive Officer since September 2019 Executive Vice President and Chief Operations Officer from 2014-2019 **Other business affiliations:** Trustee, Vice Chair: Farm Credit Foundations Trust committee Board of Directors: Farm Credit Financial Partners Inc.
Stephen W. Carson Executive Vice President and Chief Risk Management Officer	**Business experience:** Senior Vice President and Chief Risk Management Officer since January 2019 Senior Vice President and Chief Credit Officer from February 2017 to January 2019 Senior Vice President of Credit from 2014-2017 **Other business affiliations:** Director: ProPartners Financial Board Member: Compeer Capital Markets Group
Kelly D. Loschen Senior Vice President and Chief Financial Officer	**Business experience:** Senior Vice President and Chief Financial Officer since January 2016 Public Accountant: Martin, Hood, Friese & Associates from 2000-2016 **Other business affiliations:** Board of Directors, Treasurer, Finance Committee: Parkland College Foundation
Jackie Martinie Senior Vice President and Chief Credit Officer	**Business experience:** Senior Vice President and Chief Credit Officer since January 2019 Vice President and Senior Credit Manager from 2016-2019 Vice President, Credit Services and Large & AgriBusiness Team Lead from 2015-2016 Vice President, Credit from 2010-2015
Robert H. Rhode Senior Vice President and General Counsel	**Business experience:** Senior Vice President and General Counsel since January 2014
Shaun Murray Senior Vice President and Chief Operating Officer	**Business experience:** Senior Vice President and Chief Operating Officer since January 2019 Regional Vice President Lending from 2010-2019
Ryan W. Berg Senior Vice President and Chief Administrative Officer	**Business experience:** Senior Vice President and Chief Administrative Officer since November 2014

[1]Beginning January 1, 2020, Aaron S. Johnson became President and Chief Executive Officer.

Senior Officer Compensation

Compensation Risk Management: We believe the design and governance of our CEO and senior officer compensation program is consistent with the highest standards of risk management and provides total compensation that promotes our mission to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America. Our compensation philosophy aims to provide a competitive total rewards package that will enable us to attract and retain highly qualified officers with the requisite expertise and skills while achieving desired business results aligned with the best interests of our members. The design of our CEO and senior officer compensation program supports our risk management goals through a set of checks and balances, including (1) a balanced mix of base and variable pay, (2) a balanced use of performance measures that are risk-adjusted where appropriate, and (3) a pay-for-performance process that allocates individual awards based on both results and how those results were achieved.

Elements of Compensation: The CEO and senior officers are compensated with base salary and incentives as well as retirement plans generally available to all employees. Base salary and incentives are intended to be competitive with annual compensation for comparable positions at peer organizations.

Base Salary: The CEO and senior officer base salaries reflect the officer’s experience and level of responsibility. Base salaries are subject to review and approval by the Compensation Committee of our Board of Directors and are subject to adjustment based on changes in responsibilities or competitive market conditions.

Short-term Incentives: The CEO and senior officer incentives are paid annually based on performance criteria established by our Board of Directors. The criteria are related to the overall association performance and corporate goals and for 2019, 2018, and 2017 included total regulatory capital, volume, member experience score, and efficiency ratio. We calculate the incentives after the end of the plan year (the plan year is the calendar year). We pay out the incentives within 90 days of year-end. In addition, the CEO and senior officers, and generally all employees are eligible for discretionary bonuses based on performance on special projects, service awards based on years of service, and retirement awards.

Long-term Incentives: We have a long-term incentive program beginning in 2019, which aligns the senior officers and other key individuals to the Association's long-term business objectives, while providing the opportunity for a competitive market-based total compensation package. There is no long-term incentive program in place for the CEO. The Board of Directors has delegated administration of the plan to the CEO and authority to set independent three-year performance objectives at the beginning of each plan year. While the performance objectives may change from plan to plan, the objectives currently include efficiency ratio, credit quality, earning asset growth, and volume. In addition, the Board of Directors, at its sole discretion, may amend or terminate the plan at any time. The plan is a rolling three-year plan, which pays out during the first quarter after the third year.

Retirement Plans: We have various post-employment benefit plans which are generally available to all Association employees, including the CEO and senior officers, based on dates of service to the Association and are not otherwise differentiated by position, unless specifically stated. Information regarding the post-employment benefit plans is included in Notes 2 and 10 to the Consolidated Financial Statements in this Annual Report.

Other Components of Compensation: Additionally, compensation associated with any company-paid vehicles, group term life insurance premiums, disability insurance premiums, or other taxable reimbursements may be made available to the CEO and senior officers based on job criteria or similar plans available to all employees.

Compensation to the CEO and Senior Officers

(in thousands) Name	Year	Salary	Bonus	Deferred/ Perquisites	Long-Term Incentive[5]	Other	Total
Aaron S. Johnson, CEO[1]	**2019**	**$ 125**	**$ 79**	**$ 2**	**$ --**	**$ 230**	**$ 436**
Thomas H. Tracy Jr., CEO[2]	**2019**	**329**	**267**	**6**	**--**	**199**	**801**
Thomas H. Tracy Jr., CEO	2018	405	255	8	--	57	725
Thomas H. Tracy Jr., CEO	2017	375	222	9	--	52	658
Aggregate Number of Senior Officers, excluding CEO							
Seven[3]	**2019**	**$ 1,519**	**$ 706**	**$ 20**	**$ 49**	**$ 1,496**	**$ 3,790**
Five	2018	1,123	519	14	--	294	1,950
Seven[4]	2017	1,220	554	38	--	1,690	3,502

[1]Aaron S. Johnson's compensation is pro rated beginning when he became Interim CEO on September 25, 2019.

[2]Thomas H. Tracy Jr.'s compensation is through December 31, 2019.

[3]Includes pro rated compensation for Aaron S. Johnson's term as senior officer until September 25, 2019.

[4]Includes compensation for two senior officers who retired in 2017, one in January and one in July.

[5]Long-term incentive plan began in 2019.

Members may request information on the compensation to the individuals included in the preceding table during 2019.

The amount in the "Other" category in the preceding table primarily includes:

- Employer match on qualified and nonqualified defined contribution plans available to all employees.
- Changes in the value of pension benefits. The change in value of the pension benefits is defined as the change in the vested portion of the present value of the accumulated benefit obligation from December 31 of the prior year to December 31 of the most recent year for the District-wide Pension Plan and the Pension Restoration Plan, as applicable, as disclosed in Note 10 to the Consolidated Financial Statements in this Annual Report. This change in value does not represent cash payments made by the Association during the year, but rather is an estimate of the change in the Association's future obligations under the pension plans. The change in the value of the pension benefits is highly sensitive to discount rates used to value the plan liabilities to participants.
- Compensation paid for the former CEO after September 25, 2019.
- Amounts paid related to senior officer retirements in 2017.

No tax reimbursements are made to the CEO and senior officers**.**

The value of the pension benefits increased from December 31, 2018, to December 31, 2019, primarily due to the decrease in interest rates year over year. The value of the pension benefits was also impacted to a lesser extent by the accumulation of an additional year of credited service by plan participants and updates to actuarial assumptions.

Pension Benefits Attributable to the CEO and Senior Officers

(dollars in thousands) **2019** Name	Plan	Years of Credited Service	Present Value of Accumulated Benefits	Payments Made During the Reporting Period
Aaron S. Johnson, CEO	AgriBank District Retirement Plan	**34.8**	**$ 2,980**	**$ --**
	AgriBank District Pension Restoration Plan	**34.8**	**126**	**--**
Aggregate Number of Senior Officers, excluding CEO				
Two	AgriBank District Retirement Plan	**33.6**	**$ 3,044**	**$ --**
One	AgriBank District Pension Restoration Plan	**20.1**	**7**	**--**

The change in composition of the aggregate senior officers can have a significant impact on the calculation of the accumulated pension benefits.

Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. Therefore, any employee starting employment with the AgriBank District after that date is not eligible to be in the plan.

The AgriBank District Pension Restoration Plan restores retirement benefits to certain highly compensated employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits. Not all senior officers or highly compensated employees are eligible to participate in this plan.

Transactions with Senior Officers and Directors

Information regarding related party transactions is discussed in Note 11 to the Consolidated Financial Statements in this Annual Report.

Travel, Subsistence, and Other Related Expenses

Directors and senior officers are reimbursed for reasonable travel, subsistence, and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at:

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

The total directors' travel, subsistence, and other related expenses were $204 thousand, $242 thousand, and $250 thousand in 2019, 2018, and 2017, respectively.

Involvement in Certain Legal Proceedings

No events occurred during the past five years that are material to evaluating the ability or integrity of any person who served as a director or senior officer on January 1, 2020, or at any time during 2019.

Member Privacy

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

Relationship with Qualified Public Accountant

There were no changes in independent auditors since the last Annual Report to members and we are in agreement with the opinion expressed by the independent auditors. The total financial statement audit fees paid during 2019 were $125 thousand. Our engagement letter commits to reimbursing the external auditor for reasonable out-of-pocket expenses as incurred for travel. In addition, we incurred $4 thousand for tax services.

Financial Statements

The Report of Management, Report on Internal Control over Financial Reporting, Report of Audit Committee, Report of Independent Auditors, Consolidated Financial Statements, and Notes to Consolidated Financial Statements are presented prior to this portion of the Consolidated Financial Statements in this Annual Report.

Young, Beginning, and Small Farmers and Ranchers

Information regarding credit and services to young, beginning, and small farmers and ranchers, and producers or harvesters of aquatic products is discussed in an addendum to this Annual Report.

YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

Farm Credit Illinois, ACA

(Unaudited)

We have specific programs in place to serve the credit and related needs of young, beginning, and small farmers and ranchers (YBS) in our territory. In 2018, the YBS program called "FreshRoots" was implemented with special pricing and reduced credit standards available for young and beginning farmers. We feel that our traditional loans, especially our Scorecard program, adequately addresses the needs of small farmers. The definitions of young, beginning, and small farmers and ranchers as developed by the Farm Credit Administration are as follows:

- Young: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date. Our program called FreshRoots, defines program eligibility including discounted rates and/or relaxed guidelines as age 40 or younger as of the loan application date. Although program eligibility allows for applicants between the ages of 35 to 40, Farm Credit Illinois (FCI) continues to identify "Young" farmers as defined by FCA.
- Beginning: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the loan application date.
- Small: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than $250 thousand in annual gross sales of agricultural or aquatic products.

Demographics

We have used a special tabulation of the 2017 USDA Census of Agriculture as our source of demographic data for comparison to our performance in serving young, beginning, and small farmers and ranchers. This special tabulation includes only those farms in our chartered territory that have debt and annual gross sales of at least $10 thousand.

The following table is a comparison of our results compared to the 2017 USDA census data for our territory:

Percentages by Number			
As of December 31, 2019	Young	Beginning	Small
Farm Credit Illinois, ACA	19.4%	21.7%	38.3%
2017 Census data	18.8%	25.5%	55.8%

The Association's business activity with "Young" farmers is just above the demographics of the marketplace. Business activity with "Beginning" farmers is slightly below the demographics of the marketplace. Business activity with "Small" farmers is below the demographics of the marketplace. Grain and livestock prices continue to fluctuate. In general, farms have been able to generate excellent production of grain and livestock even as prices trend downward, and FCI has seen more "Small" farmers' incomes rising above the $250 thousand threshold. Although the business activity with the "Beginning" and "Small" farmers was below the census data, both exceeded the Association's targets as established in the business plan.

Mission Statement

Our mission is to provide farm families and the rural marketplace with constructive credit, related services, and financial expertise. This applies to all eligible customers. The mission of the FreshRoots program is to provide financing and learning development opportunities to young and beginning farmers to further their success, while ensuring lifetime partnerships with FCI. We will accomplish this mission by:

- Providing discounted interest rates for up to a maximum period of five years through our FreshRoots loan program for young and beginning farmers
- Offering learning incentives for young and beginning farmers that attend educational workshops with the intent of encouraging personal growth and professional development
- Providing relaxed lending standards for approval within the eligibility guidelines
- Making full use of guaranteed loan programs through the State of Illinois and the USDA Farm Service Agency (FSA)
- Establishing both quantitative portfolio targets and qualitative goals for services offered
- Continuing to participate in numerous outreach programs which benefit young, beginning, and small farmers and ranchers
- Fully utilizing a streamlined application and approval process for small loans

Quantitative Targets and Qualitative Goals

Quantitative targets and qualitative goals for YBS loans are established on an annual basis for the succeeding three years. The following targets and goals were established for 2019:

(dollars in thousands)

Category	Number of New Loans Closed	Number of Loans Outstanding	Total Loan Volume	Percent of Total Loans
Young Farmer	1,100	3,400	$ 525,000	18.0%
Beginning Farmer	1,000	3,700	610,000	20.0%
Small Farmer	1,600	7,000	710,000	38.0%
Outreach Program - Goal for total number of activities			70	

As of December 31, 2019, all targets and goals are met, except for the small farmer number of loans outstanding. The goal for the number of loans outstanding was 7 thousand related to small farmers. The actual results were 6.9 thousand. While the goal of number of loans was not met, the total volume, and percent total were met.

The following tables detail the level of new business generated in 2019 plus the level of business outstanding as of December 31, 2019, both by number of loans and by volume for young and beginning farmers and ranchers. Gross new business during the year volume outstanding is defined as total commitments. Volume of loans outstanding as of December 31 is defined as principal and unfunded commitments net of funds held.

(dollars in thousands)

	Number of Loans	Percent of Total	Volume Outstanding	Percent of Total
Total gross new loans and commitments made during the year	5,038		$ 1,221,975	
Total loans and commitments made to young farmers and ranchers	1,103	21.9%	212,583	17.4%
Total loans and commitments made to beginning farmers and ranchers	1,031	20.5%	169,863	13.9%
Total loans and commitments outstanding at year end	17,670		$ 5,036,264	
Young farmers and ranchers	3,513	19.9%	582,548	11.6%
Beginning farmers and ranchers	3,920	22.2%	620,503	12.3%

The following tables detail the level of new business generated in 2019 plus the level of business outstanding as of December 31, 2019, both by number of loans and by volume for small farmers and ranchers:

(dollars in thousands)

	$0 - $50,000	$50,001 - $100,000	$100,001 - $250,000	$250,001 and greater
Total number of new loans and commitments made during the year	1,109	806	1,147	1,976
Total number of loans made to small farmers and ranchers during the year	747	465	411	167
Number of loans to small farmers and ranchers as a % of total number of loans	67.4%	57.7%	35.8%	8.5%
Total gross loan volume of all new loans and commitments made during the year	$ 30,897	$ 62,211	$ 194,869	$ 933,998
Total gross loan volume to small farmers and ranchers	$ 20,083	$ 34,503	$ 63,459	$ 76,901
Loan volume to small farmers and ranchers as a % of total gross new loan volume	65.0%	55.5%	32.6%	8.2%
Total number of loans and commitments outstanding at year end	5,433	3,176	4,502	4,559
Total number of loans to small farmers and ranchers	3,077	1,597	1,612	644
Number of loans to small farmers and ranchers as a % of total number of loans	56.6%	50.3%	35.8%	14.1%
Total loan volume outstanding at year end	$ 133,624	$ 245,547	$ 766,272	$ 3,890,821
Total loan volume to small farmers and ranchers	$ 73,216	$ 121,070	$ 255,630	$ 298,317
Loan volume to small farmers and ranchers as a % of total loan volume	54.8%	49.3%	33.4%	7.7%

Government Guarantees

As a means to control risk in some situations, co-makers or guaranteed loan programs through the State of Illinois and the USDA FSA are utilized when possible. During the past few years, we have utilized several types of FSA programs for real estate loans, including:

- FSA 50-45-5. The lender loans 50.0% of the real estate purchase for a 30-year term (with most having a reduced interest rate for the first five years under the FreshRoots program), FSA loans 45.0% for a 20-year term at a 1.5% fixed interest rate, and the customer is required to put 5.0% down.
    - The FSA direct loan limit under this program changed from $300 thousand to $600 thousand for 2019.
    - One additional advantage of this program that we have utilized in most cases to reduce our loan risk is that we can obtain a 95.0% FSA loan guarantee on our loan at no additional charge to the customer.

During 2019, the Association originated 40 new FSA guaranteed loans to young, beginning, and/or small farmers with a year-end volume of $8.1 million. Total volume for YBS Government Guaranteed Loans was $48.1 million at December 31, 2019. Guaranteed loans for 2019 were below the goal of 50 new loans; however, the goal of total loan volume outstanding of $20.0 million was exceeded at $48.1 million. In early 2019, the USDA was shutdown, which resulted in lack of FSA funding and guarantees for Direct Farm Ownership programs that the Association partners with FSA in providing to customers. The continuing resolutions of funding inhibits program consistency throughout the year. To mitigate risks with lack of FSA involvement, additional co-signers, collateral, and other stipulations may have been added to loan conditions in lieu of a guarantee.

Outreach Program

The Association develops an annual marketplace engagement plan, which includes special emphasis on the young, beginning, and small farmer segments in the marketplace to promote Farm Credit products and services and demonstrate our commitment to serving these market populations.

Association staff participated in a total of 148 YBS outreach activities in 2019, which exceeded our goal of 70 for the year. As noted in the Marketplace Engagement and Legislative Affairs component plan, outreach activities to YBS farmers include but are not limited to:

- Young and Beginning Farmer Forum
- Member Advisory Council meetings
- Farm Credit College educational workshops
- Cultivating Master Farmers mentoring program
- Illinois Farm Bureau's Young Leader sponsorship
- FCI Agriculture Scholarship Program
- FCI Community Improvement Grants
- The Association’s Community College Outreach Initiative partners
- Farm Credit Newsroom at the Illinois State FFA Convention

Quantitative Targets and Qualitative Goals

The association’s quantitative targets and qualitative goals for the next three years are as follows:

(dollars in thousands)

Category	Number of New Loans Closed	Number of Loans Outstanding	Total Loan Volume	Percent of Total Loans
2020 Young Farmer	1,140	3,600	$ 550,000	19.0%
2021 Young Farmer	1,170	3,670	570,000	19.0%
2022 Young Farmer	1,200	3,700	595,000	29.0%
2020 Beginning Farmer	1,060	3,730	$ 615,000	21.0%
2021 Beginning Farmer	1,090	3,770	618,000	21.0%
2022 Beginning Farmer	1,100	3,800	620,000	21.0%
2020 Small Farmer	1,800	6,900	$ 710,000	38.0%
2021 Small Farmer	1,870	6,900	712,000	38.0%
2022 Small Farmer	1,900	6,900	714,000	38.0%
YBS Government Guaranteed Loan Goal	40	N/A	38,000	N/A
Outreach Program - Goal for total number of activities		90		

Safety and Soundness of the Program

In order to limit the risk to the Association for those loans approved under the FreshRoots Loan Program, total loans to one borrower are limited to an aggregate limit of $1.0 million for production and intermediate-term loans and $2.0 million for real estate loans eligible for relaxed underwriting standards. The limits for discounted interest rates are $500 thousand for production and intermediate-term loans and $1.0 million for real estate loans. Exceptions to this limit and other credit standards under this program are considered when there are other adequate offsetting credit strengths.

FARM CREDIT ILLINOIS

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Mahomet, IL 61853

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