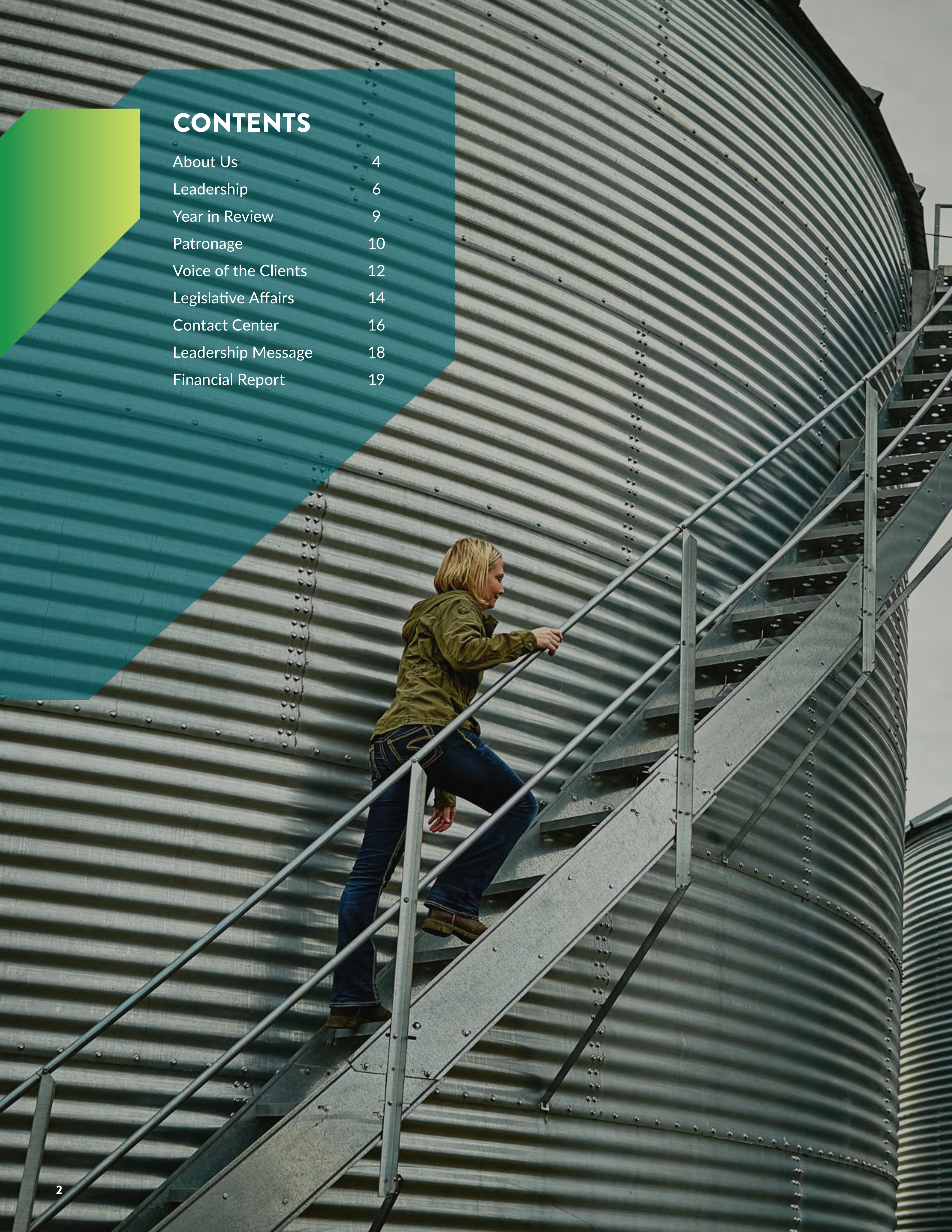
POSITIONED FOR PROGRESS

2019 Annual Report



CONTENTS

About Us	4
Leadership	6
Year in Review	9
Patronage	10
Voice of the Clients	12
Legislative Affairs	14
Contact Center	16
Leadership Message	18
Financial Report	19

POSITIONED FOR PROGRESS

When times are volatile, it's natural to put more energy toward what we know – trying to do things better just to maintain the status quo. Making progress or growing when times are tough could be considered unrealistic. Yet, progress is possible even when volatility abounds.

Making progress takes thoughtful planning, calculated risks and a commitment to growth. It also requires a willingness to adapt and innovate. When we're open to change and ready to act on it, we're positioned for opportunity that can move us forward.

Compeer Financial is focused on positioning our cooperative for progress, and we're proud to partner with our member-owners so they can do the same for their operations. We're optimistic about the future and committed to being ready for whatever it holds.

When positioned for it, progress is always possible.

MAKING PROGRESS WITH INNOVATIVE SOLUTIONS

Products and Services

Compeer Financial is dedicated to helping farmers and rural America by offering a diverse product and service portfolio, including:

- Agriculture Financing
- Rural Financing
- Appraisals
- Crop Insurance
- Home Loans
- Leasing
- Agribusiness Financing
- Tax & Accounting
- Title

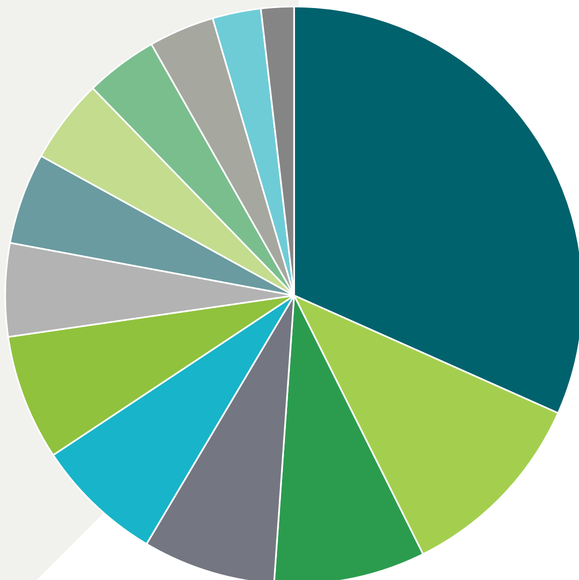
LifeWorks Resource Program

Compeer launched the LifeWorks Resource Program in 2019. This program confidentially connects clients and their families with tools and resources to help navigate challenges related to work, family, life and health. We know farming and life in rural America aren't always easy, and factors out of one's control can be frustrating and stressful. Our free LifeWorks Resource Program is here to help – whether it's a quick question or a larger issue. Learn more at compeer.com/resourceprogram.

MyCompeer Client Portal

In 2019, the organization developed MyCompeer, an enhanced platform that provides clients a deeper view of account information, access to personalized educational resources, and tools to more easily connect with the team at Compeer. In 2020, we will continue to enhance our tools, including adding the ability to renew certain operating loans and crop insurance policies online. Our goal is to make it even easier for our clients to do business with us.

Compeer's Diversified Portfolio - 2019



- CASH GRAINS | 31.6%
- DAIRY | 10.6%
- AGRIBUSINESS | 8.3%
- SWINE | 8.1%
- FOOD PRODUCTS | 7.6%
- ENERGY POWER & TELECOM | 7.1%
- LANDLORD | 5.0%
- OTHER | 4.9%
- OTHER CROPS | 4.5%
- PAPER, PACKAGING & TIMBER | 4.0%
- CATTLE | 3.6%
- RURAL HOME | 2.8%
- POULTRY & OTHER LIVESTOCK | 1.9%

EXECUTIVE LEADERSHIP TEAM

Compeer Financial is led by a 10-member executive leadership team that oversees the cooperative's day-to-day operations. The leadership team members have more than 240 years of combined service to the Farm Credit System.

Sitting, left to right:

Matt Ginder, *Chief Core Markets Officer*

Terry Hinds, *Chief Asset Quality & Assurance Officer*

Rod Hebrink, *President & CEO*

Mark Greenwood, *Chief Diversified Markets Officer*

Back row, left to right:

John Hemstock, *Chief Talent & Technology Officer*

Jase Wagner, *Chief Financial Officer*

John Monson, *Chief Mission & Marketing Officer*

Tim Tracy, *Chief Credit Officer*

Jerry Wiese, *Chief Information Officer*

Paul Kohls, *Chief Lending Operations Officer & General Counsel*

BOARD OF DIRECTORS

The member-owners of Compeer Financial are represented by 17 directors – 14 of whom are elected and three who are appointed. The directors represent various types of farming operations, agriculture industries and geographic locations, bringing diverse viewpoints to board discussions and decision making. They set business direction and evaluate operations, while taking into consideration client needs and the changing marketplace.

Sitting, left to right: Stephanie Wise, Dan Erickson, Ann Broome, Greg Nelson, Dale Holmgren: Chairperson, Greg Pollesch and Rodney Bosma. Standing, left to right: Mark Cade, Tim Evert, Kathleen Hainline, Roger Newell, Larry Fischer, Kaye Compart, David Peters, Dan Zimmerman, Allyn Buhrow and Lori Meinholz.

OUR MISSION: ENRICHING AGRICULTURE AND RURAL AMERICA

PROUD TO BE A COOPERATIVE SERVING RURAL AMERICA

Compeer Financial is committed to the cooperative model and the value it brings to our member-owners. Stability, security and growth fuel a future that offers success. We've positioned the organization for continued progress with a diversified portfolio (see page 5) that allows us to provide a wide array of financial options for operations of all sizes.

$152M

PATRONAGE RETURNED

In 2019, Compeer Financial returned a total of $152 million in patronage. Clients received more than $52 million in allocated equity payments early in the year. In the summer, member-owners received cash patronage payments of more than $99 million.

$22.2B

FINANCIAL ASSETS

Compeer Financial grew total assets to $22.2 billion and increased total equity to $3.8 billion in 2019.

1% of earnings

GIVING BACK TO RURAL AMERICA

In 2019, the Compeer Financial Fund for Rural America allocated 1% of net income to support agriculture and rural America through grants, scholarships and annual commitments. The Fund focuses philanthropic efforts on education, youth engagement, rural development and community enrichment, agriculture advocacy and development, and cooperative initiatives.

70,633

MEMBER-OWNERS

1,200

TEAM MEMBERS

COMPEER INCREASES PATRONAGE RETURNS

Member-owners received $152 million in 2019

Compeer Financial shares its success with member-owners through our unique patronage program.

Thanks to Compeer's strong financial performance in 2019, the organization is again increasing patronage payouts for member-owners in 2020. What's more, for the second year in a row, Compeer will return more to member-owners than initial payout targets.

In 2019, Compeer paid member-owners $152 million in patronage, which included more than $52 million in allocated equities and more than $99 million in cash patronage. It's $51 million more in cash patronage than the organization paid out in 2018, and exceeded cash patronage targets.

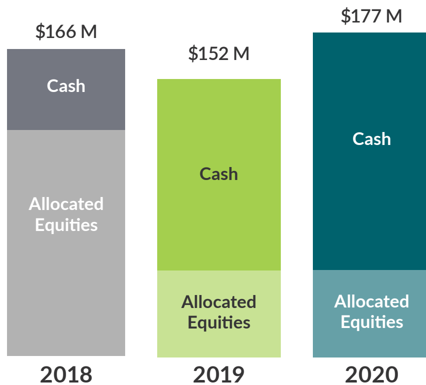
The trend will continue in 2020. Based on 2019 earnings, we'll pay member-owners approximately $177 million in patronage throughout 2020. This patronage paid to member-owners, along with preferred stock dividends and other distributions, will amount to nearly 50 percent of our 2019 adjusted earnings.

Compeer continues to meet business objectives and benefit from a more diverse portfolio, resulting in improved earnings and solid overall financial performance. This allows us to return more patronage to our member-owners, providing extra capital that can be used to advance their farms, families, businesses and rural communities.

Compeer is pleased to offer a strong and robust patronage benefit as part of our cooperative model. Keeping rural America strong is at the heart of everything we do.

Learn more about how ownership pays at **compeer.com/patronage**.

Patronage Returns



**2018 patronage returns include a one-time additional distribution of approximately $75M in allocated equities.*

2019 Patronage Returns:
$152 MILLION

Increase in Cash Patronage Returns:
$51 MILLION

Payout Percentage:
38% of adjusted earnings

CLIENT ADVISORY COUNCILS: THE VOICE OF OUR CLIENTS

Clients are the cornerstone of everything we do at Compeer Financial. It's important for the organization to gain perspective, ideas and feedback from our member-owners. One of the many ways we connect is through our Client Advisory Councils – intended to foster local connections and get insights from clients.

There are 12 Client Advisory Councils spread across our territory in Illinois, Minnesota and Wisconsin. Each council has 12 members, who meet twice a year to share their feedback on pre-selected topics and communicate their thoughts on issues important to farmers and agribusinesses in the local community.

In 2019, clients on the Advisory Councils provided valuable insights on a variety of topics that helped Compeer leaders plan for the future. In fact, the organization's yearly strategic goals are often influenced by discussion from clients at these meetings.

Understanding Clients' Expectations

One Client Advisory Council discussion topic in 2019 centered on client expectations of our executive leadership team, our Board of Directors and the organization as a whole. Having a good understanding of what our clients expect is valuable to align our strategy, set organizational goals and keep our clients at the center of everything we do.

Conversation also focused on how clients approach business planning for their operations. The information is useful in understanding how Compeer can better support our clients and determine where there may be opportunities for efficiencies and improvements.

What Clients are Focused On

Client Advisory Council meetings are also an opportunity for Compeer Financial to learn about clients' recent successes, challenges and preparations they're making for the future.

Client Advisory Council members highlighted succession planning – along with diversification, growth and efficiency – as key areas of focus for them and their peers. By hearing and understanding the challenges and opportunities that come with these focus areas, Compeer Financial can develop products, tools, educational resources and new programs to meet client needs and help them succeed. For example, in understanding that succession planning is a key concern for clients, Compeer is now developing transition programs with partners to better support our clients who want to shift their operations to the next generation.

A Voice in Strengthening the Cooperative

We also asked Client Advisory Council members for their reactions, suggestions and ideas on Compeer's plans for serving clients in the coming years. They learned about Compeer's plans to enhance client-facing technology, including new digital tools aimed at making it easier and more efficient for them to self-manage their accounts.

Advisory Council members shared their thoughts on self-service technology tools and if they would find them to be valuable in doing business with Compeer.

Recent technology projects impacted by Advisory Council members' input include the MyCompeer and MyLearning portals, along with tools that would allow clients to renew their operating loans and crop insurance online. The Advisory Councils provided feedback and suggestions to help Compeer develop these technologies to meet client expectations and add value. This information from the Advisory Councils was shared directly with project teams at Compeer and was beneficial in guiding further development of these initiatives.

Improving the Client Experience

Another focus in 2019 was to better understand the experience clients have when they work with Compeer Financial, and how we can make it better.

Advisory Council members provided insights on the advantages they've experienced in working with Compeer and the ways in which we create an exceptional experience. Clients also offered ideas on how the organization can make changes for continued improvement in building strong relationships with our clients, along with enhancements to the products we offer. These are valuable insights that will help to ensure Compeer is meeting and exceeding the needs of agriculture and rural America. Clients shared their experience is often influenced by our timeliness, consistency in service, attention to detail, flexibility and trust. Specific positive experiences with Compeer include the options provided to young and beginning farmers, our local giving program, efficiency in closing loans and refinancing opportunities, to name a few.

At Compeer Financial, we're committed to doing more than just providing competitive financial solutions. We pride ourselves on listening to our clients and considering their concerns and ideas as we continue to position the organization for progress.

We thank the clients who have served on our Client Advisory Councils and appreciate their thoughtfulness, willingness to share their opinions and the time they've dedicated to help strengthen their local cooperative.

SERVING AS A VOICE FOR MEMBER-OWNERS

We're focused on getting results for rural America

Compeer Financial's commitment to our member-owners goes far beyond the products and services we offer to help them meet their goals. At Compeer, we strive to be part of the driving force that is creating positive change for people working and living in rural America.

In 2019 we raised the profile of our legislative affairs efforts. We recognize the importance of helping elected officials fully understand the value of Farm Credit and the services its cooperatives provide to the U.S. agriculture industry. By building on our reputation as a credible and trusted resource with state and federal policymakers on issues impacting agriculture and rural America, Compeer aims to positively influence legislative and regulatory outcomes for agriculture and our member-owners.

We continually seek partnerships and opportunities to educate members of Congress within Compeer's territory about the economic importance rural America plays. By sharing the story of Farm Credit – as well as the powerful stories of the work being done by our clients – we have strengthened these partnerships over the last year.

Through these key partnerships, Compeer had several opportunities in 2019 to speak about our mission and our clients' work.

These interactions are part of a collective effort across the Farm Credit System to make sure elected officials hear the voice of cooperatives and their clients. Farm Credit leaders testified on a variety of issues in 2019. In several instances, Compeer team members testified at the state level, providing insight on legislative items related to the condition of the agricultural economy. On the national stage, Compeer Financial President and CEO Rod Hebrink testified twice before committees of the U.S. House of Representatives. These efforts have allowed both Compeer and Farm Credit to build even stronger partnerships with elected and appointed officials.

We are honored to represent our clients in front of local, state and national decision makers, and we welcome invitations to further broaden lawmakers' understanding and support of our clients' important work. By sharing the stories of our clients and Compeer's mission to enrich agriculture and rural America, our legislative affairs efforts have served a key role in spreading agriculture's message and driving positive change.

LET YOUR VOICE BE HEARD

Everyone has the potential to be an advocate for the agriculture industry. If you are interested in getting involved in legislative affairs on the local level, remember that it's all about building relationships. Here are some other tips to keep in mind:

- Be a credible source of information.
- Know who your representatives are, reach out to them and introduce yourself.
- Know where candidates stand on the issues that impact you.
- Come to the table with solutions for the problems you see.

COMPEER'S CONTACT CENTER HELPS CLIENTS WITH:

- Money Movement
- Loan Servicing
- Billing and Statement Questions
- Online Banking & MyCompeer Support
- Account Security
- Event Registration

SERVING YOU BETTER

Compeer Financial's Contact Center makes clients a top priority

When you call Compeer Financial, you reach an experienced member of our team who is ready to assist you with personalized and reliable service.

Our 12 full-time Contact Center representatives do much more than answer and transfer phone calls; they are experienced professionals who are cross-trained on all aspects of the organization. They are well equipped to answer questions on a variety of topics, including client accounts and transactions, billing, patronage, crop insurance, online banking, the MyCompeer client portal and much more. If you need more information, they will connect you with one of our industry, loan or product experts at Compeer.

The Contact Center aims for "one-call resolution," meaning the goal is to resolve your issue without asking you to dial another number or search for information elsewhere. One way our representatives accomplish this is by continually familiarizing themselves with the latest happenings at Compeer. As a centralized source of assistance, Contact Center team members are able to serve you effectively and efficiently.

Reach out to Compeer Financial at (844) 426-6733 7:30 a.m. to 5 p.m. Monday through Friday

Putting clients first is a priority for the Contact Center, which is currently operating at a 98 percent level – meaning 98 percent of calls are answered within 20 seconds. This dedicated service demonstrates Compeer's strong commitment to serving clients, especially as the Contact Center resolves an impressive 10,000 calls every month.

Whether your question is big or small, the Contact Center exists to serve you. As an extension of the resources in our local offices, Contact Center representatives will help you find what you need quickly so you can get back to doing what you do best.

POSITIONED FOR PROGRESS

Rod Hebrink

Dale Holmgren

Dear Member-Owners,

Compeer Financial's performance drives our ability to carry out our mission of enriching agriculture and rural communities. Through this Annual Report, our member-owners can see how we're doing financially and learn more about the organization's impact across our territory in Illinois, Minnesota and Wisconsin.

We're pleased to share Compeer ended 2019 strong, exceeding financial targets. The organization also made excellent progress on goals relating to enhancing client outcomes through industry insight, innovation and technology.

Compeer Financial grew by $1.4 billion over the past year and assets now total more than $22 billion. The growth is attributed in part to our diverse portfolio, which includes segments less affected by or better able to withstand 2019's unprecedented combination of weather and economic challenges. At the same time, overall credit quality has remained strong as a result of actions by clients, growth and prudent risk management.

With this solid performance, Compeer Financial is enhancing our support to agriculture and rural communities despite the year's volatility.

For example, **Compeer is returning $25 million more in patronage payments to member-owners** in 2020, for a total of $177 million. It's the second consecutive year our Board of Directors increased patronage returns. By the time 2021 arrives, Compeer's total patronage payments for the past three years will reach $500 million – a half billion dollars! Our patronage program helps position our member-owners to create and seize opportunities that will move their operations forward.

Our clients' families, neighbors and communities are also benefitting from our strong financial performance. **Compeer Financial dedicates 1 percent of its annual net earnings to FFA programs, high school seniors, emergency responders and numerous other initiatives** through its Fund for Rural America. When our earnings increase, so does the amount we commit to others through the Fund for Rural America's grants and scholarships program. We're looking forward to giving back even more dollars locally this year, thanks to last year's earnings.

Our clients benefitted in ways beyond direct financial returns. Through enhanced knowledge of the current economy, our team presented clients with options for navigating or even capitalizing on the environment. They were able to make decisions that helped them lower interest rates and preserve their working capital and equity amid uncertainty. They also had free access to the new LifeWorks Resource Program, which provides **guidance for managing common but stressful life situations.**

We're continuing these initiatives in 2020, and are expanding our support by focusing on the individual needs of producers. After embracing a challenge to think beyond tradition, **our team is exploring concepts that address clients' unique pain points** and can position them to be more successful. Watch for new products and services to be announced in 2020 as a result of that broad thinking.

We're also exploring ways to ensure each and every client has the best possible experience when working with us. Whether it's face-to-face or through the MyCompeer or MyLearning online portals we introduced in 2019, **we want every interaction with us to be positive.** It's not enough to tell you we value your business – we want to show you. This has always been non-negotiable for Compeer, and this year we plan to take that commitment to a new level.

As always, we're proud to serve you and are looking forward to sharing this new decade with you. Thank you for choosing us as your financial services partner.

Sincerely,

Rod Hebrink, President and CEO

Dale Holmgren, Chairperson of the Board

2019 FINANCIAL REPORT

TABLE OF CONTENTS

Compeer Financial, ACA

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA 21
MANAGEMENT'S DISCUSSION AND ANALYSIS 22
REPORT OF MANAGEMENT 34
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING 35
REPORT OF AUDIT COMMITTEE 36
REPORT OF INDEPENDENT AUDITORS 37
CONSOLIDATED FINANCIAL STATEMENTS 39
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 44
DISCLOSURE INFORMATION REQUIRED BY REGULATIONS 68
YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS 74
FUNDS HELD PROGRAM 76

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Compeer Financial, ACA

(dollars in thousands)

As of December 31	2019	2018	2017	2016	2015
Consolidated Statement of Condition Data					
Loans held to maturity	**$ 19,903,565**	$ 18,753,659	$ 17,749,021	$ 8,152,435	$ 7,572,042
Allowance for loan losses	**78,504**	59,928	48,849	36,018	27,071
Net loans held to maturity	**19,825,061**	18,693,731	17,700,172	8,116,417	7,544,971
Loans held for sale	**27,807**	18,496	30,062	27,370	35,380
Net loans	**19,852,868**	18,712,227	17,730,234	8,143,787	7,580,351
Unrestricted cash	**2,300**	2,300	2,200	2,200	1,900
Investment securities	**1,172,537**	995,140	879,258	473,248	442,972
Investment in AgriBank, FCB	**623,330**	567,596	514,712	180,812	171,395
Other property owned	**147**	167	954	840	1,060
Other assets	**532,751**	476,807	417,993	179,780	164,032
Total assets	**$ 22,183,933**	$ 20,754,237	$ 19,545,351	$ 8,980,667	$ 8,361,710
Obligations with maturities of one year or less	**$ 449,418**	$ 413,132	$ 16,133,714	$ 7,665,199	$ 7,035,085
Obligations with maturities greater than one year	**17,927,105**	16,739,126	--	--	99,491
Total liabilities	**18,376,523**	17,152,258	16,133,714	7,665,199	7,134,576
Preferred stock	**100,000**	100,000	100,000	100,000	100,000
Capital stock and participation certificates	**32,737**	33,062	34,213	15,934	16,085
Additional paid-in capital	**1,780,603**	1,780,603	1,780,603	--	--
Allocated surplus	**373,898**	426,776	523,252	441,122	406,758
Unallocated surplus	**1,531,824**	1,272,556	980,818	758,412	704,291
Accumulated other comprehensive loss	**(11,652)**	(11,018)	(7,249)	--	--
Total equity	**3,807,410**	3,601,979	3,411,637	1,315,468	1,227,134
Total liabilities and equity	**$ 22,183,933**	$ 20,754,237	$ 19,545,351	$ 8,980,667	$ 8,361,710

For the year ended December 31	2019	2018	2017	2016	2015
Consolidated Statement of Income Data					
Net interest income	**$ 481,789**	$ 474,567	$ 347,964	$ 206,793	$ 197,568
Provision for loan losses	**20,777**	15,249	13,806	10,082	5,939
Other expenses, net	**64,391**	55,472	69,300	67,474	67,727
Net income	**$ 396,621**	$ 403,846	$ 264,858	$ 129,237	$ 123,902
Key Financial Ratios					
For the Year					
Return on average assets	**1.9%**	2.0%	1.9%	1.5%	1.6%
Return on average equity	**10.6%**	11.5%	11.1%	10.1%	10.4%
Net interest income as a percentage of average earning assets	**2.4%**	2.5%	2.6%	2.5%	2.7%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%	0.0%	0.0%
At Year End					
Equity as a percentage of total assets	**17.2%**	17.4%	17.5%	14.6%	14.7%
Allowance for loan losses as a percentage of loans	**0.4%**	0.3%	0.3%	0.4%	0.4%
Capital ratios effective beginning January 1, 2017:					
Common equity tier 1 ratio	**15.0%**	14.7%	14.2%	N/A	N/A
Tier 1 capital ratio	**15.5%**	15.2%	14.7%	N/A	N/A
Total capital ratio	**15.9%**	15.6%	15.1%	N/A	N/A
Permanent capital ratio	**15.9%**	15.7%	15.7%	N/A	N/A
Tier 1 leverage ratio	**15.4%**	15.3%	15.0%	N/A	N/A
Capital ratios effective prior to 2017:					
Permanent capital ratio	**N/A**	N/A	N/A	14.1%	14.8%
Total surplus ratio	**N/A**	N/A	N/A	14.0%	14.5%
Core surplus ratio	**N/A**	N/A	N/A	12.1%	12.3%
Net Income Distributed					
For the Year					
Patronage distributions:[1]					
Cash	**$ 99,142**	$ 47,728	$ --	$ --	$ --
Redemption of allocated surplus	**52,436**	118,561	25,847	32,168	26,655
Allocated surplus	**--**	--	28,570	67,070	62,908
Other distributions	**5,007**	1,562	1,296	868	609
Preferred stock dividends	**6,750**	6,750	6,750	6,750	6,750
Other					
Pool program loans serviced for AgriBank, FCB	**1,968,256**	2,088,888	1,807,402	221,582	256,550

[1]Additional information regarding the patronage programs is included in Note 9 to the accompanying Consolidated Financial Statements.

Compeer completed a merger that is reflected beginning in 2017 in the chart above. Additional merger information is included in Note 1 to the accompanying Consolidated Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Compeer Financial, ACA

The following commentary reviews the consolidated financial condition and consolidated results of operations of Compeer Financial, ACA (the Association) and its subsidiaries, Compeer Financial, FLCA and Compeer Financial, 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 stockholders' investment. To request free copies of AgriBank financial reports, contact us at:

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

AgriBank, FCB
30 East 7th Street, Suite 1600
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 stockholders 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.

MERGER ACTIVITY

The merger between 1st Farm Credit Services, ACA (1st FCS), AgStar Financial Services, ACA (AgStar), and Badgerland Financial, ACA (Badgerland) was effective July 1, 2017. The merged entity, Compeer Financial, ACA, is headquartered in Sun Prairie, Wisconsin.

The effects of the merger with 1st FCS and Badgerland are included in our financial position, results of operations, cash flows, and related metrics beginning July 1, 2017. Prior year results have not been restated to reflect the impact of the merger. Results of operations, cash flows, and equity reflect the results of AgStar prior to July 1, 2017, and the merged Association after July 1, 2017. Upon the closing of the merger, loans increased by $9.1 billion, assets increased by $9.9 billion, liabilities increased by $7.9 billion, and equity increased by $2.0 billion. These amounts include adjustments to fair value, as required by accounting standards for business combinations.

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

Our credit portfolio includes exposure to a diverse set of industries spanning production agriculture. In its most recent estimate, the United States Department of Agriculture (USDA) projects ending 2019 net farm income of $92.5 billion, which is an increase of $8.5 billion over 2018. The USDA also estimates an increase of $15.5 billion in net cash income from 2018, to $119.0 billion. These forecast increases consist of revenue improvement in crop receipts (largely corn and vegetables/melons), flat animal production, and a large increase from trade-related Market Facilitation Program (MFP) payments. The additional revenue offsets a slight increase in production expenses. This outlook improvement leads USDA to predict a gain in farm equity of 2.2% ($56.5 billion) for the year.

We generate a significant portion of income from the grain, dairy, and swine sectors of production agriculture. Diverse economic and agricultural conditions within these industries yielded significant profitability variation in 2019. Variable planting, growing, and harvest weather conditions drove significant volatility in grain production across our territory. Planting of significant corn and soybean acres was late, if completed at all. A late killing frost allowed many to reach full maturity, but less favorable fall conditions, coupled with the late planting, led to increased drying costs for producers. Of the grain produced, most was below trend yield performance. These tighter grain inventories are leading to slight rises in feed costs for the protein sectors. Despite the increase, dairy production margins are more favorable than a year ago, with a favorable outlook for 2020. Foreign animal disease and trade are driving volatility within swine margins, as producers await expected increases in export demand. Domestic macroeconomic conditions remain solid overall, helping the rural housing, energy, as well as food processing and distribution segments, which comprise a significant portion of the portfolio. Overall, our credit quality remains stable.

In the World Agricultural Supply and Demand Estimates (January 2020), the USDA forecast a total 2019 corn harvest of 13.7 billion bushels, roughly 650 million bushels less than the 2018 harvest, despite 800 thousand more planted acres in 2019. Growing conditions hampered the increased plantings, resulting in flat harvested acres (as compared to a year ago) and a decline in yield, from 176.4 bushels per acre to 168.0 bushels per acre. The USDA expects lower exports to drive overall lower usage of the 2019 crop. Factoring in the production loss, ending stocks are predicted over 300 million bushels below last year's harvest. Tighter supplies expect to drive average farm price to $3.85 per bushel, a $0.24 rise from the previous harvest. Similarly, soybean production is 870 million bushels below the previous harvest. Unlike corn, however, soybean planted acres were 13 million below the previous crop, with harvested acres over 12.5 million acres fewer. With yields of 47.4 bushels per acre, the 2019 harvest was 3.2 bushels below 2018. The USDA expects overall usage to be similar to the previous crop, and as such, ending stocks fall from 909 million bushels in 2018 to 475 million bushels in 2019. The supply movement drives expected farm prices to $9.00 per bushel, an increase of $0.52 from the 2018 harvest. The USDA also announced MFP payments of $14.5 billion, which are payable on a single-county payment rate for eligible crops (ranging from $15 to $150 per acre). Payment rates for most producers in our territory ranged from $15 to $80 per acre.

After an extended period of below average margins, dairy industry profitability has improved, despite the rise in feed costs. While U.S. industry conditions are improving, there is a transition toward fewer and larger farms. Locally, the Wisconsin Department of Agriculture announced that over 800 dairy farms ceased production in 2019. Overall, more than 5,600 Wisconsin operations ceased production since 2009. The USDA estimates annual average all-milk price of $19.25 per hundredweight in 2020, an increase over the $18.60 received in 2019. Coupled with improvement in component pricing, the expectation is that dairy operations will be at break-even or better for 2020.

Asia and Eastern Europe continue to struggle with African Swine Fever (ASF). Remaining disease-free in the U.S. is critical in maintaining export market access for our clients. The disease has removed millions of hogs from the global herd and has dramatically affected the Chinese hog inventory, with estimated decline varying widely. The market remains volatile as prices react to both outbreak and purchase news. This has led to wide fluctuation in both market prices and local basis levels. While the disease continues to spread, it has not infected the Western European hog production, despite infection in Eastern Europe feral hog populations. To date, the disease also remains outside of North and South America.

Pork production, as of December 2019, included 77.3 million head, a 3% increase from the previous year, according to the Quarterly Hogs and Pigs report published by the National Agricultural Statistics Service of the USDA. Further, intended farrowings for the December-to-February quarter of 3.1 million sows are 1% above those of a year ago. The industry relies on exports to clear a significant portion of production from the market. As such, the recent passage of the U.S.-Mexico-Canada trade agreement (USMCA) and the signing of China Phase 1 to resolve trade impasses could significantly improve the margin environment for producers by removing market barriers. (Note that while the U.S. and Mexico have passed USMCA, Canada has yet to pass it). Coupled with the disease situation in Asia, U.S. pork producers could experience a strong export environment in 2020.

Our portfolio also includes a significant presence in several industries influenced by macroeconomic, rather than agricultural, conditions. The U.S. Congressional Budget Office forecasts real gross domestic product growth of 2.1% in 2020. The housing portfolio, in particular, relies upon the health of the general economy. As measured by the CoreLogic Home Price Index, November nationwide home prices increased 3.7% over the previous year. Assessing growth prospects for the coming year, CoreLogic indicates an expected price increase of 5.3%. Despite the continued strength in the housing market, U.S. home ownership remains low, at 64.8%, though the millennial generation is approaching home-formation age, possibly boosting future demand. The food processing and distribution industry continues to benefit from solid general economy metrics, and especially from low unemployment. The most recent U.S. Bureau of Labor Statistics unemployment rate of 3.5% is historically low. Rural power and telecommunication segments are also benefitting from continued economic growth.

While less than ideal environmental, market, and geopolitical conditions have affected several industries that we serve, the portfolio continues to experience relatively low delinquencies and sound credit quality. Our core credit objectives of working with clients to promote risk management, ensuring high quality financial statements and production reports, encouraging disciplined marketing plans, and providing individualized servicing plans and strategies remain unchanged. We also remain committed to being an advocate for positive legislative changes that improve prospects for agriculture and rural America.

LOANS HELD TO MATURITY

Loan Portfolio

Total loans held to maturity and finance and conditional sales leases (hereinafter collectively referred to as loans) were $19.9 billion at December 31, 2019, an increase of $1.1 billion from December 31, 2018.

Components of Loans

(in thousands)

As of December 31	**2019**	2018	2017
Accrual loans:			
Real estate mortgage	**$ 9,746,744**	$ 9,139,140	$ 8,628,075
Production and intermediate-term	**3,976,203**	3,949,669	4,354,632
Agribusiness	**3,959,718**	3,624,403	2,942,806
Other	**2,066,758**	1,925,553	1,733,044
Nonaccrual loans	**154,142**	114,894	90,464
Total loans	**$ 19,903,565**	$ 18,753,659	$ 17,749,021

The other category is primarily composed of rural infrastructure, agricultural export finance, and rural residential real estate related loans as well as finance and conditional sales leases and bonds originated under our mission related investment authority.

The increase in total loans from December 31, 2018, was primarily driven by growth in real estate mortgage and agribusiness loans, particularly within the capital markets, Agri-Access, and food and agribusiness sectors.

On December 1, 2019, we sold a 50% participation interest in primarily real estate loans under the Agri-Access Pool program, totaling $88.2 million to AgriBank and one AgriBank District association. Beginning in 2018, we sell 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 all pool programs were $2.0 billion, $2.1 billion, and $1.8 billion 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 livestock, crop, and agribusiness operations.

We offer variable, fixed, capped, indexed, and adjustable interest rate loan programs and variable and fixed interest rate lease programs to our clients. 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, Minnesota, and Wisconsin. At December 31, 2019, approximately 22.7% of our loan portfolio was within our territory in Illinois, 21.2% was within our territory in Minnesota, 18.3% was within our territory in Wisconsin, 0.5% was in Illinois outside our territory, 1.2% was in Minnesota outside our territory, and 1.2% was in Wisconsin outside our territory. The remainder of our portfolio is purchased outside of Illinois, Minnesota, and Wisconsin to support rural America and to diversify our portfolio risk.

Agricultural Concentrations

As of December 31	**2019**	2018	2017
Cash grains	**31.6%**	32.5%	35.2%
Dairy	**10.6%**	11.6%	11.5%
Agribusiness	**8.3%**	8.3%	7.9%
Swine	**8.1%**	7.9%	8.0%
Food products	**7.6%**	7.5%	5.4%
Energy power and telecom	**7.1%**	6.7%	6.2%
Landlords	**5.0%**	5.2%	5.5%
Other crops	**4.5%**	3.9%	3.0%
Paper, packaging, and timber	**4.0%**	3.9%	4.3%
Cattle	**3.6%**	3.5%	3.0%
Rural home	**2.8%**	2.3%	2.6%
Poultry and other livestock	**1.9%**	2.0%	2.7%
Other	**4.9%**	4.7%	4.7%
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.

The concentration of cash grains in our portfolio has decreased slightly during the three-year period shown. This decrease was caused by the difficult economic conditions within the grain sector, as discussed in the Portfolio Credit Quality section. In addition, the cash grain concentration decrease was also caused by the growth within our portfolio in our other diversified market areas, such as food and agribusiness.

Portfolio Credit Quality

The credit quality of our portfolio declined slightly from December 31, 2018. Adversely classified loans increased to 3.6% of the portfolio at December 31, 2019, from 3.0% of the portfolio at December 31, 2018. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. Despite the slight increase in adverse volume, our clients were largely able to navigate the headwinds faced in 2019. Emphasizing risk management and maintaining a disciplined approach is having positive results for clients, while mitigating risk to our Association.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. To some level, $886.5 million, $889.2 million, and $870.2 million of our loans were guaranteed under these government programs at December 31, 2019, 2018, and 2017, respectively. In addition, $420.9 million, $485.5 million, and $490.1 million of our loans were to some level guaranteed through the Federal Agricultural Mortgage Corporation (Farmer Mac) Standby Commitment Program at December 31, 2019, 2018, and 2017, respectively.

Grain production in 2019 was hampered by less favorable growing conditions than in recent years. Many producers faced delayed planting, if able to plant at all. Yields were generally lower throughout much of our territory. Corn and soybean prices improved slightly, but a combination of crop insurance (where triggered) and trade disruption payments significantly stemmed losses within the grain portfolio and stabilized many owner equity positions. While 2019 may not be a profitable year for many producers from an operations perspective, the combination of crop and government payments could push some producers to break-even or better levels.

After some deterioration during the first half of the year, price improvement in the latter half of 2019 is expected to boost most dairy producers to break-even or better profitability for the year. Introduction of Dairy Revenue Protection in 2019 provides producers a much needed risk management tool to protect profitability. The current price outlook suggests that 2020 will be at or above break-even for most producers, as well.

Pork producer profitability varied due to global disease-related volatility within the markets in 2019. ASF news drove market swings throughout the last three quarters of the year. Most producers are expected to be at or near break-even for the year, and a wide range of factors could influence the outlook for 2020. An ASF-fueled increase in exports could drive producer profits in 2020, but disease at home would have significant negative consequences.

Overall, the agribusiness portfolio continues to perform as expected. This portfolio includes a diverse range of clients and industries which largely remained profitable in 2019. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

Risk Assets

Components of Risk Assets

(dollars in thousands)

As of December 31	**2019**	2018	2017
Loans:			
Nonaccrual	**$ 154,142**	$ 114,894	$ 90,464
Accruing restructured	**7,067**	11,278	12,121
Accruing loans 90 days or more past due	**5,013**	7,427	133
Total risk loans	**166,222**	133,599	102,718
Other property owned	**147**	167	954
Total risk assets	**$ 166,369**	$ 133,766	$ 103,672
Total risk loans as a percentage of total loans	**0.8%**	0.7%	0.6%
Nonaccrual loans as a percentage of total loans	**0.8%**	0.6%	0.5%
Current nonaccrual loans as a percentage of total nonaccrual loans	**41.4%**	36.4%	38.0%
Total delinquencies as a percentage of total loans	**0.8%**	0.8%	0.7%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2018, but have remained at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans were well within our established risk management guidelines.

The increase in nonaccrual loans was primarily due to stress within the grain and dairy sectors, as discussed in the Portfolio Credit Quality section. Nonaccrual loans remained at an acceptable level at December 31, 2019, 2018, and 2017.

The decrease in accruing restructured loans was primarily due to the payoff of one previously restructured loan.

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 as of December 31, 2019, 2018, and 2017, were adequately secured and in the process of collection, and as a result, 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	**0.4%**	0.3%	0.3%
Nonaccrual loans	**50.9%**	52.2%	54.0%
Total risk loans	**47.2%**	44.9%	47.6%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%
Adverse assets to total regulatory capital	**22.7%**	18.6%	15.1%

The increase in our allowance for loan losses from December 31, 2018, was due to provision expense recorded primarily to reflect overall growth in the portfolio, and the increased risks noted in the Portfolio Credit Quality and Risk Assets sections. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2019.

Additional loans held to maturity information is included in Notes 3, 12, 13, and 15 to the accompanying Consolidated Financial Statements.

LOANS HELD FOR SALE

We originate loans held for sale under our secondary market program, a rural residential mortgage program designed to provide qualified borrowers with options for competitive rate financing of rural homes in small towns or that are part of a hobby farm, pastureland, or tillable acreage. Loans closed under this program will be sold to and securitized by third party investors, Farmer Mac and Freddie Mac. The volume in this program was $27.8 million, $18.5 million, and $30.1 million at December 31, 2019, 2018, and 2017, respectively. We typically purchase the resulting securities, a portion of which we actively market and sell within 30 days of purchase. Refer to the Investment Securities section for additional information regarding these transactions. Additional loans held for sale information is included in Notes 4 and 15 to the accompanying Consolidated Financial Statements.

INVESTMENT SECURITIES

In addition to loans and leases, we held investment securities. We had held-to-maturity investment securities of $1.2 billion, $995.1 million, and $879.3 million at December 31, 2019, 2018, and 2017, respectively. Our investment securities primarily include mortgage-backed securities (MBS) issued by Farmer Mac or guaranteed by Small Business Administration (SBA) or USDA, asset-backed securities issued and guaranteed by SBA or USDA, and bonds.

We purchase MBS investments, which may be held-to-maturity or available-for-sale and are included in “Investment securities” on the Consolidated Statements of Condition. Included within our held-to-maturity investment securities portfolio are Farmer Mac MBS of $884.7 million, $877.9 million, and $707.0 million as of December 31, 2019, 2018, and 2017, respectively. Our available-for-sale investments are the resulting securities from our RuraLiving® program. We sold available-for-sale investment securities with total sales proceeds of $60.5 million, $86.7 million, and $105.2 million during 2019, 2018, and 2017, respectively. These sales resulted in a loss of $635 thousand, $511 thousand, and $198 thousand during 2019, 2018, and 2017, respectively, which were recognized in “Fee and other non-interest income” in the Consolidated Statements of Comprehensive Income. We had no outstanding available-for-sale investment securities at December 31, 2019, 2018, and 2017.

The investment portfolio is evaluated for other-than-temporary impairment. For the years ended December 31, 2019, 2018, and 2017, we have not recognized any impairment on our investment portfolio.

Additional investment securities information is included in Notes 5 and 15 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	**$ 396,621**	$ 403,846	$ 264,858
Return on average assets	**1.9%**	2.0%	1.9%
Return on average equity	**10.6%**	11.5%	11.1%

Changes in the chart above relate directly to:

- Changes in income discussed in this section
- Changes in assets discussed in the Loans Held to Maturity and Investment Securities sections
- Changes in capital discussed in the Capital Adequacy section

Changes in Significant Components of Net Income

(in thousands)	For the year ended December 31 2019	2018	2017	Increase (decrease) in net income 2019 vs 2018	2018 vs 2017
Net interest income	**$ 481,789**	$ 474,567	$ 347,964	**$ 7,222**	$ 126,603
Provision for loan losses	**20,777**	15,249	13,806	**(5,528)**	(1,443)
Non-interest income	**235,679**	214,773	149,689	**20,906**	65,084
Non-interest expense	**282,762**	266,261	204,295	**(16,501)**	(61,966)
Provision for income taxes	**17,308**	3,984	14,694	**(13,324)**	10,710
Net income	**$ 396,621**	$ 403,846	$ 264,858	**$ (7,225)**	$ 138,988

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	**$ 25,753**	$ 147,453
Changes in interest rates	**(15,412)**	(17,708)
Changes in asset securitization	**125**	133
Changes in nonaccrual income and other	**(3,244)**	(3,275)
Net change	**$ 7,222**	$ 126,603

Net interest income included income on nonaccrual loans that totaled $3.5 million, $7.3 million, and $9.2 million 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 2.4%, 2.5%, and 2.6% in 2019, 2018, and 2017, respectively. Our net interest margin is sensitive to interest rate changes and competition. Our net interest margin is also impacted by the interest expense paid on our note payable to AgriBank, which has increased in 2019 (see the Funding and Liquidity section for further discussion). However, our AgriBank patronage rates and income have also increased, which offsets the additional interest expense (see the Non-Interest Income section for further discussion).

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. Additional provisions booked during 2019 and 2018 also reflect the overall growth in loan volume, along with deterioration in the grain, ethanol, and dairy sectors of the portfolio. 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 increases in patronage income and fee and other non-interest income, offset by decreases in our Allocated Insurance Reserve Accounts distribution. See below for further explanation for each of these changes.

Patronage Income: 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	**$ 95,873**	$ 87,820	$ 67,249
Pool program patronage	**45,701**	41,462	21,973
AgDirect partnership distribution	**2,854**	2,414	845
Other Farm Credit Institution patronage	**71**	131	70
Total patronage income	**$ 144,499**	$ 131,827	$ 90,137
Form of patronage distributions:			
Cash	**$ 96,824**	$ 131,827	$ 90,137
Stock	**47,675**	--	--
Total patronage income	**$ 144,499**	$ 131,827	$ 90,137

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. A portion of the patronage in 2019 was paid in allocated stock. All patronage was paid in cash during 2018 and 2017. 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. See the Allocated Insurance Reserve Accounts (AIRA) Distribution section below for a discussion of the AIRA's impact on patronage income.

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.

Allocated Insurance Reserve Accounts Distribution: We received distributions from the AIRA of $4.5 million and $10.9 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.

As mentioned, the patronage income recorded in 2019 and 2018 was also impacted by AIRA distributions. Patronage income recorded in 2019 and 2018 included $472 thousand and $979 thousand, respectively, of our share of distributions from the AIRA related to the participations sold to AgriBank.

Fee and Other Non-Interest Income: We originated rural home loans for resale in the secondary market. We sold these rural home loans in the secondary market totaling $75.4 million, $44.0 million, and $48.5 million in 2019, 2018, and 2017, respectively. The fee income from this activity totaled $858 thousand, $588 thousand, and $919 thousand in 2019, 2018, and 2017, respectively. In addition, we sold loans in the secondary market through our RuraLiving® program totaling $61.9 million, $85.9 million, and $102.2 million in 2019, 2018, and 2017, respectively. The fee income from RuraLiving program sales totaled $284 thousand, $367 thousand, and $484 thousand, in 2019, 2018, and 2017, respectively. All fee income amounts noted here are included in "Fee and other non-interest income" in the accompanying Consolidated Statements of Comprehensive Income.

Fee and other non-interest income increased primarily due to an increase in loan origination fees and conversion fees, which is attributable to the current rate environment. In addition, 2018 fee and other non-interest income was offset by a write-down of $9.1 million related to our other investments, which included impairment losses of $7.5 million on our non-controlling investments in junior capital funds. No impairment on these investments was recognized during 2019; as a result, no offset is recognized against fee and other non-interest income. Additional information on these investments is included in Note 6 to the accompanying Consolidated Financial Statements.

Non-Interest Expense

The following presents a comparison of operating expenses by major category and the net pre-tax operating rate (total on-going expenses less financially related services income and fees earned, divided by average earning assets).

Components of Non-interest Expense

(dollars in thousands)

For the year ended December 31	**2019**	2018	2017
Salaries and employee benefits	**$ 180,404**	$ 173,530	$ 128,043
Other operating expense:			
Purchased and vendor services	**15,562**	11,402	8,031
Communications	**3,982**	3,973	2,260
Occupancy and equipment	**29,582**	25,656	17,359
Advertising and promotion	**13,783**	13,049	9,349
Examination	**3,916**	3,866	3,124
Farm Credit System insurance	**15,091**	14,218	16,938
Other	**13,055**	16,059	16,299
Other non-interest expense	**7,387**	4,508	2,892
Total non-interest expense	**$ 282,762**	$ 266,261	$ 204,295
Net pre-tax operating rate	**0.9%**	0.9%	1.0%

The increases in operating expenses were primarily driven by increases in salaries and employee benefits. In addition, professional consulting fees increased our purchased and vendor services expenses, while technology purchases and investments in facilities increased occupancy and equipment expenses.

Provision for Income Taxes

The provision for income taxes was related to our estimate of taxes based on taxable income. The increase in provision for income taxes is attributable to multiple factors, including a change made to the allocation of taxable and nontaxable income within our calculation of accrued income taxes. In addition, during 2018, we recognized a refund from 2017 and were able to offset our 2018 taxable income, resulting in lower provision for income taxes. Patronage distributions to stockholders reduced our tax liability in 2019, 2018, and 2017.

Additional discussion is included in Note 10 to the accompanying Consolidated Financial Statements.

FUNDING AND LIQUIDITY

We borrow from AgriBank, under a note payable, in the form of a line of credit, as described in Note 8 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 $4.0 billion available under our line of credit. We generally apply excess cash to this line of credit. See the Net Interest Income section for additional discussion on its impact to our net interest margin. 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	**$ 17,129,929**	$ 16,134,234	$ 11,404,000
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. Funding availability through AgriBank has been consistent and priced within normal variances. However, some of this underlying funding from AgriBank is dependent on London Inter-bank Offered Rate (LIBOR). 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 we expect the LIBOR transition to create minor additional levels of basis risk, we believe this transition is manageable.

On May 30, 2013, we issued $100.0 million of Series A-1 non-cumulative perpetual preferred stock. We used the net proceeds from the Series A-1 preferred stock issuance to increase our regulatory capital pursuant to FCA Regulations in effect at the time of issuance, for the continued development of our business, and for general corporate purposes. For regulatory capital purposes, our Series A-1 preferred stock is included in permanent capital, tier 1 capital, and total capital, subject to certain limitations. Dividends on Series A-1 preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly. This issuance of Series A-1 preferred stock is discussed further in Note 9 to the accompanying Consolidated Financial Statements.

We have entered into a Standby Commitment to Purchase Agreement with Farmer Mac, to help manage credit risk. If a loan covered by the agreement goes into default, subject to certain conditions, we have the right to sell the loan to Farmer Mac. This agreement remains in place until the loan is paid in full. We had $420.9 million, $485.5 million, and $490.1 million of our loans in this program at December 31, 2019, 2018, and 2017, respectively. We paid Farmer Mac commitment fees totaling $2.1 million, $2.2 million, and $2.1 million in 2019, 2018, and 2017, respectively. These amounts are included in "Other operating expense" in the Consolidated Statements of Comprehensive Income. Sales of loans to Farmer Mac under this agreement were $469 thousand and $1.1 million in 2019 and 2018, respectively. There were no sales of loans to Farmer Mac under this agreement in 2017.

CAPITAL ADEQUACY

Total equity was $3.8 billion, $3.6 billion, and $3.4 billion at December 31, 2019, 2018, and 2017, respectively. Total equity increased $205.4 million from December 31, 2018, primarily due to net income for the year partially offset by patronage distribution accruals, redemption of allocated patronage, and preferred stock dividends. 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. Additional Pension Restoration Plan information is included in Note 11 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	**15.0%**	14.7%	14.2%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**15.5%**	15.2%	14.7%	6.0%	2.5%*	8.5%
Total capital ratio	**15.9%**	15.6%	15.1%	8.0%	2.5%*	10.5%
Permanent capital ratio	**15.9%**	15.7%	15.7%	7.0%	N/A	7.0%
Non-risk-adjusted:						
Tier 1 leverage ratio	**15.4%**	15.3%	15.0%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**14.8%**	14.2%	13.8%	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 stockholder needs and protect stockholder interests, both now and in the future.

Refer to the Funding and Liquidity section for further discussion related to our non-cumulative perpetual preferred stock. Additional information is included in Note 9 to the accompanying Consolidated Financial Statements.

Capital ratios are directly impacted by changes in capital, assets, and off-balance sheet commitments. Refer to the Loans Held to Maturity and the Investment Securities sections for further discussion of the changes in assets. Additional discussion of regulatory ratios and equity information is included in Note 9 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 14.0%, as defined in our 2020 capital plan.

Upon the merger, all allocated surplus issued by 1st FCS and Badgerland became allocated surplus in the merged Association. The allocated surplus held by AgStar patrons remains outstanding as allocated surplus of the merged Association. With the exception of allocated surplus designated as permanent allocations, all allocated surplus is eligible to be redeemed in the future, if approved by the Board of Directors subject to compliance with our bylaws. Redemptions of permanent allocations shall not be eligible to be redeemed. In 2017, we made net nonqualified patronage allocations of $28.6 million in accordance with the merger capital equalization plan. The Board of Directors authorized the redemption of nonqualified patronage allocations of $52.9 million, $96.0 million, and $100.8 million in 2019, 2018, and 2017, respectively. The 2017 redemption was for $25.8 million of nonqualified equities issued to AgStar patrons and $75.0 million of nonqualified equities issued to former members of 1st FCS and Badgerland. The 2019 and 2018 redemption was done pro rata, based on percentages in Compeer Financial's Bylaws. In addition, the Board of Directors authorized the payment of $6.2 million, $5.4 million, and $1.6 million of distributions on approved transactions in 2019, 2018, and 2017, respectively. The timing and amounts of all future patronage redemptions and distribution payments remains at the discretion of the Board of Directors based on a combination of factors including the risk in our portfolio, earnings, and our current capital position. Further information regarding our patronage distributions is included in Note 9 to the accompanying Consolidated Financial Statements.

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 currently 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 8 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, cost of liquidity, and bank profit
- 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 financial and retail systems, financial reporting services, tax reporting services, technology services, and insurance services. The total cost of services we purchased from AgriBank was $3.3 million, $3.4 million, and $3.2 million 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 be a partial owner and continue to purchase services from SunStream.

Impact on Stockholders' Investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our stockholders' 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 $361.6 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.

As the facilitating association for ProPartners, we are compensated to provide various support functions. This includes human resources, accounting, payroll, reporting, and other finance functions. We also serve as the primary originating association for ProPartners participations and sales. Beginning December 1, 2018, the expenses incurred as the facilitating association are recovered from AgriBank as a servicing fee, which is included in the calculation of the net earnings of the ProPartners pool program.

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.

Federal Agricultural Mortgage Corporation: We have a financial relationship with Farmer Mac to provide a standby commitment program for the repayment of principal and interest on certain loans. Refer to the Funding and Liquidity section for further discussion. We also purchase mortgage-backed security investments from Farmer Mac. Refer to the Investment Securities section for further discussion.

As of December 31, 2017, we are no longer servicing loans for Farmer Mac. Prior to December 31, 2017, we were an approved mortgage loan central servicer for Farmer Mac. Total loan volume being serviced was $234.7 million as of December 31, 2017. Income from this servicing was $467 thousand for the year ended December 31, 2017.

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 clients 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 or selling participation interests in loans. CoBank provides direct loan funds to associations in its chartered territory and makes loans to cooperatives and other eligible borrowers. CoBank also provides certain cash management services to some of our clients. To support these cash management services, we have a cash management agreement with CoBank that includes a $9.25 million back-up cash management settlement facility. As part of this relationship, our equity investment in CoBank was $1.2 million, $1.2 million, and $1.1 million at December 31, 2019, 2018, and 2017, respectively.

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 $154 thousand. The total cost of services we purchased from Foundations was $1.1 million, $996 thousand, and $816 thousand in 2019, 2018, and 2017, respectively.

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.

Rural Funding, LLC: We have a limited liability company established for the purpose of facilitating bond transactions with other financial institutions called Rural Funding, LLC. We do not receive any management fees from the limited liability company.

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 $18.4 million, $17.6 million, and $18.1 million at December 31, 2019, 2018, and 2017, respectively.

Programs

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

RuraLiving®: RuraLiving is a rural residential mortgage program designed to provide qualified borrowers with additional options for competitive rate financing of rural homes in small towns or that are part of a hobby farm, pastureland, or tillable acreage. Loans closed under this program will be sold to and securitized by a third party investor.

Farm Cash Management: We offer Farm Cash Management to our clients. Farm Cash Management links clients' revolving lines of credit with an AgriBank investment bond to optimize clients' use of funds.

FCC Services: We had an agreement, which ended at the end of 2017, with FCC Services to provide various risk and insurance management and training services. Additionally, we had a strategic support agreement with FCC Services to enable FCC Services to provide reinsurance to crop insurance companies that includes a loss/gain sharing agreement. In net, we paid $2.2 million and $1.3 million in 2018 and 2017, respectively to FCC Services for insurances, memberships, training, and gains under the loss/gain sharing agreement. The activity in 2018 related to truing up prior year activity.

Mission Related Investments: The public mission of the System has always been to provide financing to agriculture and rural areas. Our primary focus has always been and will remain financing production agriculture. Because of the changing needs of rural America, we have placed additional emphasis on investing in rural communities and businesses by creating Mission Financing. We had outstanding bonds of $112.0 million, $120.7 million, and $128.1 million at December 31, 2019, 2018, and 2017, respectively. This business unit makes investments in rural America through the purchase of bonds, focusing on rural businesses, health care, and housing facilities. We continue to have minority investments in a few small-scale local economic development corporations and have outstanding investments of $5 thousand, $5 thousand, and $28 thousand in local economic development corporations at December 31, 2019, 2018, and 2017, respectively.

Fleet Management: We offer fleet management services to small and mid-sized agribusinesses. Depending on the program selected, services range from customized vehicle ordering, combined with lease financing, to full service program options of providing fuel cards, maintenance management, 24/7 emergency roadside assistance, license renewal services, fleet reporting, and vehicle disposal service. Additionally, we make available customized vehicle ordering and leasing options to Farm Credit Institutions. At the end of 2019, we have ordered vehicles for 21 System entities. We have manufacturer's fleet codes for the following brands: Ford, General Motors, Chrysler, Toyota, Nissan, Mazda, and Subaru.

Business Units

Core Markets: We provide operating, term, and real estate loans, leases, crop insurance, life insurance, accounting, and tax services to core market clients and producers who are typically in the grain, dairy, swine, and cattle industries. This structure enables our team to collaborate with other professionals with specialized knowledge, depending on the client's specific goals and unique needs.

Rural Living Solutions: Our home mortgage services team provides home financing options for rural residents living in the country or in communities with populations of 2,500 or less. The focal points of this segment are mortgages to buy, build, or refinance residences or acreages. Title insurance, appraisal services, and home equity loans are also offered.

Diversified Markets: Our Diversified Markets business unit includes the following sectors: Agri-Access®**,** Capital Markets, and Industry Specialists.

Agri-Access®: We have entered into agreements with certain financial institutions to provide correspondent lending programs under the trade name Agri-Access, which operates as a unit of Compeer. Agri-Access focuses primarily on purchasing participations in agricultural real estate loans and leases. Agri-Access also services loan portfolios for other institutional investors. These financial services firms are dispersed throughout the United States. The main Agri-Access contact office is located in Des Moines, Iowa. We also have a contact office in Boise, Idaho. Further information can be obtained at www.agri-access.com.

Capital Markets: The Capital Markets team focuses on relationships with commercial banks, Farm Credit Institutions, and other lending partners to buy loan participations and partner in primarily syndicated loan transactions. This specialized team provides a national marketing vehicle to gain improved access to the agribusiness and commercial producer loan market, and provides portfolio diversity, earnings, and market intelligence to the organization. This team partners with two other AgriBank District associations to form the Capital Markets Group.

Industry Specialists: Our industry specialists possess broad, extensive knowledge and experience in their areas of expertise, providing financing to commercial producers, agribusinesses, and processors, primarily focused in swine, dairy, and bio-energy.

Mission Financing: The Mission Financing team is devoted to supporting community and economic development, infrastructure needs, revitalization projects, and emerging agribusinesses in rural America. Mission Financing invests in projects through the purchase of bonds issued by local communities, organizations, or businesses, focusing on investing in critical access hospitals, assisted-living facilities, rural rental multi-family housing, business expansions, and other similar enterprises. In December 2014, an alliance was formed with CoBank to fund rural facilities across the United States. This alliance will help promote jobs, economic benefits and enhance the quality of life in rural communities. This alliance will partner with other Farm Credit Institutions and local community banks to provide attractive and reliable short and long term financing options to fully fund projects of significant size.

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

We prepare the Consolidated Financial Statements of Compeer Financial, 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. In addition, our independent auditors have audited our internal control over financial reporting as of December 31, 2019. 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.

Dale Holmgren
Chairperson of the Board
Compeer Financial, ACA

Rodney W. Hebrink
President and Chief Executive Officer
Compeer Financial, ACA

Jase L. Wagner
Chief Financial Officer
Compeer Financial, ACA

March 6, 2020

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Compeer Financial, ACA (the Association) principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining effective 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.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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.

The Association's internal control over financial reporting as of December 31, 2019, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their accompanying report, which expresses an unqualified opinion on the effectiveness of the Association's internal control over financial reporting as of December 31, 2019.

Rodney W. Hebrink
President and Chief Executive Officer
Compeer Financial, ACA

Jase L. Wagner
Chief Financial Officer
Compeer Financial, ACA

March 6, 2020

REPORT OF AUDIT COMMITTEE

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 Compeer Financial, 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 the preparation of the Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America. Additionally, management is responsible for the design and operating effectiveness of internal control over financial reporting for the Consolidated Financial Statements. PwC is responsible for expressing opinions on the Consolidated Financial Statements and internal control over financial reporting based on their integrated audits which are performed in accordance with generally accepted auditing standards in the United States of America. 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.

Kathleen Hainline

Kathleen Hainline
Chairperson of the Audit Committee
Compeer Financial, ACA

Mark Cade
Larry Fischer
Roger Newell
Greg Pollesch

March 6, 2020

Report of Independent Auditors

To the Board of Directors of Compeer Financial, ACA,

We have audited the accompanying consolidated financial statements of Compeer Financial, ACA and its subsidiaries (the "Company"), which comprise the consolidated statements of condition as of December 31, 2019, 2018 and 2017, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended. We also have audited the Company's internal control over financial reporting as of December 31, 2019 based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's Responsibility for the Consolidated Financial Statements and Internal Control over Financial Reporting

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 effective internal control over financial reporting relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Report on Internal Control over Financial Reporting.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements and an opinion on the Company's internal control over financial reporting 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of financial statements 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 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 company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements 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 financial statements.

An audit of internal control over financial reporting involves performing procedures to obtain evidence about whether a material weakness exists. The procedures selected depend on our judgment, including assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also involves obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Definition and Inherent Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and those charged with governance; and (iii) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Compeer Financial, 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 conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

PricewaterhouseCoopers LLP

March 6, 2020

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

CONSOLIDATED STATEMENTS OF CONDITION

Compeer Financial, ACA

(in thousands)

As of December 31	2019	2018	2017
ASSETS			
Loans held to maturity	**$ 19,903,565**	$ 18,753,659	$ 17,749,021
Allowance for loan losses	**78,504**	59,928	48,849
Net loans held to maturity	**19,825,061**	18,693,731	17,700,172
Loans held for sale	**27,807**	18,496	30,062
Net loans	**19,852,868**	18,712,227	17,730,234
Unrestricted cash	**2,300**	2,300	2,200
Investment securities	**1,172,537**	995,140	879,258
Assets held for lease, net	**65,169**	46,974	41,368
Accrued interest receivable	**190,601**	171,220	151,801
Investment in AgriBank, FCB	**623,330**	567,596	514,712
Premises and equipment, net	**75,320**	70,697	65,148
Other property owned	**147**	167	954
Deferred tax assets, net	**--**	--	1,139
Other assets	**201,661**	187,916	158,537
Total assets	**$ 22,183,933**	$ 20,754,237	$ 19,545,351
LIABILITIES			
Note payable to AgriBank, FCB	**$ 17,927,105**	$ 16,739,126	$ 15,847,060
Accrued interest payable	**113,267**	110,302	78,959
Deferred tax liabilities, net	**16,137**	4,839	--
Patronage distribution payable	**177,000**	151,710	122,000
Other liabilities	**143,014**	146,281	85,695
Total liabilities	**18,376,523**	17,152,258	16,133,714
Contingencies and commitments (Note 13)			
EQUITY			
Preferred stock	**100,000**	100,000	100,000
Capital stock and participation certificates	**32,737**	33,062	34,213
Additional paid-in capital	**1,780,603**	1,780,603	1,780,603
Allocated surplus	**373,898**	426,776	523,252
Unallocated surplus	**1,531,824**	1,272,556	980,818
Accumulated other comprehensive loss	**(11,652)**	(11,018)	(7,249)
Total equity	**3,807,410**	3,601,979	3,411,637
Total liabilities and equity	**$ 22,183,933**	$ 20,754,237	$ 19,545,351

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Compeer Financial, ACA

(in thousands)

For the year ended December 31		2019		2018		2017
Interest income	**$**	**950,873**	$	871,137	$	578,166
Interest expense		**469,084**		396,570		230,202
Net interest income		**481,789**		474,567		347,964
Provision for loan losses		**20,777**		15,249		13,806
Net interest income after provision for loan losses		**461,012**		459,318		334,158
Non-interest income						
Patronage income		**144,499**		131,827		90,137
Net operating lease income		**2,989**		2,278		1,768
Financially related services income		**42,548**		42,190		28,208
Allocated Insurance Reserve Accounts distribution		**4,468**		10,938		--
Fee and other non-interest income		**41,175**		27,540		29,576
Total non-interest income		**235,679**		214,773		149,689
Non-interest expense						
Salaries and employee benefits		**180,404**		173,530		128,043
Farm Credit System insurance		**15,091**		14,218		16,938
Other operating expense		**79,880**		74,005		56,422
Other non-interest expense		**7,387**		4,508		2,892
Total non-interest expense		**282,762**		266,261		204,295
Income before income taxes		**413,929**		407,830		279,552
Provision for income taxes		**17,308**		3,984		14,694
Net income	**$**	**396,621**	$	403,846	$	264,858
Other comprehensive loss						
Employee benefit plans activity	**$**	**(634)**	$	(3,769)	$	--
Total other comprehensive loss		**(634)**		(3,769)		--
Comprehensive income	**$**	**395,987**	$	400,077	$	264,858

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Compeer Financial, ACA

(in thousands)

	Preferred Stock	Capital Stock and Participation Certificates	Additional Paid-in Capital	Allocated Surplus	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Equity
Balance as of December 31, 2016	$ 100,000	$ 15,934	$ --	$ 441,122	$ 758,412	$ --	$ 1,315,468
Net income	--	--	--	--	264,858	--	264,858
Other comprehensive loss and other	--	--	--	--	--	(7,249)	(7,249)
Transfer of allocated surplus to unallocated surplus	--	--	--	(41,286)	41,286	--	--
Net surplus allocated under nonqualified patronage program - merger capital equalization plan	--	--	--	28,570	(28,570)	--	--
Redemption of allocated patronage	--	--	--	(101,584)	144	--	(101,440)
Preferred stock dividend	--	--	--	--	(6,750)	--	(6,750)
Other distribution	--	--	--	--	(1,562)	--	(1,562)
Unallocated surplus designated for patronage distributions	--	--	--	--	(47,000)	--	(47,000)
Allocated surplus acquired in connection with merger	--	--	--	196,430	--	--	196,430
Equity issued in connection with merger	--	18,555	1,780,603	--	--	--	1,799,158
Cumulative effect of change in accounting principle	--	--	--	--	--	--	--
Capital stock and participation certificates issued	--	1,846	--	--	--	--	1,846
Capital stock and participation certificates retired	--	(2,122)	--	--	--	--	(2,122)
Balance as of December 31, 2017	100,000	34,213	1,780,603	523,252	980,818	(7,249)	3,411,637
Net income	--	--	--	--	403,846	--	403,846
Other comprehensive loss	--	--	--	--	--	(3,769)	(3,769)
Transfer of allocated surplus to unallocated surplus	--	--	--	--	--	--	--
Net surplus allocated under nonqualified patronage program	--	--	--	--	--	--	--
Redemption of prior year allocated patronage	--	--	--	(96,476)	96	--	(96,380)
Preferred stock dividend	--	--	--	--	(6,750)	--	(6,750)
Other distribution	--	--	--	--	(5,447)	--	(5,447)
Unallocated surplus designated for patronage distributions	--	--	--	--	(100,007)	--	(100,007)
Allocated surplus acquired in connection with merger	--	--	--	--	--	--	--
Equity issued in connection with merger	--	--	--	--	--	--	--
Cumulative effect of change in accounting principle	--	--	--	--	--	--	--
Capital stock and participation certificates issued	--	2,349	--	--	--	--	2,349
Capital stock and participation certificates retired	--	(3,500)	--	--	--	--	(3,500)
Balance as of December 31, 2018	100,000	33,062	1,780,603	426,776	1,272,556	(11,018)	3,601,979
Net income	**--**	**--**	**--**	**--**	**396,621**	**--**	**396,621**
Other comprehensive loss	**--**	**--**	**--**	**--**	**--**	**(634)**	**(634)**
Transfer of allocated surplus to unallocated surplus	**--**	**--**	**--**	**--**	**--**	**--**	**--**
Net surplus allocated under nonqualified patronage program	**--**	**--**	**--**	**--**	**--**	**--**	**--**
Redemption of prior year allocated patronage	**--**	**--**	**--**	**(52,878)**	**145**	**--**	**(52,733)**
Preferred stock dividend	**--**	**--**	**--**	**--**	**(6,750)**	**--**	**(6,750)**
Other distribution	**--**	**--**	**--**	**--**	**(5,758)**	**--**	**(5,758)**
Unallocated surplus designated for patronage distributions	**--**	**--**	**--**	**--**	**(124,868)**	**--**	**(124,868)**
Allocated surplus acquired in connection with merger	**--**	**--**	**--**	**--**	**--**	**--**	**--**
Equity issued in connection with merger	**--**	**--**	**--**	**--**	**--**	**--**	**--**
Cumulative effect of change in accounting principle	**--**	**--**	**--**	**--**	**(122)**	**--**	**(122)**
Capital stock and participation certificates issued	**--**	**2,802**	**--**	**--**	**--**	**--**	**2,802**
Capital stock and participation certificates retired	**--**	**(3,127)**	**--**	**--**	**--**	**--**	**(3,127)**
Balance as of December 31, 2019	**$ 100,000**	**$ 32,737**	**$ 1,780,603**	**$ 373,898**	**$ 1,531,824**	**$ (11,652)**	**$ 3,807,410**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Compeer Financial, ACA

(in thousands)

For the year ended December 31	2019	2018	2017
Cash flows from operating activities			
Net income	**$ 396,621**	$ 403,846	$ 264,858
Depreciation on premises and equipment	**9,415**	8,206	6,187
Gain on sale of premises and equipment, net	**(187)**	(393)	(309)
Depreciation on assets held for lease	**9,993**	8,769	8,195
Gain on disposal of assets held for lease, net	**(85)**	(51)	(81)
(Increase) decrease in loans held for sale	**(9,311)**	11,566	(2,692)
Amortization of premiums on loans and investment securities, net	**3,297**	2,726	1,867
Net amortization of yield related to loans and notes payable acquired in merger	**(2,650)**	(6,558)	(9,921)
Net amortization of yield related to investments acquired in merger	**85**	72	(35)
Provision for loan losses	**20,777**	15,249	13,806
Stock patronage received from Farm Credit Institutions	**(47,685)**	(32)	(164)
Gain on other property owned, net	**(7)**	(133)	(82)
Loss (gain) on derivative activities	**804**	(583)	680
Loss on sale of investments	**635**	511	198
Changes in operating assets and liabilities:			
Increase in accrued interest receivable	**(20,168)**	(21,651)	(20,695)
Increase in other assets	**(13,074)**	(28,696)	(32,425)
Increase in accrued interest payable	**2,965**	31,343	7,999
Increase (decrease) in other liabilities	**11,739**	56,978	(14,684)
Net cash provided by operating activities	**363,164**	481,169	222,702
Cash flows from investing activities			
Increase in loans, net	**(1,151,125)**	(1,001,544)	(473,711)
Purchases of investment in AgriBank, FCB, net	**(8,059)**	(52,884)	(58,835)
(Purchases) redemptions of investment in other Farm Credit Institutions, net	**(782)**	488	(1,621)
Increase in investment securities, net	**(386,148)**	(322,989)	(276,780)
Proceeds from maturing investment securities	**144,401**	118,165	106,242
Proceeds from the sale of available for sale investment securities	**60,481**	86,727	105,204
(Purchases) sales of derivatives, net	**(780)**	606	(550)
Purchases of assets held for lease, net	**(28,103)**	(14,324)	(12,884)
Proceeds from sales of other property owned	**76**	1,319	1,188
Purchases of premises and equipment, net	**(13,851)**	(13,362)	(7,646)
Net cash used in investing activities	**(1,383,890)**	(1,197,798)	(619,393)
Cash flows from financing activities			
Increase in note payable to AgriBank, FCB, net	**1,188,540**	892,282	444,326
Patronage distributions paid	**(157,318)**	(166,677)	(45,348)
Preferred stock dividend paid	**(6,750)**	(6,750)	(6,750)
Capital stock and participation certificates retired, net	**(793)**	(1,371)	(691)
Net cash provided by financing activities	**1,023,679**	717,484	391,537
Net change in cash	**2,953**	855	(5,154)
Cash at beginning of year	**5,377**	4,522	9,676
Cash at end of year	**$ 8,330**	$ 5,377	$ 4,522

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Compeer Financial, ACA

(in thousands)

For the year ended December 31		**2019**		2018		2017
Supplemental schedule of non-cash activities						
Stock financed by loan activities	**$**	**1,286**	$	1,281	$	1,032
Stock applied against loan principal		**805**		1,049		606
Stock applied against loan interest		**13**		12		11
Interest transferred to loans		**774**		2,220		1,753
Loans transferred to other property owned		**49**		399		653
Patronage and other distributions payable		**183,198**		157,157		122,000
Decrease in equity from employee benefits		**(634)**		(3,769)		--
(Increase) decrease in payable to Farmer Mac not yet settled		**(2,953)**		(755)		5,154
Exchange of non-cash assets or liabilities		**(2,164)**		--		--
Impact of merger transactions:						
Assets acquired		**--**		--		9,909,432
Liabilities assumed		**--**		--		7,913,844
Equity issued		**--**		--		1,995,588
Supplemental information						
Interest paid	**$**	**466,680**	$	365,443	$	183,197
Taxes paid, net		**5,851**		671		14,786

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Compeer Financial, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

Association

Compeer Financial, ACA (the Association) and its subsidiaries, Compeer Financial, FLCA and Compeer Financial, PCA (subsidiaries) are lending institutions of the Farm Credit System (System). We are a customer-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible member stockholders for qualified agricultural purposes in the counties of Aitkin, Anoka, Benton, Blue Earth, Brown, Carlton, Carver, Cass, Chisago, Cook, Cottonwood, Crow Wing, Dakota, Dodge, Faribault, Fillmore, Freeborn, Goodhue, Hennepin, Houston, Isanti, Itasca, Jackson, Kanabec, Lake, LeSueur, McLeod, Martin, Mille Lacs, Morrison, Mower, Murray, Nicollet, Nobles, Olmsted, Pine, Pipestone, Ramsey, Rice, Rock, St. Louis, Scott, Sherburne, Sibley, Stearns, Steele, southern Todd, Wabasha, Waseca, Washington, Watonwan, Winona, and Wright counties in the state of Minnesota; Adams, Boone, Brown, Bureau, Carroll, Cook, DeKalb, DuPage, Fulton, Grundy, Hancock, Henderson, Henry, Jo Daviess, Kane, Kankakee, Kendall, Knox, Lake, LaSalle, Lee, Livingston, Marshall, Mason, McDonough, McHenry, McLean, Mercer, Ogle, Peoria, Pike, Putnam, Rock Island, Schuyler, Stark, Stephenson, Tazewell, Warren, Whiteside, Will, Winnebago, and Woodford in the state of Illinois; and Adams, Ashland, Barron, Bayfield, Buffalo, Burnett, Calumet, Chippewa, Columbia, Crawford, Dane, Dodge, Douglas, Dunn, Eau Claire, Fond du Lac, Grant, Green, Green Lake, Iowa, Iron, Jackson, Jefferson, Juneau, Kenosha, La Crosse, Lafayette, Marquette, Milwaukee, Monroe, Ozaukee, Pepin, Pierce, Polk, Racine, Richland, Rock, Rusk, St. Croix, Sauk, Sawyer, Sheboygan, Trempealeau, Vernon, Walworth, Washburn, Washington, Waukesha, and Winnebago counties in the state of Wisconsin.

We borrow from AgriBank, FCB (AgriBank) and provide financing and related services to our clients. Our Agricultural Credit Association (ACA) holds all the stock of the Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries and provides lease financing options for agricultural production or operating purposes. The FLCA makes secured long-term agricultural real estate, rural home, and part-time farmer mortgage loans and holds certain types of investments. The PCA makes short-term and intermediate-term loans and holds certain types of investments. We also service certain loans.

We offer various risk management services, including credit life, term life, credit disability, title, crop hail, and multi-peril crop insurance for clients and those eligible to borrow. We also offer services, such as farm records services, fee appraisals, cash management, farm business consulting, producer education, auction clerking, title search, fleet management services, income tax planning and preparation services, and retirement and succession planning to our clients.

Farm Credit System and District

The 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, 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 ACAs that each have wholly-owned FLCA and 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. 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.

Merger Activity

Effective July 1, 2017, 1st Farm Credit Services, ACA (1st FCS) and Badgerland Financial, ACA (Badgerland) merged into AgStar Financial Services, ACA (AgStar). AgStar acquired 100% of the assets and liabilities of 1st FCS and Badgerland. The merged Association operates under the name Compeer

Financial, ACA (Compeer) and is headquartered in Sun Prairie, Wisconsin. The primary reason for the merger was to increase portfolio diversification, expand and sustain the essential infrastructure of human capital necessary to the delivery of excellent customer service and value, gain operating efficiencies of a larger association, and increase our capital base to meet the lending needs of our clients. The effects of the merger are included in the Association's results of operations, statement of condition, average balances, and related metrics beginning July 1, 2017.

The acquisition method of accounting requires the financial statement presentation of combined balances as of the date of merger, but not for previous periods. The Consolidated Statements of Condition reflect the merged balances as of December 31, 2019, 2018, and 2017. The Consolidated Statements of Comprehensive Income, the Consolidated Statements of Changes in Equity, and the Consolidated Statements of Cash Flows reflect the results of AgStar prior to July 1, 2017, and the merged Association after July 1, 2017. Information in the Notes to the Consolidated Financial Statements for 2019, 2018, and 2017 reflect balances of the merged Association as of December 31, or in the case of transactional activity, AgStar prior to July 1, 2017, and the merged Association for the period July 1, 2017, to December 31, 2017.

As cooperative organizations, Farm Credit associations operate for the mutual benefit of their borrowers and other customers and not for the benefit of equity investors. As such, their capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and the bylaws, the associations can issue stock only at its par value of $5 per share, the stock is not tradable, and the stock can be retired only for the lesser of par value or book value. The common stock shares of 1st FCS and Badgerland were converted in the merger into common stock shares of Compeer with identical rights and attributes. For this reason the conversion of 1st FCS and Badgerland stock pursuant to the merger occurred at a one-for-one exchange ratio (i.e., each 1st FCS and Badgerland share were converted into one share of Compeer stock with an equal par value).

Management believes that because the stock in each association is fixed in value (although subject to impairment), the Compeer stock issued pursuant to the merger provided no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, Compeer undertook a process to identify and estimate the acquisition-date fair value of 1st FCS and Badgerland's equity interests instead of the acquisition-date fair value of Compeer's equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed from 1st FCS and Badgerland, were measured based on various estimates using assumptions that management believes are reasonable utilizing information currently available. Use of different estimates and judgments could yield materially different results.

The merger was accounted for as a business combination under the acquisition method of accounting. Pursuant to these rules, AgStar acquired the assets and assumed the liabilities of 1st FCS and Badgerland at their acquisition-date fair value. The fair value of the net identifiable assets acquired ($2.0 billion) was substantially equal to the fair value of the equity interest exchanged in the merger. In addition, no material amounts of intangible assets were acquired. As a result, no goodwill was recorded. A net increase of $2.0 billion was recorded in stockholders' equity related to the merger.

The following condensed statement of net assets acquired reflects the fair value assigned to 1st FCS and Badgerland's net assets as of the acquisition date. There were no subsequent changes to the initial fair value measurements since the merger.

Condensed Statement of Net Assets Acquired

(in thousands) As of July 1, 2017	1st FCS	Badgerland	Total
Assets			
Net loans	$ 5,068,181	$ 4,044,377	$ 9,112,558
Accrued interest receivable	45,307	22,659	67,966
Other assets	560,876	168,032	728,908
Total assets	$ 5,674,364	$ 4,235,068	$ 9,909,432
Liabilities			
Notes payable	$ 4,529,652	$ 3,282,949	$ 7,812,601
Accrued interest payable	22,733	16,273	39,006
Other liabilities	25,152	37,085	62,237
Total liabilities	$ 4,577,537	$ 3,336,307	$ 7,913,844
Fair value of net assets acquired	$ 1,096,827	$ 898,761	$ 1,995,588

Fair value adjustments to 1st FCS and Badgerland's assets and liabilities included a $22.1 million decrease to loans and a $12.0 million decrease to notes payable to reflect changes in interest rates and other market conditions since the time these instruments were issued. These differences are being accreted or amortized into net interest income over the remaining life of the respective loans and debt instruments on an effective yield basis. The Association expects to collect the substantial majority of the contractual amounts of the acquired loans not considered to be purchased credit-impaired, which totaled $9.3 billion at July 1, 2017. Refer to Note 2 for further discussion on purchased credit-impaired loans.

The Association recorded merger expenses of $1.4 million during 2017. No merger expenses were recorded during 2019 or 2018. These amounts are included in "Other operating expense" in the Consolidated Statements of Comprehensive Income.

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 Compeer Financial, ACA and its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

Loans Held to Maturity: Loans are carried at their principal amount outstanding net of any unearned income, cumulative charge-offs, unamortized deferred fees and costs on originated loans, unamortized premiums or discounts on purchased loans, and unamortized adjustments to fair value on loans acquired through merger. 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. The net amount of loan fees and related origination costs are not material to the Consolidated Financial Statements taken as a whole.

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.

Purchased Credit-Impaired (PCI) Loans: Loans acquired through merger with evidence of credit deterioration since their origination and when it is probable that we will not collect all contractually required principal and interest payments are PCI loans. PCI loans are written down at acquisition to estimated fair value and an accretable yield may be established. The excess of cash flows expected to be collected over the carrying value is referred to as the accretable yield and is recognized in interest income using the effective yield method over the remaining life of the loan.

Evidence of credit quality deterioration as of the purchase date may include statistics such as past due and nonaccrual status. Acquired loans that meet our definition of risk loans are generally considered to be credit-impaired and are accounted for as individual loans. Accounting for PCI loans involves estimating fair value at acquisition using the cash flows expected to be collected. As we generally are unable to estimate the timing and amount of future cash flows, measurement is based on the net realizable value of the collateral underlying these loans.

Loans Held for Sale: Loans held for sale include rural residential mortgages originated for sale. We elected the fair value option for all loans held for sale. Loans are valued on an individual basis and gains or losses are recorded in "Fee and other non-interest income" in the Consolidated Statements of Comprehensive Income. Direct loan origination costs and fees for loans held for sale are recognized in income at origination. Interest income on loans held for sale is calculated based upon the note rate of the loan and is recorded in "Interest income" in the Consolidated Statements of Comprehensive Income.

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 including purchased credit-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.

For purchased loans acquired that are not deemed impaired at acquisition, credit discounts representing the principal losses expected over the life of the loan are a component of the initial fair value. Subsequent to the purchase date, the methods utilized to estimate the required allowance for credit losses for these loans is similar to originated loans. However, we record a provision for credit losses only when the required allowance exceeds any remaining credit discounts. The remaining differences between the purchase price and the unpaid principal balance at the date of acquisition are recorded in interest income over the life of the loans.

Investment Securities: We are authorized to purchase and hold certain types of investments. Those investments for which we have the positive intent and ability to hold to maturity 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 and amortized over the remaining life of the security as an increase in the security’s carrying amount.

Other investment securities may not necessarily be held-to-maturity and, accordingly, have been classified as available-for-sale. These investments are reported at fair value, and unrealized holding gains and losses on investments that are not other-than-temporarily impaired are netted and reported as a separate component of equity in “Accumulated other comprehensive loss” in the Consolidated Statements of Condition. Changes in the fair value of investment securities are reflected as direct charges or credits to other comprehensive income, unless the security is deemed to be other-than-temporarily impaired. When other-than-temporary impairment exists and we do not intend to sell the impaired debt security, nor are we more likely than not to be required to sell the security before recovery, we separate the loss into credit-related and non-credit-related components. If a security is deemed to be other-than-temporarily impaired, the security is written down to fair value, the credit-related component is recognized through earnings and the non-credit-related component is recognized in other comprehensive income.

Purchased premiums and discounts are amortized 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 investments in junior capital funds in which we are a limited partner and hold a non-controlling interest is at cost. The investment is 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 is limited to distributions received. In circumstances when distributions exceed our share of earnings after the date of the investments, these distributions are applied to reduce the carrying value of the investments and are not recognized as income.

The carrying amount of the investments in the Rural Business Investment Companies, in which we are a limited partner and hold non-controlling interests, are accounted for under the equity method. The investments 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.

Leases: We are the lessee in operating leases. We evaluate arrangements at inception to determine if it is a lease. Leases with an initial term of 12 months or less are not recorded on the Consolidated Statements of Condition with lease expense recognized on a straight-line basis over the lease term. For operating leases with terms greater than 12 months the right-of-use (ROU) assets are included in “Other assets” in the Consolidated Statements of Condition and the lease liabilities are included in “Other liabilities” in the Consolidated Statements of Condition.

The ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. Our lease terms may include options to extend or terminate the lease. The length of the lease term is modified to include the option when it is reasonably certain that we will exercise that option. Operating lease expense for lease payments is recognized on a straight-line basis over the lease term.

We are the lessor in finance, conditional sales, and operating leases. Under finance and conditional sales leases, unearned income from lease contracts represents the excess of gross lease receivables plus residual receivables over the cost of leased equipment. We amortize net unearned finance lease income to earnings using the interest method. The carrying amount of finance and conditional sales leases is included in “Loans held to maturity” in the Consolidated Statements of Condition and represents lease rent and residual receivables net of the unearned income. Under operating leases, property is recorded at cost and depreciated on a straight-line basis over the lease term to an estimated residual value. We recognize operating lease revenue evenly over the term of the lease in “Net operating lease income” in the Consolidated Statements of Comprehensive Income. We charge depreciation and other expenses against revenue as incurred. The amortized cost of operating leases is included in “Assets held for lease, net” in the Consolidated Statements of Condition and represents the asset cost net of accumulated depreciation.

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

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets. Gains or losses on disposition are included in “Fee and 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 expense” in the Consolidated Statements of Comprehensive Income and improvements are capitalized.

Other Property Owned: Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at the fair value less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less costs to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Related income, expenses, and gains or losses from operations and carrying value adjustments are included in "Fee and other non-interest income" in the Consolidated Statements of Comprehensive Income.

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

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

Patronage Program: We accrue patronage distributions according to a prescribed formula approved by the Board of Directors that is expected to be paid in the following year. Nonqualified patronage distributions do not qualify as a deduction from our taxable income, and the client receiving it does not record it as taxable income, until it is redeemed at some future date. The redemption of nonqualified patronage distributions is at the discretion of the Board of Directors.

Commitments to Extend Credit: Unfunded commitments for residential mortgages intended to be held for sale are considered derivatives and recorded in the Consolidated Statements of Condition at fair value with changes in fair value recorded in "Fee and other non-interest income" in the Consolidated Statements of Comprehensive Income. All other unfunded loan commitments are not considered derivatives. Reserves for credit exposure on all other unfunded credit commitments are recorded in "Other liabilities" in the Consolidated Statements of Condition.

Derivatives: We are party to derivative financial instruments called "to be announced" securities (TBAs) to manage exposure to interest rate risk and changes in the fair value of investments available for sale, loans held for sale, and the interest rate lock commitments that are determined prior to funding. TBAs are measured in terms of notional amounts. The notional amount is not exchanged and is used as a basis on which interest payments are determined.

In accordance with Financial Accounting Standards Board (FASB) guidance on "Accounting for Derivative Instruments and Hedging Activities", derivatives are recorded on the Consolidated Statements of Condition as "Other assets" or "Other liabilities" on a net basis, measured at fair value. These derivatives are designed as hedging instruments and, accordingly, changes in fair value are accounted for as gains or losses through earnings in "Fee and other non-interest income" in the Consolidated Statements of Comprehensive Income. Losses resulting from counterparty risk are accounted for as a component of "Accumulated other comprehensive loss", in the equity section of the Consolidated Statements of Condition.

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. 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 would be recorded in "Other liabilities" in the Consolidated Statements of Condition and a corresponding loss would be recorded in "Provision for credit losses" in the Consolidated Statements of Comprehensive Income. However, no such reserve was considered necessary as of December 31, 2019, 2018, or 2017.

Cash: For purposes of reporting cash flow, cash includes cash on hand and deposits in banks. Restricted cash is recorded in “Other assets” in the Consolidated Statements of Condition.

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 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.

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, using the transition guidance allowing for the application of the transition requirements on the effective date with the effects initially recognized as a cumulative effect adjustment to the opening balance of retained earnings. In addition, we elected the package of practical expedients permitted under the transition guidance, which among other things, allowed us to carry forward the historical lease classification. We also elected the hindsight practical expedient to determine the lease term for existing leases. 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. The adoption of this guidance resulted in recording of a cumulative effect adjustment to unallocated surplus of $122 thousand.
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 HELD TO MATURITY AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)	**2019**		2018		2017[1]	
As of December 31	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 9,829,067**	**49.4%**	$ 9,199,249	49.1%	$ 8,668,049	48.9%
Production and intermediate-term	**4,020,065**	**20.2%**	3,984,347	21.2%	4,389,478	24.7%
Agribusiness	**3,976,708**	**20.0%**	3,632,104	19.4%	2,953,661	16.6%
Other	**2,077,725**	**10.4%**	1,937,959	10.3%	1,737,833	9.8%
Total	**$ 19,903,565**	**100.0%**	$ 18,753,659	100.0%	$ 17,749,021	100.0%

[1]As a result of the merger on July 1, 2017, we acquired $9.1 billion in loans, of which 94.9% were categorized as having acceptable credit quality and 99.3% were current in payment status. A portion of the acquired loans were considered to be credit-impaired, but they were not significant to the financial statements as a whole.

The other category is primarily composed of rural infrastructure, agricultural export finance, and rural residential real estate related loans as well as finance and conditional sales leases and bonds originated under our 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.

As of December 31, 2019, volume plus commitments to our ten largest borrowers totaled an amount equal to 4.0% of total loans and commitments.

Total loans plus any unfunded commitments represent a proportionate maximum potential credit risk. However, substantial portions of our lending activities are collateralized. In addition, a certain portion of our loans are guaranteed by the Federal Agricultural Mortgage Corporation (Farmer Mac) or U.S. government agencies. 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 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

(in thousands)	AgriBank Participations		Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations		Total Participations	
As of December 31, 2019	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	**$ --**	**$ (1,630,972)**	**$ 426,635**	**$ (289,363)**	**$ 2,080,321**	**$ (36,173)**	**$ 2,506,956**	**$ (1,956,508)**
Production and intermediate-term	**--**	**(465,397)**	**311,094**	**(875,723)**	**1,265,335**	**(17,546)**	**1,576,429**	**(1,358,666)**
Agribusiness	**--**	**(54,173)**	**1,475,257**	**(1,523,309)**	**1,109,528**	**(4,412)**	**2,584,785**	**(1,581,894)**
Other	**--**	**(18,429)**	**1,796,034**	**(515,278)**	**1,383**	**--**	**1,797,417**	**(533,707)**
Total	**$ --**	**$ (2,168,971)**	**$ 4,009,020**	**$ (3,203,673)**	**$ 4,456,567**	**$ (58,131)**	**$ 8,465,587**	**$ (5,430,775)**

	AgriBank Participations		Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations		Total Participations	
As of December 31, 2018[1]	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (1,751,825)	$ 392,946	$ (180,673)	$ 1,792,465	$ (30,001)	$ 2,185,411	$ (1,962,499)
Production and intermediate-term	--	(446,016)	289,072	(942,941)	1,216,304	(9,956)	1,505,376	(1,398,913)
Agribusiness	--	(60,090)	1,582,239	(1,482,205)	963,522	(12,189)	2,545,761	(1,554,484)
Other	--	(21,766)	1,571,325	(452,562)	1,929	--	1,573,254	(474,328)
Total	$ --	$ (2,279,697)	$ 3,835,582	$ (3,058,381)	$ 3,974,220	$ (52,146)	$ 7,809,802	$ (5,390,224)

As of December 31, 2017[1]	AgriBank Participations		Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations		Total Participations	
	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (1,880,870)	$ 469,575	$ (205,439)	$ 1,522,044	$ (21,051)	$ 1,991,619	$ (2,107,360)
Production and intermediate-term	--	(74,892)	206,924	(770,614)	1,080,712	(9,129)	1,287,636	(854,635)
Agribusiness	--	(77,405)	1,582,671	(1,332,502)	539,824	(16,228)	2,122,495	(1,426,135)
Other	--	(17,550)	1,271,780	(355,680)	12,185	--	1,283,965	(373,230)
Total	$ --	$ (2,050,717)	$ 3,530,950	$ (2,664,235)	$ 3,154,765	$ (46,408)	$ 6,685,715	$ (4,761,360)

[1]The Association revised the Agribusiness participations sold from $1,630,738 to $1,482,205 in 2018 and $1,494,068 to $1,332,502 in 2017 within "Other Farm Credit Institutions" participations. It also revised Agribusiness participations purchased from $1,048,380 to $963,522 in 2018 within "Non-Farm Credit Institutions". In addition, it revised participations purchased within "Other Farm Credit Institutions" in Real estate mortgage from $432,908 to $469,575 in 2017, in Agribusiness from $1,570,191 to $1,582,671 in 2017, and Other from $1,171,536 to $1,271,780 in 2017. All updates are equally reflected in the respective Total Participations Purchased and Sold balances. All adjustments were to correct immaterial errors in the disclosure as originally presented in the prior year footnote.

Information in the preceding chart excludes loans entered into under our leasing 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	**$ 9,099,203**	**91.7%**	**$ 440,786**	**4.4%**	**$ 383,315**	**3.9%**	**$ 9,923,304**	**100.0%**
Production and intermediate-term	**3,565,832**	**87.5%**	**305,695**	**7.5%**	**202,603**	**5.0%**	**4,074,130**	**100.0%**
Agribusiness	**3,848,061**	**96.4%**	**57,787**	**1.4%**	**86,086**	**2.2%**	**3,991,934**	**100.0%**
Other	**2,011,447**	**96.6%**	**11,221**	**0.5%**	**61,437**	**2.9%**	**2,084,105**	**100.0%**
Total	**$ 18,524,543**	**92.3%**	**$ 815,489**	**4.1%**	**$ 733,441**	**3.6%**	**$ 20,073,473**	**100.0%**

	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2018	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 8,648,844	93.2%	$ 332,990	3.6%	$ 300,429	3.2%	$ 9,282,263	100.0%
Production and intermediate-term	3,665,198	90.8%	196,454	4.9%	172,787	4.3%	4,034,439	100.0%
Agribusiness	3,534,012	97.0%	38,292	1.0%	74,655	2.0%	3,646,959	100.0%
Other	1,896,884	97.6%	28,982	1.5%	18,187	0.9%	1,944,053	100.0%
Total	$ 17,744,938	93.8%	$ 596,718	3.2%	$ 566,058	3.0%	$ 18,907,714	100.0%

As of December 31, 2017	Acceptable Amount	%	Special Mention Amount	%	Substandard/ Doubtful Amount	%	Total Amount	%
Real estate mortgage	$ 8,200,416	93.8%	$ 307,700	3.5%	$ 234,407	2.7%	$ 8,742,523	100.0%
Production and intermediate-term	4,065,241	91.6%	224,080	5.0%	149,225	3.4%	4,438,546	100.0%
Agribusiness	2,910,257	98.2%	27,844	0.9%	26,263	0.9%	2,964,364	100.0%
Other	1,709,360	98.0%	6,249	0.4%	27,680	1.6%	1,743,289	100.0%
Total	$ 16,885,274	94.4%	$ 565,873	3.2%	$ 437,575	2.4%	$ 17,888,722	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	**$ 43,078**	**$ 41,949**	**$ 85,027**	**$ 9,838,277**	**$ 9,923,304**	**$ 496**
Production and intermediate-term	**17,045**	**26,340**	**43,385**	**4,030,745**	**4,074,130**	**--**
Agribusiness	**5,249**	**7,422**	**12,671**	**3,979,263**	**3,991,934**	**--**
Other	**6,027**	**5,677**	**11,704**	**2,072,401**	**2,084,105**	**4,517**
Total	**$ 71,399**	**$ 81,388**	**$ 152,787**	**$ 19,920,686**	**$ 20,073,473**	**$ 5,013**

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	$ 38,799	$ 37,346	$ 76,145	$ 9,206,118	$ 9,282,263	$ 194
Production and intermediate-term	28,911	28,440	57,351	3,977,088	4,034,439	646
Agribusiness	202	901	1,103	3,645,856	3,646,959	--
Other	7,560	7,933	15,493	1,928,560	1,944,053	6,587
Total	$ 75,472	$ 74,620	$ 150,092	$ 18,757,622	$ 18,907,714	$ 7,427

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	$ 38,159	$ 13,367	$ 51,526	$ 8,690,997	$ 8,742,523	$ --
Production and intermediate-term	30,306	26,566	56,872	4,381,674	4,438,546	133
Agribusiness	56	3,182	3,238	2,961,126	2,964,364	--
Other	4,563	1,538	6,101	1,737,188	1,743,289	--
Total	$ 73,084	$ 44,653	$ 117,737	$ 17,770,985	$ 17,888,722	$ 133

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	$ **63,873**	$ 41,836	$ 34,409
Past due	**90,269**	73,058	56,055
Total nonaccrual loans	**154,142**	114,894	90,464
Accruing restructured loans	**7,067**	11,278	12,121
Accruing loans 90 days or more past due	**5,013**	7,427	133
Total risk loans	$ **166,222**	$ 133,599	$ 102,718
Volume with specific allowance	$ **45,235**	$ 37,103	$ 21,481
Volume without specific allowance	**120,987**	96,496	81,237
Total risk loans	$ **166,222**	$ 133,599	$ 102,718
Total specific allowance	$ **22,658**	$ 14,031	$ 8,811

For the year ended December 31	2019	2018	2017
Income on accrual risk loans	$ **901**	$ 1,148	$ 1,056
Income on nonaccrual loans	**3,476**	7,271	9,208
Total income on risk loans	$ **4,377**	$ 8,419	$ 10,264
Average risk loans	$ **160,005**	$ 133,001	$ 94,513

Note: Accruing loans include accrued interest receivable.

Nonaccrual Loans by Loan Type

(in thousands) As of December 31	2019	2018	2017
Real estate mortgage	$ **82,322**	$ 60,108	$ 39,973
Production and intermediate-term	**43,862**	34,678	34,846
Agribusiness	**16,990**	7,702	10,855
Other	**10,968**	12,406	4,790
Total	$ **154,142**	$ 114,894	$ 90,464

Additional Impaired Loan Information by Loan Type

	As of December 31, 2019			**For the year ended December 31, 2019**	
(in thousands)	Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	**$ 5,321**	**$ 5,807**	**$ 2,863**	**$ 5,030**	**$ --**
Production and intermediate-term	**15,238**	**16,877**	**9,590**	**15,345**	**--**
Agribusiness	**15,906**	**17,904**	**7,540**	**14,279**	**--**
Other	**8,770**	**9,987**	**2,665**	**9,443**	**--**
Total	**$ 45,235**	**$ 50,575**	**$ 22,658**	**$ 44,097**	**$ --**
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	**$ 83,912**	**$ 105,947**	**$ --**	**$ 79,301**	**$ 3,638**
Production and intermediate-term	**29,276**	**49,185**	**--**	**29,482**	**334**
Agribusiness	**1,084**	**1,411**	**--**	**973**	**--**
Other	**6,715**	**7,365**	**--**	**6,152**	**405**
Total	**$ 120,987**	**$ 163,908**	**$ --**	**$ 115,908**	**$ 4,377**
Total impaired loans:					
Real estate mortgage	**$ 89,233**	**$ 111,754**	**$ 2,863**	**$ 84,331**	**$ 3,638**
Production and intermediate-term	**44,514**	**66,062**	**9,590**	**44,827**	**334**
Agribusiness	**16,990**	**19,315**	**7,540**	**15,252**	**--**
Other	**15,485**	**17,352**	**2,665**	**15,595**	**405**
Total	**$ 166,222**	**$ 214,483**	**$ 22,658**	**$ 160,005**	**$ 4,377**

	As of December 31, 2018			For the year ended December 31, 2018	
	Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 2,023	$ 2,020	$ 1,214	$ 1,925	$ --
Production and intermediate-term	17,354	19,031	7,252	21,126	--
Agribusiness	7,679	8,682	2,756	7,751	--
Other	10,047	10,628	2,809	8,636	--
Total	$ 37,103	$ 40,361	$ 14,031	$ 39,438	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 68,615	$ 91,154	$ --	$ 65,309	$ 3,788
Production and intermediate-term	18,911	38,733	--	23,022	4,367
Agribusiness	23	120	--	14	--
Other	8,947	9,621	--	5,218	264
Total	$ 96,496	$ 139,628	$ --	$ 93,563	$ 8,419
Total impaired loans:					
Real estate mortgage	$ 70,638	$ 93,174	$ 1,214	$ 67,234	$ 3,788
Production and intermediate-term	36,265	57,764	7,252	44,148	4,367
Agribusiness	7,702	8,802	2,756	7,765	--
Other	18,994	20,249	2,809	13,854	264
Total	$ 133,599	$ 179,989	$ 14,031	$ 133,001	$ 8,419

	As of December 31, 2017			For the year ended December 31, 2017	
	Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 2,223	$ 2,282	$ 292	$ 2,035	$ --
Production and intermediate-term	9,946	11,074	4,001	9,434	--
Agribusiness	7,380	8,006	3,609	3,693	--
Other	1,932	1,951	909	2,097	--
Total	$ 21,481	$ 23,313	$ 8,811	$ 17,259	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 49,350	$ 73,700	$ --	$ 45,171	$ 3,988
Production and intermediate-term	25,555	51,173	--	24,238	6,013
Agribusiness	3,475	3,682	--	2,522	--
Other	2,857	3,935	--	5,323	263
Total	$ 81,237	$ 132,490	$ --	$ 77,254	$ 10,264
Total impaired loans:					
Real estate mortgage	$ 51,573	$ 75,982	$ 292	$ 47,206	$ 3,988
Production and intermediate-term	35,501	62,247	4,001	33,672	6,013
Agribusiness	10,855	11,688	3,609	6,215	--
Other	4,789	5,886	909	7,420	263
Total	$ 102,718	$ 155,803	$ 8,811	$ 94,513	$ 10,264

Note: Impaired loans include purchased credit-impaired loans.

[1]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, acquisition costs, and unamortized adjustments to fair value on loans acquired through the merger and may also reflect a previous direct charge-off of the investment.

[2]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.

TDR Activity

(in thousands) For the year ended December 31	**2019**		2018		2017	
	Pre-modification	Post-modification	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	**$ 293**	**$ 293**	$ 309	$ 309	$ 117	$ 201
Production and intermediate-term	**138**	**116**	1,712	1,708	980	895
Agribusiness	**--**	**--**	6,857	6,857	--	--
Total	**$ 431**	**$ 409**	$ 8,878	$ 8,874	$ 1,097	$ 1,096

Pre-modification represents the outstanding recorded investment of the loan just prior to restructuring and post-modification represents the outstanding recorded investment of the loan immediately following the restructuring. 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, acquisition costs, and unamortized adjustments to fair value on loans acquired through the merger and may also reflect a previous direct charge-off of the investment.

The primary types of modification included deferral of principal, interest rate reduction below market, and extension of maturity.

TDRs that Occurred Within the Previous 12 Months that Subsequently Defaulted

(in thousands)	**2019**	2018	2017
Production and intermediate-term	**$ --**	$ 33	$ 147
Agribusiness	**--**	4,242	--
Total	**$ --**	$ 4,275	$ 147

TDRs Outstanding

(in thousands) As of December 31	**2019**	2018	2017
Accrual status:			
Real estate mortgage	**$ 6,415**	$ 10,337	$ 11,598
Production and intermediate-term	**652**	941	523
Agribusiness	**--**	--	--
Other	**--**	--	--
Total TDRs in accrual status	**$ 7,067**	$ 11,278	$ 12,121
Nonaccrual status:			
Real estate mortgage	**$ 810**	$ 1,114	$ 1,335
Production and intermediate-term	**562**	525	1,751
Agribusiness	**3,719**	4,547	91
Other	**64**	64	69
Total TDRs in nonaccrual status	**$ 5,155**	$ 6,250	$ 3,246
Total TDRs:			
Real estate mortgage	**$ 7,225**	$ 11,451	$ 12,933
Production and intermediate-term	**1,214**	1,466	2,274
Agribusiness	**3,719**	4,547	91
Other	**64**	64	69
Total TDRs	**$ 12,222**	$ 17,528	$ 15,367

Additional commitments to lend to borrowers whose loans have been modified in a TDR were $523 thousand 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	**$ 59,928**	$ 48,849	$ 36,018
Provision for loan losses	**20,777**	15,249	13,806
Loan recoveries	**985**	1,499	1,451
Loan charge-offs	**(3,186)**	(5,669)	(2,426)
Balance at end of year	**$ 78,504**	$ 59,928	$ 48,849

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	**$ 24,516**	**$ 19,062**	**$ 9,650**	**$ 6,700**	**$ 59,928**
Provision for loan losses	**5,959**	**6,405**	**7,274**	**1,139**	**20,777**
Loan recoveries	**242**	**534**	**22**	**187**	**985**
Loan charge-offs	**(195)**	**(2,188)**	**(781)**	**(22)**	**(3,186)**
Balance as of December 31, 2019	**$ 30,522**	**$ 23,813**	**$ 16,165**	**$ 8,004**	**$ 78,504**
Ending balance: individually evaluated for impairment	**$ 2,863**	**$ 9,590**	**$ 7,540**	**$ 2,665**	**$ 22,658**
Ending balance: collectively evaluated for impairment	**$ 27,659**	**$ 14,223**	**$ 8,625**	**$ 5,339**	**$ 55,846**
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2019	**$ 9,923,304**	**$ 4,074,130**	**$ 3,991,934**	**$ 2,084,105**	**$ 20,073,473**
Ending balance: individually evaluated for impairment	**$ 89,233**	**$ 44,514**	**$ 16,990**	**$ 15,485**	**$ 166,222**
Ending balance: collectively evaluated for impairment	**$ 9,834,071**	**$ 4,029,616**	**$ 3,974,944**	**$ 2,068,620**	**$ 19,907,251**

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2017	$ 17,738	$ 15,881	$ 8,826	$ 6,404	$ 48,849
Provision for loan losses	6,813	6,253	848	1,335	15,249
Loan recoveries	106	1,281	--	112	1,499
Loan charge-offs	(141)	(4,353)	(24)	(1,151)	(5,669)
Balance as of December 31, 2018	$ 24,516	$ 19,062	$ 9,650	$ 6,700	$ 59,928
Ending balance: individually evaluated for impairment	$ 1,214	$ 7,252	$ 2,756	$ 2,809	$ 14,031
Ending balance: collectively evaluated for impairment	$ 23,302	$ 11,810	$ 6,894	$ 3,891	$ 45,897
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2018	$ 9,282,263	$ 4,034,439	$ 3,646,959	$ 1,944,053	$ 18,907,714
Ending balance: individually evaluated for impairment	$ 70,638	$ 36,265	$ 7,702	$ 18,994	$ 133,599
Ending balance: collectively evaluated for impairment	$ 9,211,625	$ 3,998,174	$ 3,639,257	$ 1,925,059	$ 18,774,115

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2016	$ 15,810	$ 13,632	$ 2,649	$ 3,927	$ 36,018
Provision for loan losses	1,781	3,393	6,041	2,591	13,806
Loan recoveries	243	926	136	146	1,451
Loan charge-offs	(96)	(2,070)	--	(260)	(2,426)
Balance as of December 31, 2017	$ 17,738	$ 15,881	$ 8,826	$ 6,404	$ 48,849
Ending balance: individually evaluated for impairment	$ 292	$ 4,001	$ 3,609	$ 909	$ 8,811
Ending balance: collectively evaluated for impairment	$ 17,446	$ 11,880	$ 5,217	$ 5,495	$ 40,038
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2017	$ 8,742,523	$ 4,438,546	$ 2,964,364	$ 1,743,289	$ 17,888,722
Ending balance: individually evaluated for impairment	$ 51,573	$ 35,501	$ 10,855	$ 4,789	$ 102,718
Ending balance: collectively evaluated for impairment	$ 8,690,950	$ 4,403,045	$ 2,953,509	$ 1,738,500	$ 17,786,004

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, acquisition costs, and unamortized adjustments to fair value on loans acquired through the merger and may also reflect a previous direct charge-off of the investment.

NOTE 4: LOANS HELD FOR SALE

Loans Held for Sale Activity, at Fair Value

(in thousands)

For the year ended December 31	**2019**	2018	2017
Balance at beginning of year	**$ 18,496**	$ 30,062	$ 27,370
Originations	**136,620**	114,996	129,154
Proceeds	**(127,275)**	(126,576)	(127,142)
Fair value adjustments	**(34)**	14	680
Balance at end of year	**$ 27,807**	$ 18,496	$ 30,062

Loans held for sale represent mortgage loans we intend to sell. The interest rate on these loans is set prior to funding. We are subject to the effects of changes in mortgage interest rates from the date of the interest rate lock commitment through the sale of the loan to a third party investor. As a result, we are exposed to interest rate risk and related price risk during the period from the date of the interest rate lock commitment through the interest rate lock commitment cancellation or expiration date or through the date of sale to a third party investor. To minimize risk we use forward commitments to sell TBAs at specified prices to economically hedge the interest rate risk.

NOTE 5: INVESTMENT SECURITIES

We have held-to-maturity investment securities of $1.2 billion, $995.1 million, and $879.3 million at December 31, 2019, 2018, and 2017, respectively. Our investment securities consisted of:

- Mortgage-backed securities (MBS) issued by Farmer Mac or guaranteed by the Small Business Administration (SBA) or by the United States Department of Agriculture (USDA)
- Asset-backed securities (ABS) guaranteed by SBA or USDA
- Municipal revenue bonds and a corporate debt security (Bonds)

The investment securities have been classified as held-to-maturity. MBS are generally longer-term investments and ABS are generally shorter-term investments. Farmer Mac guaranteed investments are typically MBS while SBA and USDA guaranteed investments may be composed of either MBS or ABS. All of our held-to-maturity investment securities, except $14.1 million, $5.5 million, and $12.2 million, were fully guaranteed by Farmer Mac, SBA, or USDA at December 31, 2019, 2018, and 2017, respectively.

Additional Held-to-Maturity Investment Securities Information

(dollars in thousands) **As of December 31, 2019**	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
MBS and bonds	**$ 933,860**	**$ 23,429**	**$ (2,589)**	**$ 954,700**	**4.4%**
ABS	**238,677**	**813**	**(2,598)**	**236,892**	**3.0%**
Total	**$ 1,172,537**	**$ 24,242**	**$ (5,187)**	**$ 1,191,592**	**4.1%**

As of December 31, 2018	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
MBS and bonds	$ 936,645	$ 3,749	$ (15,803)	$ 924,591	4.2%
ABS	58,495	166	(1,414)	57,247	4.2%
Total	$ 995,140	$ 3,915	$ (17,217)	$ 981,838	4.2%

As of December 31, 2017	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
MBS and bonds	$ 787,768	$ 695	$ (10,955)	$ 777,508	4.1%
ABS	91,490	17	(1,538)	89,969	2.3%
Total	$ 879,258	$ 712	$ (12,493)	$ 867,477	3.6%

Investment income is recorded in “Interest income” in the Consolidated Statements of Comprehensive Income and totaled $44.2 million, $36.3 million, and $23.7 million in 2019, 2018, and 2017, respectively.

Contractual Maturities of Held-to-Maturity Investment Securities

(in thousands) **As of December 31, 2019**	Amortized Cost
Less than one year	**$ 846**
One to five years	**21,938**
Five to ten years	**151,417**
More than ten years	**998,336**
Total	**$ 1,172,537**

Actual maturity of the held-to-maturity investment securities may be less than contractual maturity due to prepayments.

A summary of investments in an unrealized loss position presented by the length of time the investments have been in continuous unrealized loss position follows:

(in thousands)	Less than 12 months		Greater than 12 months	
As of December 31, 2019	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
MBS and bonds	**$ 5,276**	**$ (14)**	**$ 31,400**	**$ (2,575)**
ABS	**112,734**	**(1,467)**	**23,431**	**(1,131)**
Total	**$ 118,010**	**$ (1,481)**	**$ 54,831**	**$ (3,706)**

	Less than 12 months		Greater than 12 months	
As of December 31, 2018	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
MBS and bonds	$ 57,337	$ (551)	$ 619,610	$ (15,252)
ABS	14,527	(458)	27,460	(956)
Total	$ 71,864	$ (1,009)	$ 647,070	$ (16,208)

As of December 31, 2017	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	Greater than 12 months Fair Value	Greater than 12 months Unrealized Losses
MBS and bonds	$ 445,713	$ (3,449)	$ 261,579	$ (7,506)
ABS	61,565	(515)	15,493	(1,023)
Total	$ 507,278	$ (3,964)	$ 277,072	$ (8,529)

Unrealized losses greater than 12 months associated with held-to-maturity investment securities are not considered to be other-than-temporary due to the 100% guarantee of the principal by Farmer Mac, SBA, or USDA. However, the premiums paid to purchase the investment are not guaranteed and are amortized as a reduction of interest income. Repayment of principal is assessed at least quarterly, and any remaining unamortized premium is taken as a reduction to interest income if principal repayment is unlikely, or when a demand for payment is made for the guarantee.

We had no outstanding available-for-sale investment securities at December 31, 2019, 2018, or 2017.

Additional Available-for-Sale Investment Securities Information

(in thousands)

For the year ended December 31	**2019**	2018	2017
Proceeds from sales	**$ 60,481**	$ 86,727	$ 105,204
Realized losses on sales, net	**(635)**	(511)	(198)

The investment portfolio is evaluated for other-than-temporary impairment. For the years ended December 31, 2019, 2018, and 2017, we have not recognized any impairment on our investment portfolio.

NOTE 6: OTHER INVESTMENTS

We held non-controlling investments in junior capital funds in “Other assets” of $2.5 million, $2.5 million, and $10.0 million at December 31, 2019, 2018, and 2017, respectively. These investments represent our stake in junior capital funds focused on the needs of rural start-up companies. We had no remaining commitment at December 31, 2019. To date, no income has been distributed from the funds. We received no distributions from the funds during the years ended December 31, 2019, 2018, or 2017. These investments were evaluated for impairment. For the year ended December 31, 2018, $7.5 million of impairment losses were recognized. For the years ended December 31, 2019, and 2017 we did not recognize any impairment on these investments.

We and other Farm Credit Institutions are among the limited partners for Rural Business Investment Companies (RBICs). Our total commitment is $79.5 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 $17.0 million, $13.4 million, and $11.8 million at December 31, 2019, 2018, and 2017, respectively. The investments were evaluated for impairment. For the years ended December 31, 2019, 2018, and 2017, we have not recognized any impairment on these investments.

NOTE 7: 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. 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 8: 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	**$ 22,000,000**	$ 22,000,000	$ 18,000,000
Outstanding principal under the line of credit	**17,940,024**	16,751,484	15,859,202
Interest rate	**2.5%**	2.7%	2.1%

Our note payable is scheduled to mature on September 30, 2021. 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 9: EQUITY

Capitalization Requirements

In accordance with the Farm Credit Act, each client 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 client's total loan(s) or one thousand dollars, whichever is less. The purchase of one participation certificate is required of all clients to whom a lease is issued and of all non-stockholder clients who purchase financial services. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The client acquires ownership of the capital stock or participation certificate at the time the loan or lease is made. The aggregate par value of the stock is added to the principal amount of the related obligation. We retain a first lien on the stock or participation certificates owned by clients.

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	**15.0%**	14.7%	14.2%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**15.5%**	15.2%	14.7%	6.0%	2.5%*	8.5%
Total capital ratio	**15.9%**	15.6%	15.1%	8.0%	2.5%*	10.5%
Permanent capital ratio	**15.9%**	15.7%	15.7%	7.0%	N/A	7.0%
Non-risk-adjusted:						
Tier 1 leverage ratio	**15.4%**	15.3%	15.0%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**14.8%**	14.2%	13.8%	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, except for Series A-1 preferred stock, which is $1,000 par value.

	Number of Shares		
As of December 31	**2019**	2018	2017
Class B common stock (at-risk)	**6,287,297**	6,356,673	6,565,626
Class E participation certificates (at-risk)	**260,031**	255,711	276,963
Series A-1 preferred stock	**100,000**	100,000	100,000

On July 1, 2017, 1st FCS and Badgerland merged into AgStar and formed Compeer. All members of 1st FCS and Badgerland received capital stock and participation certificates in Compeer in exchange for their stock, which was then canceled. This exchange was made at the stock's par value and 3.7 million shares of capital stock and participation certificates were issued.

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

On May 30, 2013, we issued $100.0 million of Series A-1 non-cumulative perpetual preferred stock. This series may be held or transferred in blocks having an aggregate par value of not less than $250,000 and an investor must hold at least 250 shares. We used the net proceeds from the Series A-1 preferred stock issuance to increase our regulatory capital pursuant to FCA Regulations in effect at the time of issuance, for the continued development of our business, and for general corporate purposes.

Dividends on the Series A-1 preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly in arrears on the 15th day of February, May, August, and November, beginning on August 15, 2013. Dividends accrue at a fixed annual rate of 6.75% from the date of issuance through August 14, 2023, and beginning on August 15, 2023, will accrue at an annual rate equal to the 3-month United States Dollar London Inter-bank Offered Rate (LIBOR), reset quarterly, plus 4.58%. If LIBOR is not readily available at this time, a new 3-month rate will be determined as outlined in the preferred stock documentation. The Series A-1 preferred stock is not mandatorily redeemable at any time. However, the Series A-1 preferred stock will be redeemable at par value, in whole or in part, at our option, quarterly beginning on August 15, 2023. In addition, the Series A-1 preferred stock will be redeemable in whole, at our option, at any time upon the occurrence of certain defined regulatory events. Series A-1 preferred stockholders do not have any voting rights, but may appoint two board observers after six unpaid dividend payments.

The Series A-1 preferred stock is junior to any subordinated debt, existing and future debt obligations, and to any series of preferred stock we may issue in the future with priority rights. Series A-1 preferred stock is senior to outstanding Class B, C, or D common stock, Class E participation certificates, and patronage equities. The Series A-1 preferred stock has a preference as to dividends and on liquidation or dissolution over all other classes of equities.

Only holders of Class B common stock have voting rights. Our bylaws allow us to pay dividends on any class of stock. However, no stock dividends have been declared to date other than Series A-1 preferred stock dividends.

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, to holders of Series A-1 preferred stock,
- second, to holders of Class B, C, and D common stock and Class E participation certificates pro rata to all such stock,
- third, to member stockholders who have received capital through patronage transactions pro rata to all such capital, and
- lastly, any remaining assets shall be distributed to current and former member stockholders based on relative patronage transactions.

In the event of impairment, losses will be absorbed by unallocated capital reserves, patronage equities, or the concurrent impairment of all classes of stock, in a manner deemed to be fair and equitable by the Board of Directors, provided that no shares of Series A-1 preferred stock will be impaired until all classes of junior stock have been impaired in their entirety.

All classes of stock and participation certificates, other than Series A-1 preferred stock, are transferable to other clients who are eligible to hold such class of stock or participation certificates. Transfers of Class B common stock are subject to the approval of the Board of Directors. Transfers of Class C or D common stock or Class E participation certificates are only allowed if we meet the regulatory minimum capital requirements. Series A-1 preferred stock may only be transferred to qualified institutional buyers and institutional accredited investors, as those terms are defined by the Securities Act of 1933, as amended, and only in accordance with the terms and limitations of the Series A-1 preferred stock offering documents.

Patronage Distributions

Patronage can be allocated and/or distributed in the form of cash, qualified written notices of allocations, and/or nonqualified written notices of allocation. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements.

We accrued patronage distributions of $177.0 million at December 31, 2019, for our cash patronage and nonqualified patronage programs. The cash patronage distributions of $125.0 million are expected to be paid in cash during 2020. The redemptions of $52.0 million of the nonqualified equities issued to

former members of AgStar, 1st FCS, and Badgerland are expected to be paid in the first quarter of 2020. We accrued patronage distributions of $151.7 million at December 31, 2018, for our cash patronage and nonqualified patronage programs. The cash patronage distributions of $99.3 million were paid in cash during 2019. The redemptions of $52.4 million of the nonqualified equities issued to former members of AgStar, 1st FCS, and Badgerland were paid in the first quarter of 2019. We accrued patronage distributions of $122.0 million at December 31, 2017, for our cash patronage and nonqualified patronage programs. The cash patronage distributions of $47.0 million, plus an additional $728 thousand, were paid in cash during 2018. The redemptions of $75.0 million of the nonqualified equities issued to former members of 1st FCS and Badgerland were paid in the first quarter of 2018.

Upon the merger, all allocated surplus issued by 1st FCS and Badgerland became allocated surplus in the merged Association. The allocated surplus held by AgStar patrons remains outstanding as allocated surplus of the merged Association. With the exception of allocated surplus designated as permanent allocations, all allocated surplus is eligible to be redeemed in the future, if approved by the Board subject to compliance with Compeer Financial, ACA's bylaws. Redemptions of permanent allocations shall not be eligible to be redeemed. In 2017, we made net nonqualified patronage allocations of $28.6 million in accordance with the merger capital equalization plan. We made no net nonqualified patronage allocations at December 31, 2019 or 2018. Patronage equities have no voting rights, are redeemed at the sole discretion of the Board of Directors and are transferable only if specifically authorized by the Board of Directors.

The Board of Directors authorized the redemption of nonqualified patronage allocations of $52.9 million and $96.0 million in 2019 and 2018. The Board of Directors authorized the redemption of nonqualified patronage allocations of $100.8 million in 2017, which included $25.8 million of nonqualified equities issued to AgStar patrons and $75.0 million of nonqualified equities issued to former members of 1st FCS and Badgerland.

The Board of Directors authorized the payment of $6.2 million, $5.4 million, and $1.6 million of distributions on approved transactions in 2019, 2018, and 2017, respectively.

The timing and amounts of all future patronage redemptions and distribution payments remains at the discretion of the Board of Directors based on a combination of factors including the risk in our portfolio, earnings, and our current capital position. Further information regarding the tax impact of our patronage distributions is included in Note 10.

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 10: 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 35%, 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 Income Taxes

Provision for Income Taxes

(dollars in thousands)

For the year ended December 31	2019	2018	2017
Current:			
Federal	$ 5,574	$ (2,768)	$ 10,981
State	436	774	782
Total current	$ 6,010	$ (1,994)	$ 11,763
Deferred:			
Federal	$ 9,445	$ 5,853	$ 2,513
State	1,853	125	418
Total deferred	11,298	5,978	2,931
Provision for income taxes	$ 17,308	$ 3,984	$ 14,694
Effective tax rate	4.2%	1.0%	5.3%

Reconciliation of Taxes at Federal Statutory Rate to Provision for Income Taxes

(in thousands)

For the year ended December 31	2019	2018	2017
Federal tax at statutory rates	$ **86,925**	$ 85,644	$ 97,843
State tax, net	**1,698**	906	643
Patronage distributions	**(13,333)**	(15,825)	(12,314)
Effect of non-taxable entity	**(61,123)**	(63,073)	(71,540)
Change in statutory tax rates due to the Tax Cuts and Jobs Act	**--**	--	727
Other prior year adjustment	**3,141**	(3,668)	(665)
Provision for Income taxes	$ **17,308**	$ 3,984	$ 14,694

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	$ **9,529**	$ 7,522	$ 6,153
Postretirement benefit accrual	**980**	965	974
Merger fair value adjustment	**967**	1,242	3,501
Deferred fee income, net	**300**	403	581
Accrued incentive	**1,421**	1,396	1,064
Leasing related, net	**(19,594)**	(12,366)	(5,276)
Accrued patronage income not received	**(4,823)**	--	(2,429)
Accrued pension asset	**(5,201)**	(3,845)	(2,884)
Depreciation	**16**	86	(110)
Other assets	**906**	398	204
Other liabilities	**(638)**	(640)	(639)
Deferred tax (liabilities) assets, net	$ **(16,137)**	$ (4,839)	$ 1,139
Gross deferred tax assets	$ **14,119**	$ 12,012	$ 12,477
Gross deferred tax liabilities	$ **(30,256)**	$ (16,851)	$ (11,338)

A valuation allowance for the deferred tax assets was not necessary at December 31, 2019, 2018, or 2017.

We have not provided for deferred income taxes on approximately $115.9 million of 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. Also, we have not provided deferred income taxes on $8.8 million of patronage allocations in the form of AgriBank stock distributed in 2002 to the ACA and PCA. The Board of Directors has passed a resolution that, should this stock ever be converted to cash, creating a tax liability, an equal amount will be distributed to patrons at that time under our patronage program. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $1.4 billion as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to stockholders 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 11: 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 plan is comprised of two benefit formulas. At their option, employees hired prior to October 1, 2001, are on the cash balance formula or the final average pay formula. New benefits-eligible employees hired between October 1, 2001, and December 31, 2006, are on the cash balance formula. Effective January 1, 2007, the defined benefit retirement plan was closed to new employees. 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 eligible compensation 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	**10,465**	14,578	9,063
Contributions by participating employers	**90,000**	90,000	90,000
Our allocated share of contributions	**24,462**	24,588	22,907

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 $25.0 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	**$ 18,482**	$ 17,103	$ 13,376
For the year ended December 31	**2019**	2018	2017
Our allocated share of plan expenses	**$ 2,432**	$ 1,650	$ 4,627
Our cash contributions	**1,687**	1,691	2,508

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 expense" 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	**$**	**(68)**	$	(113)	$	231
Our cash contributions		**352**		399		365

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%.

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 the defined contribution plan, included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income, were $8.6 million, $8.1 million, and $5.5 million in 2019, 2018, and 2017, respectively. These expenses were equal to our cash contributions for each year.

NOTE 12: 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	**$**	**59,294**	$	49,504	$	37,959
For the year ended December 31		**2019**		2018		2017
Advances to related parties	**$**	**33,228**	$	20,947	$	20,081
Repayments by related parties		**34,882**		21,841		18,207

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. Advances and repayments on loans in the preceding chart are related to those considered related parties at year end.

As discussed in Note 8, 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 $144.4 million, $131.7 million, and $90.1 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 $3.7 million, $3.7 million, and $2.0 million in 2019, 2018, and 2017, respectively. Refer to Note 3 for information on participations sold to AgriBank and Note 7 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 financial and retail systems, financial reporting services, tax reporting services, technology services, and insurance services. The total cost of services we purchased from AgriBank was $3.3 million, $3.4 million, and $3.2 million 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 be a partial owner and continue to purchase services from SunStream.

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 $154 thousand. The total cost of services purchased from Foundations was $1.1 million, $996 thousand, and $816 thousand in 2019, 2018, and 2017, respectively.

We have an agreement with CoBank to provide certain cash management services to some of our clients. To support these cash management services, we have a cash management agreement with CoBank that includes a $9.25 million back-up cash management settlement facility.

NOTE 13: 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 $4.8 billion. Additionally, we had $63.3 million of issued standby letters of credit and $12.3 million of other commitments 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. 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 hold non-controlling investments in junior capital funds and we are a limited partner in RBICs. Refer to Note 6 for additional discussion regarding these commitments.

NOTE 14: DERIVATIVES

We use forward commitments to sell TBAs at specified prices to economically hedge the interest rate risk on investments available-for-sale, loans held for sale, and interest rate lock commitments. Changes in fair value subsequent to inception are based on changes in the fair value of the underlying loan and for commitments to originate loans and changes in the probability that the loan will fund within the terms of the commitment. Changes in the probability that the loan will fund within the terms of the commitment are affected primarily by changes in interest rates and the passage of time.

As of December 31, 2019, we had $47.5 million of forward commitments to sell, hedging $27.8 million of mortgage loans held for sale and $14.1 million of unfunded mortgage loan commitments. We also hedge available-for-sale investments. However there were no available-for-sale investments outstanding at December 31, 2019, 2018, or 2017. As of December 31, 2018, we had $28.0 million of forward commitments to sell, hedging $18.5 million of mortgage loans held for sale and $11.6 million of unfunded mortgage loan commitments. As of December 31, 2017, we had $44.8 million of forward commitments to sell, hedging $30.1 million of mortgage loans held for sale and $12.9 million of unfunded mortgage loan commitments. The forward commitments to sell and the unfunded mortgage loan commitments on loans intended to be sold are considered derivatives and are recognized at fair value. On the TBAs, we had gains of $265 thousand, $1.8 million, and $1.2 million and losses of $1.1 million, $1.2 million, and $1.9 million relating to net fair value adjustments and sales in 2019, 2018, and 2017, respectively. These amounts were included in "Fee and other non-interest income" in the Consolidated Statements of Comprehensive Income.

NOTE 15: 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.

Recurring

The following represents a summary of the assets, valuation techniques, and inputs used to measure fair value on a recurring basis:

Loans Held For Sale: The loans held for sale portfolio is held at fair value. Fair value is based on quoted market prices, where available, or the prices for other similar mortgage loans with similar characteristics. As necessary, these prices are adjusted for typical securitization activities, including servicing value, portfolio composition, market conditions, and liquidity. We had loans held for sale of $27.8 million, $18.5 million, and $30.1 million as of December 31, 2019, 2018, and 2017, respectively, which were valued using Level 3 inputs. Total fair value gains related to these loans of $192 thousand, $226 thousand, and $212 thousand in 2019, 2018, and 2017, respectively were recognized in "Fee and other non-interest income" in the Consolidated Statements of Comprehensive Income.

Investment Securities Available-for-Sale: Investment securities available-for-sale are held at fair value. Fair value is based on quoted market prices, where available, or the prices for other similar securities with similar characteristics. As necessary, these prices are adjusted for typical securitization activities, including servicing value, portfolio composition, market conditions, and liquidity. We had no outstanding available-for-sale investment securities at December 31, 2019, 2018, and 2017. During the year ended December 31, 2019, 2018, and 2017 we sold available-for-sale investment securities with total sales proceeds of $60.5 million, $86.7 million, and $105.2 million, resulting in a loss of $635 thousand, $511 thousand, and $198 thousand in 2019, 2018, or 2017, respectively, which was recognized in "Fee and other non-interest income" in the Consolidated Statements of Comprehensive Income.

Derivatives: If an active market exists, the fair value of our derivative financial instruments called TBAs is based on currently quoted market prices. We had TBAs with a notional value of $47.5 million, $28.0 million, and $44.8 million as of December 31, 2019, 2018, and 2017, respectively, which were used to manage exposure to interest rate risk and changes in the fair value of loans held for sale and the interest rate lock commitments that are determined prior to funding. We also used these instruments to hedge the changes in fair value related to investment securities available-for-sale. These derivatives were recorded on a net basis using Level 1 fair value inputs. Net losses related to TBAs sold, combined with fair value gains on the TBAs, resulted in a net loss of $804 thousand and $680 thousand in 2019 and 2017, respectively compared to a net gain of $583 thousand in 2018. These were included in "Fee and other non-interest income" in the Consolidated Statements of Comprehensive Income.

Non-Recurring

We may also be required, from time to time, to measure certain assets at fair value on a non-recurring basis. The following represents a summary of the assets, valuation techniques, and inputs used to measure fair value on a non-recurring basis:

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.

Other Property Owned: Represents the fair value of foreclosed assets measured based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. 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 property and other matters, they are classified as Level 3.

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	**$ --**	**$ --**	**$ 23,706**	**$ 23,706**
Other property owned	**--**	**--**	**64**	**64**

As of December 31, 2018	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ --	$ 24,226	$ 24,226
Other property owned	--	--	210	210

As of December 31, 2017	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ --	$ 13,304	$ 13,304
Other property owned	--	--	1,130	1,130

NOTE 16: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 6, 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

Compeer Financial, 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
Illinois		
Aledo	Owned	Branch
Bloomington	Leased	Commercial Unit
Bourbonnais	Leased	Branch
Carthage	Leased	Contact Office
Edwards	Owned	Branch
Freeport	Owned	Branch
Geneseo	Owned	Branch
Lewiston	Leased	Contact Office
Macomb	Owned	Branch
Monmouth	Owned	Branch
Morton	Owned	Branch
Mt. Sterling	Leased	Contact Office
Naperville	Leased	Branch
Normal	Owned	Corporate Facility
Normal	Leased	Branch
Oregon	Owned	Branch
Ottawa	Owned	Branch
Pontiac	Leased	Branch
Princeton	Owned	Branch
Quincy	Owned	Branch
Rock Falls	Leased	Branch
Rushville	Leased	Contact Office
Stronghurst	Leased	Contact Office
Sycamore	Leased	Branch
Woodstock	Leased	Contact Office
Minnesota		
Blue Earth	Leased	Branch
Duluth	Leased	Contact Office
Glencoe	Owned	Branch
Lakeville	Owned	Branch
Mankato	Owned	Branch
Mankato	Leased	Corporate Facility
Rochester	Leased	Branch
St. Paul	Leased	Commercial Unit
Waite Park	Owned	Branch
Worthington	Leased	Branch/Contact Office

Location	Description	Usage
Wisconsin		
Arcadia	Owned	Branch
Baldwin	Owned	Branch
Baraboo	Owned	Branch
Beaver Dam	Owned	Branch
Burlington	Owned	Branch
Chilton	Owned	Branch
Dodgeville	Owned	Branch
Fond du Lac	Owned	Branch
Janesville	Owned	Branch
Johnson Creek	Owned	Branch
Lancaster	Owned	Branch
Mondovi	Owned	Branch
Monroe	Leased	Branch
Mt. Horeb	Leased	Contact Office
Plymouth	Owned	Branch
Prairie du Sac	Owned	Branch
Rice Lake	Owned	Branch
Sparta	Owned	Branch
Sun Prairie	Owned	Corporate Headquarters
Viroqua	Leased	Branch
Other		
Boise, ID	Leased	Contact Office
Des Moines, IA	Leased	Contact Office

Legal Proceedings

Information regarding legal proceedings is discussed in Note 13 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	15.7%	15.4%	13.9%
Total surplus ratio	15.4%	15.2%	13.7%
Core surplus ratio	12.9%	12.5%	10.9%

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 9 to the Consolidated Financial Statements in this Annual Report.

Description of Liabilities

Information regarding liabilities is discussed in Notes 8, 9, 10, 11, and 13 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

Our Board of Directors is organized into the following committees to carry out Board responsibilities:

- The **Audit and Finance Committee** oversees financial reporting, the adequacy of our internal control systems, the scope of our internal audit program, the independence of the outside auditors, the processes for monitoring compliance with laws and regulations and the code of ethics. The Audit and Finance Committee also oversees the adequacy of management's actions with respect to recommendations arising from auditing activities.
- The **Compensation and Governance Committee** addresses issues of Board governance and the Board's continuing efforts to strengthen and renew the Board, administers a process for maintaining and periodically reviewing Board policies, oversees and provides overall direction and/or recommendations for compensation, benefits and human resource performance management programs.
- The **Enterprise Risk Committee** oversees the integration of risk management activities throughout our organization. Committee members review ongoing risk assessments of current and emerging risks to ensure adequate planning and resources are directed at managing the identified risks. The Committee also establishes and promotes an effective risk culture throughout our organization.

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

Name	Term[1]	Principal occupation and other business affiliations
Dale Holmgren Chairperson	2016 - 2020	**Principal occupation:** Self-employed grain and livestock farmer **Other business affiliations:** President: Svin Hus, Inc., a swine operation Director: AgriBank District Farm Credit Council Board, a farm credit policy advocacy council
David Peters Vice Chairperson	2018 - 2020	**Principal occupation:** Self-employed wheat, soybean, and corn farmer **Other business affiliations:** Director: Manteno Farmers Elevator, grain warehousing and merchandising Treasurer: Kankakee County Soil and Water Conservation District Trustee: Manteno Township Fire Protection District Director: AgriBank District Farm Credit Council Board, a farm credit policy advocacy council
Rodney Bosma	2019 - 2023	**Principal occupation:** Self-employed grain and livestock farmer

Name	Term[1]	Principal occupation and other business affiliations
Ann Broome Outside Director	2019 - 2023	**Principal occupation:** Self-employed Human Resources Consultant **Other business affiliations:** President: Sienna Group, HR Consulting
Allyn Buhrow	2019 - 2023	**Principal occupation:** Self-employed corn and soybean farmer and seed sales agent **Other business affiliations:** Vice Chair: Illinois Leadership Council for Agricultural Education, and advocacy council Treasurer: Lee County Farm Bureau, an advocacy council Member: Illinois Committee for Agricultural Education, an education advisory committee
Mark Cade	2017 - 2020	**Principal occupation:** Self-employed beef and grain farmer
Kaye Compart	2018 - 2022	**Principal occupation:** Self-employed swine and seedstock producer **Other business affiliations:** Director: Nicollet Area Community Foundation, Nicollet, MN, a fundraising organization
Dan Erickson	2018 - 2021	**Principal occupation:** Self-employed grain farmer and custom heifer producer
Tim Evert	2019 - 2023	**Principal occupation:** President: Evert Farms, Inc., a custom heifer raising and crop farm Partner: United Dreams Dairy, LLC, a dairy farm
Larry Fischer	2018 - 2021	**Principal occupation:** President: Fischer Dairy, a grain and beef farm President: Fischer Ridge, LLC, a land partnership
Kathleen Hainline Outside Director	2018 - 2021	**Principal occupation:** Consultant: agriculture risk management
Lori Meinholz	2018 - 2022	**Principal occupation:** Partner: Blue Star Dairy Farms, a dairy operation
Greg Nelson	2018 - 2022	**Principal occupation:** Self-employed grain and livestock farmer **Other business affiliations:** Director: AgriBank District Farm Credit Council Board, a farm credit policy advocacy council
Roger Newell	2018 - 2022	**Principal occupation:** Self-employed grain and livestock farmer **Other business affiliations:** Supervisor: Elba Township, government Trustee: Knox County South-Multi Township, government
Greg Pollesch, CPA Outside Director	2019 - 2022	**Principal occupation:** Director and President: Galloway Company, a sweetened condensed milk and ice cream mix manufacturer (President beginning January 2016) Owner and Manager: 82 West LLC, real estate investment group **Other business affiliations:** Director: Wisconsin Dairy Products Association, an industry trade group Director: Wisconsin Producer Security Fund, a trust fund
Stephanie Wise	2018 - 2021	**Principal occupation:** Corn, soybean, and popcorn farming operation Owner: Gripp Farm Nutrients, LLC, agribusiness/fertilizer Owner: Bright Prairies, LLC, general merchandise **Other business affiliations:** Director: Farm Credit Foundations, a pension and benefits service provider
Dan Zimmerman	2018 - 2021	**Principal occupation:** Vice President: Ever Green Growers Inc., a farming and elevator business Partner: Golden Grain, LLC, a farming operation

[1]Typically each director’s respective term ends following the fourth annual meeting after being elected, and until a successor is elected.

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. In 2019, the Board of Directors’ per diem rate was $450 per day plus travel time compensation for each meeting attended. This per diem rate was increased to $500 per day, effective January 1,

2020. The Board of Directors regular monthly meetings are normally two days in length. In addition, they hold two, three-day planning sessions annually. In 2019, each Director received a $1,600 per month retainer fee, with the exception of the Board chairperson who received a $2,000 per month retainer fee and the Board vice chairperson and Board committee chairpersons who received $1,700 per month retainer fee. Effective, January 1, 2020, the per month retainer fee was increased to $1,750 for each Director, with the exception of the Board chairperson retainer which increased to $2,150 per month, and the Board vice chairperson and Board committee chairpersons retainers increasing to $1,850 per month. Each Director is eligible for a variable retainer fee based on companywide financial and business objectives. The award is calculated as a percentage of the Director's annual per diem compensation. The performance criteria include return on equity, return on assets, operating revenue growth, average daily balance (ADB) growth, adverse assets to risk funds ratio, net operating rate, client satisfaction, and client loyalty. Under the terms of the plan, no payments are made in the event our return on equity or adverse assets to risk funds ratio fall outside specified threshold levels. The percentage used in the award calculation depends on the actual results for each performance criteria.

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

	Number of Days Served		Compensation Paid for Service on a Board Committee		Total Compensation Paid in 2019[1]
Name	Board Meetings	Other Official Activities		Name of Committee	
Kevin Aves[3]	11	19	$ 1,350	Compensation and Governance	$ 46,529
Rodney Bosma	3	3	450	Enterprise Risk	7,199
Ann Broome	24	16	1,800	Compensation and Governance	60,344
Allyn Buhrow	3	2	450	Compensation and Governance	6,656
Mark Cade	19	28	5,400	Audit and Finance	65,816
Kaye Compart	19	31	1,800	Enterprise Risk	60,193
Terry Ebeling[3]	17	20	5,400	Audit and Finance	53,327
Dan Erickson	20	32	1,800	Enterprise Risk	65,035
Tim Evert	17	18	1,800	Compensation and Governance	51,287
Larry Fischer	16	26	5,400	Audit and Finance	57,951
Kathleen Hainline	20	28	5,400	Audit and Finance	64,826
Dale Holmgren	18	23	1,800	Enterprise Risk	63,904
Lori Meinholz	16	12	1,350	Compensation and Governance	49,538
Greg Nelson	19	26	1,800	Enterprise Risk	57,832
Roger Newell	17	24	5,400	Audit and Finance	46,508
David Peters	20	20	1,800	Enterprise Risk	58,230
Greg Pollesch	16	7	1,800	Audit and Finance	44,300
Michael Pratt[2]	0	0	--		9,753
Stephanie Wise	19	25	1,800	Compensation and Governance	56,697
Dan Zimmerman	23	18	1,800	Compensation and Governance	56,013
					$ 981,938

[1] Compensation in 2019 includes tax fringe benefits, if applicable, and variable retainer earned during 2018 and paid in 2019.
[2] No longer on the Board at December 31, 2018.
[3] No longer on the Board at December 31, 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
Rod Hebrink President and Chief Executive Officer	**Business experience:** President and Chief Executive Officer since July 2017 President and Chief Executive Officer of AgStar Financial Services, ACA from July 2014 to June 2017 **Other business affiliations:** Board Member of SunStream Business Services, AgriBank's division of technology and other business services Board Member of Farm Credit Foundations, a pension and benefits service provider Board Member of Minnesota AgriGrowth Council President of Rural Funding, LLC
Jase Wagner Chief Financial Officer	**Business experience:** Chief Financial Officer since July 2017 Senior Vice President and Chief Financial Officer of AgStar Financial Services, ACA from October 2014 to June 2017

Name and Position	Business experience and other business affiliations
Matt Ginder Chief Core Markets Officer	**Business experience:** Chief Core Markets Officer since July 2017 Executive Vice President - Marketplace Delivery of 1st Farm Credit Services, ACA from January 2010 to June 2017 **Other business affiliations:** Trustee on the Village Board of Goodfield, IL, government
Mark Greenwood Chief Diversified Markets Officer	**Business experience:** Chief Diversified Markets Officer since July 2017 Senior Vice President Relationship Management, AgStar Financial Services, ACA from May 2015 to June 2017 President, The Maschhoff's Inc. from November 2014 to April 2015 **Other business affiliations:** Treasurer and Secretary of Swine Health Information Commission
John Hemstock Chief Talent and Technology Officer	**Business experience:** Chief Talent and Technology Officer since July 2017 Senior Vice President Talent and Business Technology Strategies, AgStar Financial Services, ACA from October 2014 to June 2017
Terry Hinds Chief Risk Officer	**Business experience:** Chief Risk Officer since July 2017 Chief Lending Officer - Diversified Markets of 1st Farm Credit Services, ACA from May 2006 to June 2017 **Other business affiliations:** Board Member of Illinois Agri-Food Alliance, non-profit
Paul Kohls Chief Lending Operations Officer and General Counsel	**Business experience:** Chief Lending Operations Officer and General Counsel since July 2017 Senior Vice President, General Counsel and Secretary of AgStar Financial Services, ACA from January 2012 to June 2017
John Monson Chief Mission and Marketing Officer	**Business experience:** Chief Mission and Marketing Officer since July 2017 Senior Vice President Marketplace Strategies, AgStar Financial Services, ACA from October 2014 to June 2017
Tim Tracy Chief Credit Officer	**Business experience:** Chief Credit Officer since July 2017 Senior Vice President and Chief Risk Officer, AgStar Financial Services, ACA from October 2011 to June 2017
Jerry Wiese Chief Information Officer	**Business experience:** Chief Information Officer since July 2017 Chief Information Officer, Vice President Information Technology of Badgerland Financial, ACA from September 2012 to June 2017

Information related to compensation paid to senior officers is provided in our Annual Meeting Information Statement (AMIS). The AMIS is available for public inspection at our office.

Transactions with Senior Officers and Directors

Information regarding related party transactions is discussed in Note 12 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:

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

The total directors' travel, subsistence, and other related expenses were $353 thousand, $261 thousand, and $326 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.

Client Privacy

The FCA Regulations protect clients' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our Association or our clients 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 stockholders and we are in agreement with the opinion expressed by the independent auditors. The total financial statement audit fees paid during 2019 were $445 thousand. Our engagement letter commits to reimbursing the external auditor for reasonable out-of-pocket expenses as incurred for travel. In addition, we incurred $7 thousand for tax compliance services and $2 thousand for accounting research software.

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.

Equal Employment Opportunity

We are an equal opportunity employer. We are fully committed to and supportive of equal employment opportunity and diversity, and it’s our belief all team members should be treated with dignity and respect. All human resource decisions and processes relating to Compeer team members and job applicants will be nondiscriminatory, conducted in an environment free of harassment or coercion, and without regard to race, color, sex, ancestry, creed, religion, national origin, age, disability status, marital status, familial status, sexual orientation, gender identity, pregnancy, public assistance status, current or former military member, genetic information, order of protection status, arrest and conviction record, use or non-use of lawful products, declining to attend a meeting about religious or political matters, or any other status protected by state or federal law. We are committed to recruiting, hiring, compensating, providing benefits, training, and promoting without regard to these factors.

YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

Compeer Financial, ACA

(Unaudited)

We have specific programs in place to serve the credit related needs of young, beginning and small farmers and ranchers (YBS) in our territory. The definitions of YBS as developed by the Farm Credit Administration (FCA) follow:

- Young: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.
- 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 transaction 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.

Young, Beginning, and Small (YBS) Farmer Demographics

Using the 2017 United States Department of Agriculture Ag census as the source for demographic data, there are approximately 123,000 farms in the Compeer Financial, ACA (Compeer) territory. Of those, 12.6% are young farmers, 24.6% are beginning farmers, and 81.3% are small farmers.

Mission Statement

Our YBS program is essential to our mission of enriching agriculture and rural America by making financing programs and financial services available to the YBS farmers who represent the future of agriculture in Illinois, Minnesota, and Wisconsin. Providing financing programs, financial services, educational opportunities and outreach programs to this segment helps ensure the next generation of farmers is successful.

2019 YBS Highlights

2019 marked the second full year of Compeer's YBS program, and learnings were applied to make beneficial changes to the program. The lending program consists of special loan pricing and flexible underwriting standards. Loan programs include:

- Special loan pricing – available to YBS farmers to be utilized with or without one of the following programs:
- Starter loan program
- Finish barn loan program
- Broiler barn loan program
- Character loan program

In addition to the lending program, a "Beginning with Compeer" grant program is also made available to beginning farmers within the Compeer territory. The third branch of the YBS program is education and outreach.

A key component of education and outreach is allowing for the direct input of YBS farmers to influence the program. An external advisory group, which was bolstered from 12 to 20 members in 2019, is made up of clients throughout the Compeer territory. The Advisory Group met twice in 2019 to discuss the program, changes and challenges facing the industry, and the specific needs of this market segment. The input from this group has helped steer the direction of the program and influenced educational opportunity decisions.

In addition to the client advisory group, there is also an internal committee tasked with overseeing the program. This committee is made up of a combination of Board members and team members across the organization to ensure the needs of the client are being considered from all angles. This committee meets quarterly and is also represented at the client advisory group meetings.

Additional aspects of education and outreach include our flagship YBS event, the Groundbreakers conference. This is a two-day conference that features exceptional speakers and educational topics on farm management, financial management, industry expertise, and other important topics affecting young, beginning and small farmers. Various other educational opportunities are offered in the form of in-person events, webinars and other content.

The program also has a strong emphasis on outreach to farmers operating in local and regional food systems ("Emerging Markets"), minority farmers, and military veterans who are becoming farmers after completing their military service.

Compeer is continuing its commitment to support rural youth in our territory through individual scholarships as well as sponsorships of 4-H, FFA, Ag in the Classroom programs, farm conferences, and numerous other activities.

Quantitative Goals

2019 Results
(dollars in millions)

	Total Number of Loans		Total Volume of Loans		Total Number of New Loans		Total Volume of New Loans	
	#	%	$	%	#	%	$	%
Young Farmers	15,878	21.4%	3,119	15.2%	3,920	19.1%	754	11.8%
Beginning Farmers	19,935	26.8%	4,235	20.7%	4,923	23.9%	1,108	17.4%
Small Farmers	33,728	45.4%	3,956	19.3%	9,307	45.2%	1,019	16.0%

2019 Actual vs. Goals

	Total Number of Loans		Total Volume of Loans		Total Number of New Loans		Total Volume of New Loans	
	Actual	Goal	Actual	Goal	Actual	Goal	Actual	Goal
Young Farmers	21.4%	19.3%	15.2%	14.0%	19.1%	17.0%	11.8%	13.0%
Beginning Farmers	26.8%	24.0%	20.7%	21.0%	23.9%	20.0%	17.4%	17.0%
Small Farmers	45.4%	42.5%	19.3%	19.0%	45.2%	39.0%	16.0%	14.0%

Safety and Soundness of Program

The Association’s Young, Beginning, and Small Farmer program has established standards and guidelines to provide for extension of sound and constructive credit, consistent with our business objectives. The program has also established lending limits for new loan extension under the program and should the Association’s credit quality fall below minimum guidelines, the program calls for the Board of Directors to review the program for changes or possible suspension. At this time the Association's credit quality is well above minimum guidelines outlined in the program.

FUNDS HELD PROGRAM

Compeer Financial, ACA

(Unaudited)

Purpose

Compeer Financial, ACA (the Association) offers a Funds Held Program (Funds Held) that provides certain borrowers with the opportunity to make advance payments on designated loans in compliance with FCA Regulation 614.4175.

Objective

The Association offers this program for the benefit and convenience of borrowers who desire to make advance payments.

The following terms and conditions apply to all Funds Held unless the loan agreement or related documents between the Association and client provide for other limitations. The Association may change these terms and conditions at any time by providing prior notice to affected clients.

Advance Payment Application

Advance payments received on a loan participating in Funds Held before the loan has been billed will normally be placed in Funds Held as of the date received, to be applied against the next installment or other related charges on the installment due date. This is subject to any rights that we may have to apply such payments in a different manner as specified in loan documents governing designated loans.

Payments received on a loan participating in Funds Held after the loan has been billed will be directly applied to the installment due on the loan or other related charges and will not earn interest.

If a special prepayment of principal is desired, Borrowers must so specify at the time funds are remitted.

Funds Held may not exceed the outstanding balance on the related loan(s), and may be limited by prepayment or other restrictions.

Interest on Funds Held

Interest will accrue on Funds Held at a rate determined by the Association, but the rate may never exceed the interest rate charged on the related loan. Interest on Funds Held (exclusive of funds applied directly to billed amounts) will normally accrue from the date of receipt of the funds until the date the funds are applied to the loan against an installment due or other related charges. The Association may change the interest rate from time to time, and may provide for a different interest rate for different categories of loans. Currently, funds in the account earn a rate of interest equal to 3.0% less than the loan rate.

Withdrawal of Funds

Funds in a funds held account may be withdrawn or transferred, upon request, on one or more occasions by any party authorized to withdraw funds from the account for an eligible loan purpose in lieu of increasing the client's loan. Withdrawals from funds held is limited to 24 withdrawals per year. The minimum withdrawal amount is the lesser of $100 or the remaining balance. Upon death of a client who has funds held balances, the association does not set up death beneficiaries or "payable on death" designations to distribute funds held balances.

Uninsured Account and Liquidation

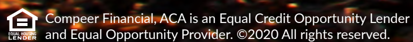
Funds Held is not a depository account and is not insured. In the event of Association liquidation, all borrowers having funds in Funds Held shall be notified in accordance with FCA Regulation 627.2735. The notice shall advise that the funds ceased earning interest when the receivership was instituted, and the funds will be applied against the outstanding indebtedness of any loans of such borrower unless, within 15 days of such notice, the borrower directs the receiver to otherwise apply such funds in the manner provided for in existing loan documents.

Termination

If we terminate Funds Held, account balances will be applied to the loan balance, and any remaining excess funds will be refunded to the Borrower.

2600 Jenny Wren Trail
PO Box 810
Sun Prairie, WI 53590

(844) 426-6733 | COMPEER.COM
#CHAMPIONRURAL



Compeer Financial, ACA is an Equal Credit Opportunity Lender
and Equal Opportunity Provider. ©2020 All rights reserved.