AGRIBANK DISTRICT 2018 FINANCIAL INFORMATION

Unaudited

ADVANCING TOGETHER

FUNDING AND FINANCIAL SOLUTIONS, TODAY AND TOMORROW

AgriBank
FARM CREDIT BANK

AgriBank District Financial Information
AgriBank, FCB and District Associations
unaudited

INTRODUCTION AND DISTRICT OVERVIEW

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

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

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

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

MATERIAL OR SIGNIFICANT EVENT

The contents of the unaudited quarterly and annual District report has been modified to include only disclosures that highlight the risks of the combined District. Beginning for the period ended December 31, 2018, the combined District financial information will no longer include footnotes related to debt, shareholders’ equity, fair value measurement, or derivatives. Going forward, the unaudited quarterly District financial information will be modified in a similar manner. This information will continue to be available in the audited annual and unaudited quarterly financial statements issued individually by the Bank and each District Association.

Front cover photo: Carol Rice, Executive Assistant to the CEO, AgriBank
Back cover photo: Dave Berdahl, Manager Balance Sheet Management, AgriBank

Combined Financial Highlights

AgriBank, FCB and District Associations

(dollars in thousands)

As of December 31,	2018	2017	2016
Total loans	**$ 107,648,017**	$ 102,472,674	$ 99,069,239
Allowance for loan losses	**490,772**	436,059	386,754
Net loans	**107,157,245**	102,036,615	98,682,485
Total assets	**128,599,161**	122,141,690	119,007,288
Total shareholders' equity	**23,490,090**	22,080,364	20,792,063

Year Ended December 31,	2018	2017	2016
Net interest income	**$ 3,095,566**	$ 2,993,955	$ 2,868,915
Provision for credit losses	**83,034**	110,041	141,837
Net fee Income	**65,315**	62,376	73,005
Net income	**2,129,503**	1,923,898	1,831,899
Net interest margin	**2.5%**	2.6%	2.5%
Return on average assets	**1.7%**	1.6%	1.6%
Return on average shareholders' equity	**9.3%**	8.9%	9.1%
Operating expense as a percentage of net interest income and non-interest income	**35.6%**	37.3%	37.5%
Net loan chargeoffs as a percentage of average loans	**(0.03%)**	(0.03%)	(0.03%)
Average loans	**103,688,796**	99,617,014	96,348,263
Average earning assets	**121,669,201**	116,939,357	114,112,325
Average assets	**123,897,714**	119,035,726	116,311,542

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

Net income increased to $2.1 billion for the year ended December 31, 2018, compared to $1.9 billion for the year ended December 31, 2017. This increase was primarily driven by higher interest income resulting from increased loan volume, and to a lesser extent, increased non-interest income primarily due to a non-recurring distribution from the FCSIC.

Net Interest Income

Net interest income increased $101.6 million, or 3.4 percent, compared to the prior year primarily due to increases in loan volume. The volume impact has been somewhat offset by a decline in the positive contribution from funding actions, as anticipated, due to the current interest rate environment.

Net interest margin for the year ended December 31, 2018, decreased slightly compared to the same period of the prior year primarily due to spread compression in the production and intermediate term sector resulting from competition across the District. The benefit of equity financing substantially offset the impact of spread compression compared to the prior year. Equity financing represents the benefit of non-interest bearing funding and increased compared to the prior year due to higher equity volume and higher interest rates.

Provision for Credit Losses

The provision for credit losses was $83.0 million for the year ended December 31, 2018. Any reserves for unfunded commitments and letters of credit are recorded in "Other liabilities" on the Combined Balance Sheets.

The year-over-year fluctuations for the District's provision for credit losses can be impacted by economic stress in individual agricultural sectors. Low net farm income and credit quality deterioration have resulted in additional provision for credit losses during 2018. Prolonged lower levels of net farm income and other economic factors could contribute to further declines in credit quality, which may increase provision for credit losses across the District.

Non-interest Income

The increase in non-interest income was driven by the Allocated Insurance Reserve Accounts (AIRAs) distribution received from the FCSIC during the first quarter of 2018. The AIRAs were established by the FCSIC when premiums collected increased the level of the insurance fund beyond the required secured base amount of 2 percent of insured debt. No similar distribution was received during 2017.

Mineral income was earned primarily from royalties received on mineral rights, predominantly in the Williston Basin in western North Dakota. Oil and gas prices remained at higher levels throughout much of 2018 compared to 2017, resulting in higher income. Increased mineral leasing activity during 2018 further contributed to mineral income. Additionally, AgriBank implemented the use of derivatives as a risk management tool for mineral income late in 2018. The fair value of these commodity put options generated income of $9.5 million (classified as "Other income") due to falling oil prices during the fourth quarter of 2018. Changes in the fair value of these contracts will be dependent on oil prices during 2019, as well as the passage of time, and may result in the reversal of some or all of these gains in 2019.

Non-interest Expense

Overall, non-interest expense increased slightly, primarily driven by increased salaries and benefits expense and to a lesser extent increased purchased services expense at certain District Associations. The increase in salaries and benefits expense was primarily due to an increase in employees in the District, as well as merit increases. The increase in purchased services expense was primarily due to costs incurred for strategic projects. These increases were partially offset by lower FCSIC expense. The FCSIC premium rate assessed decreased to 9 basis points in 2018 compared to 15 basis points in 2017 and 16 basis points for the first half and 18 basis points for the second half of 2016. The Insurance Corporation has announced premiums will remain at 9 basis points for 2019. The Insurance Corporation Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time.

Loan Portfolio

District Loans by Loan Type			
(in thousands)			
December 31,	**2018**	2017	2016
Real estate mortgage	**$ 59,810,146**	$57,593,060	$56,142,318
Production and intermediate-term	**26,888,339**	26,358,352	25,677,124
Agribusiness:			
Loans to cooperatives	**1,227,755**	1,678,219	1,492,189
Processing and marketing	**10,552,428**	8,530,420	7,702,265
Farm-related businesses	**1,288,785**	1,123,160	981,881
Rural infrastructure:			
Power	**1,175,525**	1,068,921	1,036,590
Communications	**1,761,466**	1,320,603	1,247,070
Water/Wastewater	**103,438**	60,669	13,449
Rural residential real estate	**2,708,589**	2,745,807	2,796,940
Agricultural export finance	**320,434**	277,685	275,535
Lease receivables	**207,450**	277,074	363,167
Loans to other financing institutions	**549,113**	593,677	577,505
Mission related investments	**1,054,549**	845,027	763,206
Total	**$ 107,648,017**	$102,472,674	$99,069,239

District loans increased $5.2 billion, or 5.1 percent, from December 31, 2017. The increase in total loans was primarily due to growth in the real estate mortgage sector as well as activity in the agribusiness sector. Real estate mortgage volume increased primarily due to higher loan origination volume and slowing repayments at certain District Associations. Agribusiness volume increased due primarily to growth in capital markets lending.

Consistent with prior years, production and intermediate-term loan volume increased in December 2018 as certain borrowers purchased inputs for next year's production for tax-planning purposes. The loan portfolio exhibits some seasonality relating to the patterns of operating loans made to crop producers. Operating loans are normally at their lowest levels following the harvest and then increase in the spring and throughout the rest of the year as borrowers fund operating needs. The degree of seasonality exhibited by the loan portfolio is diminished primarily due to growth in real estate mortgage, agribusiness and part-time farmer sectors.

Portfolio Diversification

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

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

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

Grain and livestock producers are somewhat subject to a counter-cyclical diversification effect. High grain prices are generally favorable to crop producers; however, livestock producers are adversely affected through higher feed costs. Conversely, low grain prices are generally negative to crop producers, but tend to improve the profitability for those livestock producers who purchase most or all of their feed. Severe fluctuations in commodity prices can negatively impact all District producers. During 2018, certain grain and livestock producers across the District experienced additional financial stress as a result of continued low net farm income.

Commodity Concentrations			
December 31,	**2018**	2017	2016
Crops	**44%**	46%	46%
Cattle	**9%**	9%	9%
Dairy	**7%**	7%	7%
Investor real estate	**7%**	7%	7%
Food products	**6%**	5%	5%
Other	**27%**	26%	26%
Total	**100%**	100%	100%

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

Geographic Concentrations			
December 31,	**2018**	2017	2016
Iowa	**11%**	11%	11%
Illinois	**9%**	10%	10%
Minnesota	**8%**	9%	9%
Nebraska	**8%**	8%	8%
Indiana	**6%**	6%	6%
Michigan	**6%**	6%	6%
Wisconsin	**6%**	6%	6%
South Dakota	**6%**	6%	5%
Ohio	**5%**	6%	6%
Other	**35%**	32%	33%
Total	**100%**	100%	100%

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

Loan Quality

The primary credit quality indicator utilized by the Bank and Associations is the FCA Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality,
- Other assets especially mentioned (Special Mention) – assets are currently collectible but exhibit some potential weakness,
- Substandard – assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan,
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable, and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest classified under the Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable as of December 31:

District Loan Quality			
December 31,	**2018**	2017	2016
Acceptable	**91.0%**	92.1%	93.2%
Special Mention	**4.1%**	3.6%	3.3%
Substandard/Doubtful	**4.9%**	4.3%	3.5%
Total	**100.0%**	100.0%	100.0%

The credit quality of the District loan portfolio remained sound over the past three-year period. Substandard/doubtful loans, collectively called adverse loans, are loans AgriBank and District Associations have identified as showing some credit weakness outside the credit standards. While acceptable loan volume remains strong, special mention and substandard/doubtful loan volumes have continued to increase as the District navigates through the current environment. No loans were categorized as loss as of December 31, 2018, 2017, or 2016.

Overall, District credit quality is expected to remain at acceptable levels in 2019, despite recent increases in adverse credit quality. Agriculture is a cyclical industry. Due to continued low net farm income levels throughout 2016, 2017 and 2018, primarily driven by low commodity prices, and the addition of disruptive trade policy during 2018, the downturn in credit quality has worsened within many sectors of the District's retail portfolio and has impacted retail borrower working capital. Given continued projected low net farm income and the product mix within this retail portfolio, adverse credit quality and related allowance for loan losses and provision for loan losses may continue to increase.

Nonperforming Assets (in thousands)			
December 31,	**2018**	2017	2016
Nonaccrual Loans:			
Real estate mortgage	**$ 454,787**	$ 433,708	$ 365,760
Production and intermediate-term	**224,889**	256,946	258,129
Agribusiness	**60,166**	18,381	14,117
Rural infrastructure	**27,120**	--	--
Rural residential real estate	**28,375**	32,639	36,034
Other	**1,321**	4,010	4,168
Total nonaccrual loans	**$ 796,658**	$ 745,684	$ 678,208
Accruing Restructured Loans:			
Real estate mortgage	**$ 59,329**	$ 62,231	$ 54,786
Production and intermediate-term	**17,867**	24,483	19,320
Agribusiness	**3,004**	3,173	14
Rural infrastructure	**--**	--	14,040
Rural residential real estate	**1,947**	1,989	1,640
Total accruing restructured loans	**$ 82,147**	$ 91,876	$ 89,800
Accruing Loans 90 Days or More Past Due:			
Real estate mortgage	**$ 8,954**	$ 1,119	$ 3,949
Production and intermediate-term	**5,695**	6,953	4,893
Rural residential real estate	**337**	563	64
Other	**12,611**	1,368	3,217
Total accruing loans 90 days or more past due	**$ 27,597**	$ 10,003	$ 12,123
Total nonperforming loans	**906,402**	847,563	780,131
Other property owned	**47,267**	12,295	14,530
Total nonperforming assets	**$ 953,669**	$ 859,858	$ 794,661

Note: Accruing loans include accrued interest receivable.

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

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

Aging Analysis of Loans

(in thousands) **December 31, 2018**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total
Real estate mortgage	**$ 162,493**	**$ 116,328**	**$ 278,821**	**$ 60,293,800**	**$ 60,572,621**
Production and intermediate-term	**211,265**	**109,034**	**320,299**	**27,020,582**	**27,340,881**
Agribusiness	**6,230**	**3,808**	**10,038**	**13,119,852**	**13,129,890**
Rural infrastructure	**--**	**--**	**--**	**3,046,431**	**3,046,431**
Rural residential real estate	**17,977**	**7,626**	**25,603**	**2,697,941**	**2,723,544**
Other	**14,015**	**13,516**	**27,531**	**2,114,810**	**2,142,341**
Total	**$ 411,980**	**$ 250,312**	**$ 662,292**	**$ 108,293,416**	**$ 108,955,708**

December 31, 2017	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total
Real estate mortgage	$ 151,533	$ 96,941	$ 248,474	$ 58,034,097	$ 58,282,571
Production and intermediate-term	145,404	117,615	263,019	26,449,591	26,712,610
Agribusiness	1,029	7,183	8,212	11,370,607	11,378,819
Rural infrastructure	--	--	--	2,456,008	2,456,008
Rural residential real estate	19,956	9,173	29,129	2,732,696	2,761,825
Other	7,587	3,686	11,273	1,990,167	2,001,440
Total	$ 325,509	$ 234,598	$ 560,107	$ 103,033,166	$ 103,593,273

December 31, 2016	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total
Real estate mortgage	$ 152,444	$ 77,863	$ 230,307	$ 56,531,194	$ 56,761,501
Production and intermediate-term	145,970	111,201	257,171	25,743,548	26,000,719
Agribusiness	7,168	4,279	11,447	10,203,207	10,214,654
Rural infrastructure	--	--	--	2,301,228	2,301,228
Rural residential real estate	22,377	10,296	32,673	2,780,757	2,813,430
Other	18,510	4,704	23,214	1,962,381	1,985,595
Total	$ 346,469	$ 208,343	$ 554,812	$ 99,522,315	$ 100,077,127

Note: Accruing loans include accrued interest receivable.

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

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

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

(in thousands)	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Rural Infrastructure	Rural Residential Real Estate	Other	Total
Allowance for loan losses:							
Balance at December 31, 2017	**$ 196,748**	**$ 156,184**	**$ 54,817**	**$ 14,030**	**$ 8,965**	**$ 5,315**	**$ 436,059**
Provision for (reversal of) credit losses	**36,757**	**26,062**	**17,360**	**3,171**	**(366)**	**50**	**83,034**
Loan recoveries	**4,314**	**5,582**	**688**	**--**	**582**	**--**	**11,166**
Loan charge-offs	**(11,524)**	**(24,020)**	**(120)**	**(473)**	**(1,414)**	**--**	**(37,551)**
Reclassification to reserve for unfunded commitments*	**--**	**(1,936)**	**--**	**--**	**--**	**--**	**(1,936)**
Balance at December 31, 2018	**$ 226,295**	**$ 161,872**	**$ 72,745**	**$ 16,728**	**$ 7,767**	**$ 5,365**	**$ 490,772**
Ending balance: individually evaluated for impairment	**20,866**	**30,214**	**25,351**	**7,619**	**520**	**127**	**84,697**
Ending balance: collectively evaluated for impairment	**205,428**	**131,658**	**47,394**	**9,109**	**7,247**	**5,239**	**406,075**
Recorded investment in loans outstanding:							
Ending balance at December 31, 2018	**$ 60,572,621**	**$ 27,340,881**	**$ 13,129,890**	**$ 3,046,431**	**$ 2,723,543**	**$ 2,142,342**	**$ 108,955,708**
Ending balance: individually evaluated for impairment	**523,070**	**248,451**	**63,170**	**27,120**	**30,659**	**13,932**	**906,402**
Ending balance: collectively evaluated for impairment	**60,049,551**	**27,092,430**	**13,066,720**	**3,019,311**	**2,692,884**	**2,128,410**	**108,049,306**

(in thousands)	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Rural Infrastructure	Rural Residential Real Estate	Other	Total
Allowance for loan losses:							
Balance at December 31, 2016	$ 158,779	$ 154,488	$ 47,067	$ 11,907	$ 10,220	$ 4,293	$ 386,754
Provision for (reversal of) credit losses	55,770	39,793	10,595	3,307	(541)	1,117	110,041
Loan recoveries	1,905	10,993	3,816	--	612	--	17,326
Loan charge-offs	(13,128)	(29,695)	(2,730)	--	(1,274)	--	(46,827)
Adjustment due to merger	(9,657)	(19,395)	(3,931)	(1,184)	(52)	(96)	(34,315)
Reclassification from reserve for unfunded commitments*		3,080	--	--	--	--	3,080
Balance at December 31, 2017	$ 193,669	$ 159,264	$ 54,817	$ 14,030	$ 8,965	$ 5,314	$ 436,059
Ending balance: individually evaluated for impairment	13,638	27,116	4,352	--	1,156	813	47,075
Ending balance: collectively evaluated for impairment	180,031	132,148	50,465	14,030	7,809	4,501	388,984
Recorded investment in loans outstanding:							
Ending balance at December 31, 2017	$ 58,282,571	$ 26,712,610	$ 11,378,819	$ 2,456,008	$ 2,761,825	$ 2,001,440	$ 103,593,273
Ending balance: individually evaluated for impairment	497,058	288,382	21,554	--	35,191	5,378	847,563
Ending balance: collectively evaluated for impairment	57,785,513	26,424,228	11,357,265	2,456,008	2,726,634	1,996,062	102,745,710

(in thousands)	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Rural Infrastructure	Rural Residential Real Estate	Other	Total
Allowance for loan losses:							
Balance at December 31, 2015	$ 111,000	$ 118,409	$ 32,166	$ 9,763	$ 8,986	$ 5,387	$ 285,711
Provision for (reversal of) credit losses	56,765	64,293	17,189	2,144	2,541	(1,095)	141,837
Loan recoveries	4,229	6,172	851	--	868	1	12,121
Loan charge-offs	(5,494)	(34,386)	(3,139)	--	(2,175)	--	(45,194)
Reclassification to reserve for unfunded commitments*		(7,721)	--	--	--	--	(7,721)
Balance at December 31, 2016	$ 166,500	$ 146,767	$ 47,067	$ 11,907	$ 10,220	$ 4,293	$ 386,754
Ending balance: individually evaluated for impairment	7,442	30,513	327	--	1,173	997	40,452
Ending balance: collectively evaluated for impairment	159,058	116,254	46,740	11,907	9,047	3,296	346,302
Recorded investment in loans outstanding:							
Ending balance at December 31, 2016	$ 56,761,501	$ 26,000,719	$ 10,214,654	$ 2,301,228	$ 2,813,430	$ 1,985,595	$ 100,077,127
Ending balance: individually evaluated for impairment	424,495	282,342	14,131	14,040	37,738	7,385	780,131
Ending balance: collectively evaluated for impairment	56,337,006	25,718,377	10,200,523	2,287,188	2,775,692	1,978,210	99,296,996

Note: Accruing loans include accrued interest receivable.

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

Investments

AgriBank is responsible for meeting the District's funding, liquidity and asset/liability management needs. While access to the unsecured debt capital markets remains the District's primary source of liquidity, the Bank also maintains a secondary source of liquidity through a high-quality investment portfolio and other short-term liquid assets. The Bank typically holds these investments on an available for sale basis. Refer to the AgriBank 2018 Annual Report for additional information about the Bank's investment portfolio. District Associations have regulatory authority to enter into certain guaranteed investments, typically mortgage-backed or asset-backed securities, and are typically held to maturity. Refer to individual District Associations' 2018 annual reports for specific information about the investments at the District Associations.

Investment Information

(in thousands) **December 31, 2018**	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
AgriBank investments	**$ 14,080,602**	**$ 9,739**	**$ 92,599**	**$ 13,997,742**
District Association investments	**2,530,188**	**7,312**	**95,838**	**2,441,662**
Total District investments	**16,610,790**	**17,051**	**188,437**	**16,439,404**
(in thousands) December 31, 2017	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AgriBank investments	$ 14,461,641	$ 8,842	$ 84,028	$ 14,386,455
District Association investments	2,146,458	5,722	65,566	2,086,614
Total District investments	16,608,099	14,564	149,594	16,473,069
(in thousands) December 31, 2016	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AgriBank investments	$ 14,960,126	$ 8,671	$ 71,545	$ 14,897,252
District Association investments	1,938,980	9,989	69,113	1,879,856
Total District investments	16,899,106	18,660	140,658	16,777,108

District Capital

AgriBank and District Associations believe a sound capital position is critical to long-term financial stability. AgriBank and District Associations maintain adequate capital to protect against unanticipated losses as well as to meet the District's growth needs. Total shareholders' equity increased $1.4 billion and resulted primarily from net income for the year, partially offset by patronage distributions declared and redemptions of allocated equities.

As a result of District Association mergers in 2017, $2.1 billion of equity was recharacterized from unallocated surplus to additional paid-in capital. Refer to the Other Matters section for further information on the District Association mergers.

Accumulated Other Comprehensive Loss

(in thousands) **December 31,**	**2018**	2017	2016
Unrealized loss on investment securities	**$ (82,857)**	$ (75,184)	$ (62,873)
Derivatives and hedging activity	**34,005**	(10,121)	(17,157)
Employee benefit plans activity	**(473,623)**	(508,251)	(486,801)
Total accumulated other comprehensive loss	**$ (522,475)**	$ (593,556)	$ (566,831)

The decrease in other comprehensive loss in 2018 primarily relates to gains on derivative activity. AgriBank's derivative portfolio includes certain derivatives designated as cash flow hedges. The majority of cash flow derivatives are hedging rising long-term interest rates. Due to increasing interest rates, the fair value of certain cash flow derivatives increased correspondingly. Additionally, accumulated other comprehensive loss decreased due to amortization of actuarial loss on employee benefit plans into income.

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

Regulatory Capital Requirements and Ratios

As of December 31, 2018	Primary Components of Numerator	Regulatory Minimums	Minimum with Buffer*	Bank	District Associations
Risk adjusted:					
Common equity tier 1 capital ratio (CET1)	Unallocated retained earnings (URE), common cooperative equities (qualifying capital stock and allocated equity)[(1)]	4.5%	7.0%	**17.7%**	**14.7% - 21.2%**
Tier 1 capital ratio	CET1 capital, non-cumulative perpetual preferred stock	6.0%	8.5%	**18.5%**	**15.2% - 21.2%**
Total capital ratio	Tier 1 capital, allowance for loan losses[(2)], common cooperative equities[(3)] and term preferred stock and subordinated debt[(4)]	8.0%	10.5%	**18.6%**	**15.6% - 21.5%**
Permanent capital ratio	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	7.0%	7.0%	**18.5%**	**15.7% - 21.4%**
Non-risk adjusted:					
Tier 1 leverage ratio	Tier 1 capital	4.0%	5.0%	**5.5%**	**15.1% - 21.0%**
UREE leverage ratio	URE and URE equivalents (UREE)	1.5%	1.5%	**3.0%**	**14.2% - 21.6%**

* The new capital requirements have a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. There is no phase-in of the leverage buffer. Amounts shown reflect the full capital conservation buffer.

(1) Equities outstanding 7 or more years

(2) Capped at 1.25% of risk-adjusted assets

(3) Outstanding 5 or more years, but less than 7 years

(4) Outstanding 5 or more years

Employee Benefit Plans

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

District Retirement Plans

(in thousands)	Pension Benefits		Other
December 31, 2018	Qualified	Non-qualified	Benefits
Projected benefit obligation	**$ 1,272,063**	**$ 41,204**	**$ 20,600**
Fair value of plan assets	**997,613**	**--**	**--**
Unfunded status	**(274,450)**	**(41,204)**	**(20,600)**
Accumulated benefit obligation	**$ 1,125,682**	**$ 33,215**	**N/A**
Assumptions used to determine benefit obligations:			
Discount rate	**4.4%**	**4.0%**	**3.5% - 4.3%**
Expected long-term rate of return	**6.8%**	**N/A**	**N/A**
Rate of compensation increase	**5.3%**	**5.3%**	**N/A**
	Pension Benefits		Other
December 31, 2017	Qualified	Non-qualified	Benefits
Projected benefit obligation	$ 1,371,013	$ 37,189	$ 21,044
Fair value of plan assets	1,018,497	--	--
Unfunded status	(352,516)	(37,189)	(21,044)
Accumulated benefit obligation	$ 1,184,550	$ 29,844	N/A
Assumptions used to determine benefit obligations:			
Discount rate	3.7%	3.1%	2.9% - 3.7%
Expected long-term rate of return	6.8%	N/A	N/A
Rate of compensation increase	5.3%	5.3%	N/A
	Pension Benefits		Other
December 31, 2016	Qualified	Non-qualified	Benefits
Projected benefit obligation	$ 1,269,626	$ 28,513	$ 29,697
Fair value of plan assets	895,321	--	--
Unfunded status	(374,305)	(28,513)	(29,697)
Accumulated benefit obligation	$ 1,096,912	$ 22,778	N/A
Assumptions used to determine benefit obligations:			
Discount rate	4.3%	3.4%	3.0% - 4.2%
Expected long-term rate of return	7.3%	N/A	N/A

Other Matters

During 2016, District Associations and AgriBank conducted research related to repositioning many business services offered by AgriBank into a separate entity jointly owned by AgriBank and participating Associations. The long-term strategic objective of this initiative is to increase scale, improve operating efficiency and enhance technology and business services. The proposed service entity will be named SunStream Business Services (SunStream). An application to form the service entity was submitted to the FCA for approval in May 2017, and the FCA continues its due diligence on this request.

Effective July 1, 2017 two District Associations, AgCountry Farm Credit Services, ACA and United FCS, ACA, merged under the name AgCountry Farm Credit Services, ACA and is headquartered in Fargo, N.D.

Effective July 1, 2017, three District Associations—1st Farm Credit Services, ACA; AgStar Financial Services, ACA; and Badgerland Financial, ACA—merged under the name Compeer Financial, ACA and is headquartered in Sun Prairie, Wis.

Select Information on AgriBank District Associations

(in thousands) **As of December 31, 2018**	**Wholesale Loan Amount**	**% of Wholesale Portfolio**	**Total Assets**	**Total Allowance and Capital**	**Total Regulatory Capital Ratio**	**Nonperforming[(1)] as a % of Total Loans**	**Return on Assets**
Farm Credit Services of America	**$23,812,109**	**28.4%**	**$29,849,270**	**$5,654,323**	**16.6%**	**0.7%**	**2.2%**
Farm Credit Mid-America	**18,294,059**	**21.8%**	**23,360,540**	**4,811,352**	**21.4%**	**1.5%**	**1.7%**
Compeer Financial[(2)]	**16,751,490**	**20.0%**	**20,754,237**	**3,661,907**	**15.6%**	**0.7%**	**2.0%**
GreenStone Farm Credit Services	**7,072,973**	**8.4%**	**8,919,310**	**1,756,141**	**17.3%**	**1.2%**	**2.1%**
AgCountry Farm Credit Services[(2)]	**5,823,252**	**6.9%**	**7,641,186**	**1,720,992**	**18.5%**	**0.5%**	**2.3%**
Farm Credit Illinois	**3,387,272**	**4.0%**	**4,415,663**	**980,348**	**19.2%**	**0.2%**	**1.7%**
FCS Financial	**3,330,133**	**4.0%**	**4,253,888**	**875,142**	**18.8%**	**0.2%**	**2.0%**
Farm Credit Services of Western Arkansas	**1,060,829**	**1.3%**	**1,371,468**	**289,845**	**20.6%**	**0.9%**	**1.9%**
AgHeritage Farm Credit Services	**1,058,397**	**1.3%**	**1,374,324**	**304,406**	**18.8%**	**0.8%**	**2.1%**
Farm Credit Services of North Dakota	**979,366**	**1.2%**	**1,287,386**	**298,702**	**18.9%**	**0.7%**	**2.0%**
Farm Credit Services of Mandan	**940,592**	**1.1%**	**1,210,549**	**257,511**	**16.9%**	**0.2%**	**2.1%**
Farm Credit Midsouth	**714,589**	**0.9%**	**950,792**	**224,104**	**20.1%**	**1.2%**	**2.0%**
Farm Credit Southeast Missouri	**540,118**	**0.6%**	**705,473**	**152,810**	**20.1%**	**0.3%**	**2.3%**
Delta Agricultural Credit Association	**41,390**	**0.1%**	**51,547**	**9,675**	**21.5%**	**0.7%**	**1.2%**
Total	**$83,806,569**	**100.0%**	**$106,145,633**	**$20,997,258**			

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

Combined Balance Sheets

AgriBank, FCB and District Associations

(unaudited)
(in thousands)

December 31,	**2018**	2017	2016
Assets			
Cash	**$ 670,856**	$ 571,445	$ 559,760
Federal funds and securities purchased under resale agreements	**1,698,100**	676,300	591,300
Investments	**16,527,930**	16,532,913	16,836,232
Loans	**107,648,017**	102,472,674	99,069,239
Allowance for loan losses	**490,772**	436,059	386,754
Net loans	**107,157,245**	102,036,615	98,682,485
Accrued interest receivable	**1,357,081**	1,160,514	1,046,835
Premises and equipment, net	**577,523**	516,331	512,832
Other assets	**610,426**	647,572	777,844
Total assets	**$ 128,599,161**	$ 122,141,690	$ 119,007,288
Liabilities			
Bonds and notes	**$ 102,181,163**	$ 97,293,981	$ 95,694,698
Member investment bonds	**942,181**	1,019,963	938,733
Accrued interest payable	**405,784**	288,978	223,023
Patronage distribution payable	**732,471**	549,617	325,605
Other liabilities	**847,472**	908,787	1,033,166
Total liabilities	**105,109,071**	100,061,326	98,215,225
Shareholders' equity			
Preferred stock	**350,000**	350,000	350,000
Capital stock and participation certificates	**311,527**	294,949	272,034
Additional paid-in capital	**2,084,988**	2,084,988	--
Allocated retained earnings	**426,967**	523,252	531,150
Unallocated retained earnings	**20,771,011**	19,356,250	20,145,063
Accumulated other comprehensive loss	**(522,475)**	(593,556)	(566,831)
Noncontrolling interest	**68,072**	64,481	60,647
Total shareholders' equity	**23,490,090**	22,080,364	20,792,063
Total liabilities and shareholders' equity	**$ 128,599,161**	$ 122,141,690	$ 119,007,288

Combined Statements of Income

AgriBank, FCB and District Associations

(unaudited)
(in thousands)

For the Year Ended December 31,	2018	2017	2016
Interest Income			
Loans	$ 4,783,383	$ 4,230,356	$ 3,874,815
Investment securities	403,312	263,667	196,619
Total interest income	5,186,695	4,494,023	4,071,434
Interest Expense	2,091,129	1,500,068	1,202,519
Net interest income	3,095,566	2,993,955	2,868,915
Provision for credit losses	83,034	110,041	141,837
Net interest income after provision for credit losses	3,012,532	2,883,914	2,727,078
Non-interest income			
Net fee income	65,315	62,376	73,005
Financially related services income	168,686	170,708	167,772
Net gains on sales of investments and other assets	1,504	1,537	14,324
Mineral income	67,185	45,795	36,351
Allocated Insurance Reserve Accounts income	65,941	--	--
Other income	9,814	17,712	17,280
Total non-interest income	378,445	298,128	308,732
Non-interest expense			
Salaries and employee benefits	734,576	734,332	693,566
Occupancy and equipment	105,997	98,316	96,161
Purchased services	77,180	60,363	52,880
Farm Credit System Insurance Corporation expense	81,201	130,437	144,701
Other expense	241,463	215,997	205,606
Total non-interest expenses	1,240,417	1,239,445	1,192,914
Income before income taxes	2,150,560	1,942,597	1,842,896
Provision for income taxes	21,057	18,699	10,997
Net income	$ 2,129,503	$ 1,923,898	$ 1,831,899

DISTRICT ASSOCIATIONS

Farm Credit Associations provide farmers with the capital they need to make their businesses successful.

Photo: Laura Kemmerer, Senior HR Specialist, AgriBank

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www.agcountry.com

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

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

Delta Agricultural Credit Association
118 E. Speedway
Dermott, AR 71638
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www.deltaaca.com

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1934 E. Miller St.
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www.myfcsfinancial.com

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1100 Farm Credit Drive
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www.farmcreditil.com

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www.e-farmcredit.com

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