Quarterly Report
March 31, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Compeer Financial, ACA and its subsidiaries Compeer Financial, FLCA and Compeer Financial, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2018 (2018 Annual Report).

Due to the nature of our financial relationship with AgriBank, FCB (AgriBank), the financial condition and results of operations of AgriBank materially impact our stockholders' investment. To request free copies of AgriBank financial reports or additional copies of our report, contact us at:

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FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2018 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

The credit portfolio includes several large, diverse sectors in production agriculture with a large portion of income generated from the primary industries of grain, dairy, and swine. Profitability within production agriculture is likely to vary widely for 2019 due to several competing economic and agricultural conditions. Depending upon the commodity produced, the impact of geopolitical factors and overall production costs, profitability prospects remain challenging. However, solid domestic macroeconomic conditions helped the rural housing, energy, as well as food processing and distribution segments, which comprise a significant portion of our portfolio. Overall, our credit quality remains stable.

The United States Department of Agriculture (USDA) projects net farm income for 2019 at $69.4 billion, a $6.3 billion, or 10% increase from 2018. Additionally, net cash income, a measure of cash flow rather than accrual income, is also projected up for 2019 by $4.3 billion, to $95.7 billion. The increase in farm income is based on higher price expectations for crop and animal production, trend crop yields, the trade-related Market Facilitation Program (MFP) payments to farmers, and only a modest change in cash expenses. While on an inflation-adjusted basis, farm income remains in the historical lower 25% of annual incomes, USDA still projects a 1.1% increase in farm equity.

Trade issues continue to dominate the headlines with effects that weigh on many agriculture sectors. Since 2008, U.S. agricultural exports have accounted for approximately a 20% share of U.S. farm production, and as such, foreign trade can have a significant impact on farmer profitability. Trade disputes, abundant international supplies, and strong competition from major foreign competitors softened demand for many U.S. agricultural goods. Additionally, the ongoing U.S.-China trade quarrel, and continued inaction on the U.S.-Mexico-Canada (USMC) trade agreement, shifted certain global trade patterns. Nevertheless, the aggregate value of 2019 U.S. exports are expected only slightly below 2018 levels. Agricultural exports are forecast down $1.9 billion to $141.5 billion for the year. Enactment of the USMC trade agreement and/or resolution of trade negotiations with Europe, Japan, and China would improve export prospects in 2019.

Yield in grain production remained strong and cash prices remain driven in large part due to geopolitical factors, particularly among soybeans. Within the April 9, 2019, World Agricultural Supply and Demand Estimates (WASDE), the USDA projects 2018/19 U.S. corn production at 14.4 billion bushels, similar to the estimated 2017/18 production. Projected average yield is at 176.4 bushels per acre with projected ending stocks at 2.0 billion bushels. The estimate for 2018/19 season-average corn price received by producers is between $3.40 and $3.70 per bushel, compared to an estimated $3.36 for the previous crop year. The USDA projection for 2018/19 soybean production is 4.5 billion bushels, 3% above the estimated 2017/18 production, with yield per harvested acre at 51.6 bushels. The 2018/19 season-average soybean price projection is between $8.35 and $8.85 per bushel, compared to an estimated $9.33 per bushel for the previous crop year, due much to the retaliatory pattern of U.S.-China tariffs and China's lack of U.S. purchases. Recognizing the impact on U.S. farmers, USDA's MFP payments of $1.65 per bushel were made in two installments to mitigate this impact on the 2018/19 crop.

The profitability outlook for dairy remains elusive in 2019 as supply continues to grow, though at a reduced rate. Domestic demand remains solid though trade issues continue to slow exports. Increased productivity per cow is driving production growth as milk cow numbers are down slightly from year ago levels. Milk basis levels remain under pressure as sufficient milk exists within the marketplace to maintain full processor capacity, particularly within the Midwest. Nevertheless, the USDA forecasts an average price received by farmers for all milk of $17.25 to $17.75 per hundredweight in 2019, which would be above the $16.18 received in 2018. We expect many dairy producers will be at or below breakeven for the year as producers are challenged to lower production cost to adjust to lower milk prices. Smaller to mid-sized producers are particularly challenged with higher labor costs impacting overall cost. Potential resolution to trade issues with Mexico and Canada could improve price prospects if enacted. The new Farm Bill contains provisions that could provide enhanced margin coverage for smaller producers and price risk protection options for all producers.

Hog margins have been highly volatile lately due to global concerns around African Swine Fever. The disease is spreading in China and eastern Europe, putting significant global production at risk. The infectious disease has killed tens, if not hundreds, of thousands of pigs in China, which raises about half of the world's hogs. This has led to instability within the markets as fear of new infections drives markets upward. Among U.S. farms, as of March 2019, there were 74.3 million hogs and pigs, up 2% from a year ago, according to the Quarterly Hogs and Pigs report published by USDA's National Agricultural Statistics Service. Hog producers intended to farrow 3.1 million sows during the March to May 2019 quarter, up 1% from the same period a year ago. Exports play a noteworthy role in the marginal contribution to producers, and the industry relies considerably on a growing U.S. export market. The replacement of the North American Free Trade Agreement with the new USMC trade agreement is a positive step, if enacted. This will ease tariffs and is expected to lead to margin improvement for hogs.

Land is the largest fixed asset for many clients, and is a large portion of our underlying collateral value. Much of the service area has experienced modest correction in land values over the past several years. Lower commodity margins, coupled with increasing interest rates, fueled changes in value. Recent results indicate some moderation of that trend. The USDA released its annual land survey in August, which specifies a slight improvement in value for Wisconsin (2.3%) and Illinois (2.1%) coupled with a slight decline in Minnesota (-1.1%). Internal valuations return similar results. We continue to believe that U.S. agriculture can withstand a further moderation in land values without enduring significant financial stress and hardship.

A portion of our portfolio is comprised of industries not directly affected by agricultural conditions, but rather by factors influencing the general economy. In particular, economic and secular conditions remain favorable to the housing market. According to the CoreLogic Home Price Index, home prices nationwide increased 4% year over year (February 2019). CoreLogic expects appreciation to pick up over the coming year to 4.7% as headwinds of interest rate increases ease. However, U.S. home ownership remains low at 64.8%, slightly above the 50-year low, and the millennial generation is approaching home-formation age, which may indicate a pent-up demand for homes. Food processing and distribution is benefiting from trends in personal spending and consumption, as well as the strong levels of employment. The national unemployment rate remains near historic lows at 3.8% per the U.S. Bureau of Labor Statistics. While still significantly underserved, rural power and telecommunication segments have benefitted from strong national economic growth. The U.S. Congressional Budget Office forecasts real gross domestic product (GDP) growth of 2.3% in 2019.

We continue to see low delinquencies and adversity across our portfolio. All the same, some of our core credit objectives include working with clients to promote risk management, ensure high quality financial statements and production reports, encourage disciplined marketing plans, and provide individualized servicing plans and strategies. We continue to be involved and support positive legislative changes for agriculture and rural America.

LOANS HELD TO MATURITY

Loans Held to Maturity

Loans held to maturity were $18.9 billion at March 31, 2019, an increase of $152.7 million from December 31, 2018. The increase was primarily driven by growth in the capital markets and food sectors, offset by a slight decrease in the grain sector.

Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2018. Adversely classified loans increased to 3.4% of the portfolio at March 31, 2019, from 3.0% of the portfolio at December 31, 2018. The increase was due to a continued overall downturn in the agricultural economy, led by stress in the grain and dairy sectors. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, Federal Agricultural Mortgage Corporation and other government agency guarantee programs are used to reduce the risk of loss. At March 31, 2019, $1.4 billion of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**March 31 2019**	December 31 2018
Loans:		
Nonaccrual	**$ 142,405**	$ 114,894
Accruing restructured	**10,805**	11,278
Accruing loans 90 days or more past due	**7,641**	7,427
Total risk loans	**160,851**	133,599
Other property owned	**138**	167
Total risk assets	**$ 160,989**	$ 133,766
Total risk loans as a percentage of total loans	**0.8%**	0.7%
Nonaccrual loans as a percentage of total loans	**0.7%**	0.6%
Current nonaccrual loans as a percentage of total nonaccrual loans	**40.2%**	36.4%
Total delinquencies as a percentage of total loans	**0.9%**	0.8%

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.

Overall, nonaccrual loans remained at acceptable levels at March 31, 2019, and December 31, 2018, even with slight nonaccrual increases within the grain and dairy sectors during the three months ended March 31, 2019.

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

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans inherent in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on 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:	**March 31 2019**	December 31 2018
Allowance as a percentage of:		
Loans	**0.4%**	0.3%
Nonaccrual loans	**48.5%**	52.2%
Total risk loans	**43.0%**	44.9%

The increase in our allowance for loan losses from December 31, 2018, was due to provision expense recorded primarily to reflect the increase in risk assets noted above. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2019.

LOANS HELD FOR SALE

We originate loans held for sale under our secondary market program, which is a rural residential mortgage program designed to provide qualified borrowers with options for competitive rate financing of rural homes in small towns or homes 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. At March 31, 2019, the volume in this program was $11.9 million, a $6.6 million decrease from December 31, 2018. The decrease in loans held for sale was the result of loans being sold to and securitized by a third party investor in the quarter and partially offset by loans held for sale being originated during the quarter.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the three months ended March 31	2019	2018
Net income	$ 93,228	$ 102,978
Return on average assets	1.8%	2.1%
Return on average equity	10.3%	12.1%

Changes in the chart above relate directly to:

- Changes in income discussed below
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Funding, Liquidity, and Capital section

Changes in Significant Components of Net Income

(in thousands) For the three months ended March 31	2019	2018	Increase (decrease) in net income
Net interest income	$ 119,271	$ 117,991	$ 1,280
Provision for loan losses	9,347	3,673	(5,674)
Patronage income	26,031	24,303	1,728
Other income, net	27,733	31,529	(3,796)
Operating expenses	69,672	64,480	(5,192)
Provision for income taxes	788	2,692	1,904
Net income	$ 93,228	$ 102,978	$ (9,750)

Changes in Net Interest Income

(in thousands) For the three months ended March 31	2019 vs 2018
Changes in volume	$ 6,962
Changes in interest rates	(4,338)
Changes in asset securitization	39
Changes in nonaccrual income and other	(1,383)
Net change	$ 1,280

The increase in the provision for loan losses was primarily due to additional provision expense recorded primarily to reflect overall growth in the portfolio, along with continued deterioration in the grain and dairy sectors of our portfolio.

Patronage Income

(in thousands) For the three months ended March 31	2019	2018
Wholesale patronage	$ 14,155	$ 13,342
Pool program patronage	11,180	10,405
AgDirect partnership distribution	696	556
Total patronage income	$ 26,031	$ 24,303

The change in other income, net was primarily due to our share of the Allocated Insurance Reserve Accounts (AIRA) distribution received from the Farm Credit System Insurance Corporation (FCSIC) of $4.5 million in 2019, compared to $10.9 million in 2018. The AIRA was established by FCSIC when premiums collected increased the level of the Insurance Fund beyond the required 2% of insured debt. Refer to the 2018 Annual Report for additional information about the FCSIC. We originated rural home loans for resale in the secondary market. We sold loans in the secondary market totaling $27.9 million through March 31, 2019, compared to $44.4 million for the same period in 2018. The fee income from this activity totaled $175 thousand for the three months ended March 31, 2019, compared to $154 thousand for the same period of 2018.

The change in operating expenses was primarily related to increases in furniture and equipment expenses, advertising, and public and member relations expenses.

The decrease in provision for income taxes was primarily related to the decrease in overall taxable income, along with benefits from recent tax reform and deductions from our patronage program.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable matures on September 30, 2021, at which time the note will be renegotiated. 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. 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 unallocated surplus.

The components of cost of funds associated with our note payable 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

We were not subject to a risk premium at March 31, 2019, or December 31, 2018.

Total equity increased $69.6 million from December 31, 2018, primarily due to net income for the period, partially offset by patronage distribution accruals and preferred stock dividend accruals. Accumulated other comprehensive loss is the impact of prior service cost and unamortized actuarial gain/loss related to the Pension Restoration Plan. Refer to Note 13 in our 2018 Annual Report for more information on the Pension Restoration Plan.

The Farm Credit Administration (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. Refer to Note 11 in our 2018 Annual Report for a more complete description of these ratios.

Regulatory Capital Requirements and Ratios

As of:	**March 31 2019**	December 31 2018	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**14.5%**	14.7%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**15.0%**	15.2%	6.0%	2.5%*	8.5%
Total capital ratio	**15.5%**	15.6%	8.0%	2.5%*	10.5%
Permanent capital ratio	**15.5%**	15.7%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**15.0%**	15.3%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**14.3%**	14.2%	1.5%	N/A	1.5%

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

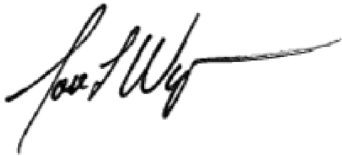
The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section.

CERTIFICATION

The undersigned have reviewed the March 31, 2019, Quarterly Report of Compeer Financial, ACA, which has been prepared under the oversight of the Audit Committee and 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.

Mark W. Cade
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

May 6, 2019

CONSOLIDATED STATEMENTS OF CONDITION

Compeer Financial, ACA
(in thousands)
(Unaudited)

As of:		March 31 2019		December 31 2018
ASSETS				
Loans held to maturity	**$**	**18,906,391**	$	18,753,659
Allowance for loan losses		**69,133**		59,928
Net loans held to maturity		**18,837,258**		18,693,731
Loans held for sale		**11,900**		18,496
Net loans		**18,849,158**		18,712,227
Unrestricted cash		**2,300**		2,300
Investment securities (including $19,143 and $0 at fair value)		**1,105,011**		995,140
Assets held for lease, net		**50,246**		46,974
Accrued interest receivable		**173,527**		171,220
Investment in AgriBank, FCB		**567,596**		567,596
Premises and equipment, net		**72,039**		70,697
Other property owned		**138**		167
Other assets		**159,945**		187,916
Total assets	**$**	**20,979,960**	$	20,754,237
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**16,966,729**	$	16,739,126
Accrued interest payable		**115,871**		110,302
Deferred tax liabilities, net		**1,906**		4,839
Patronage distribution payable		**122,331**		151,710
Other liabilities		**101,511**		146,281
Total liabilities		**17,308,348**		17,152,258
Contingencies and commitments (Note 5)				
EQUITY				
Preferred stock		**100,000**		100,000
Capital stock and participation certificates		**32,973**		33,062
Additional paid-in capital		**1,780,603**		1,780,603
Allocated surplus		**426,718**		426,776
Unallocated surplus		**1,342,008**		1,272,556
Accumulated other comprehensive loss		**(10,690)**		(11,018)
Total equity		**3,671,612**		3,601,979
Total liabilities and equity	**$**	**20,979,960**	$	20,754,237

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Compeer Financial, ACA
(in thousands)
(Unaudited)

For the period ended March 31	*Three Months Ended* **2019**	2018
Interest income	**$ 233,900**	$ 204,979
Interest expense	**114,629**	86,988
Net interest income	**119,271**	117,991
Provision for loan losses	**9,347**	3,673
Net interest income after provision for loan losses	**109,924**	114,318
Other income		
Patronage income	**26,031**	24,303
Net operating lease income	**694**	450
Financially related services income	**12,271**	11,688
Allocated Insurance Reserve Accounts distribution	**4,468**	10,938
Fee and miscellaneous income, net	**10,300**	8,453
Total other income	**53,764**	55,832
Operating expenses		
Salaries and employee benefits	**44,561**	43,626
Farm Credit System insurance	**3,688**	3,464
Other operating expenses	**21,423**	17,390
Total operating expenses	**69,672**	64,480
Income before income taxes	**94,016**	105,670
Provision for income taxes	**788**	2,692
Net income	**$ 93,228**	$ 102,978
Other comprehensive income		
Employee benefit plans activity	**$ 328**	$ 237
Total other comprehensive income	**328**	237
Comprehensive income	**$ 93,556**	$ 103,215

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Compeer Financial, ACA
(in thousands)
(Unaudited)

	Preferred Stock	Capital Stock and Participation Certificates	Additional Paid-in Capital	Allocated Surplus	Unallocated Surplus	Accumulated Other Comprehensive (Loss) Income	Total Equity
Balance at December 31, 2017	$ 100,000	$ 34,213	$ 1,780,603	$ 523,252	$ 980,818	$ (7,249)	$ 3,411,637
Net income	--	--	--	--	102,978	--	102,978
Other comprehensive income	--	--	--	--	--	237	237
Redemption of allocated patronage	--	--	--	(43,639)	16	--	(43,623)
Preferred stock dividend	--	--	--	--	(1,688)	--	(1,688)
Unallocated surplus designated for patronage distributions	--	--	--	--	(20,400)	--	(20,400)
Cumulative effect of change in accounting principle	--	--	--	--	--	--	--
Capital stock and participation certificates issued	--	577	--	--	--	--	577
Capital stock and participation certificates retired	--	(789)	--	--	--	--	(789)
Balance at March 31, 2018	$ 100,000	$ 34,001	$ 1,780,603	$ 479,613	$ 1,061,724	$ (7,012)	$ 3,448,929
Balance at December 31, 2018	$ 100,000	$ 33,062	$ 1,780,603	$ 426,776	$ 1,272,556	$ (11,018)	$ 3,601,979
Net income	**--**	**--**	**--**	**--**	**93,228**	**--**	**93,228**
Other comprehensive income	**--**	**--**	**--**	**--**	**--**	**328**	**328**
Redemption of prior year allocated patronage	**--**	**--**	**--**	**(58)**	**9**	**--**	**(49)**
Preferred stock dividend	**--**	**--**	**--**	**--**	**(1,688)**	**--**	**(1,688)**
Unallocated surplus designated for patronage distributions	**--**	**--**	**--**	**--**	**(21,975)**	**--**	**(21,975)**
Cumulative effect of change in accounting principle	**--**	**--**	**--**	**--**	**(122)**	**--**	**(122)**
Capital stock and participation certificates issued	**--**	**505**	**--**	**--**	**--**	**--**	**505**
Capital stock and participation certificates retired	**--**	**(594)**	**--**	**--**	**--**	**--**	**(594)**
Balance at March 31, 2019	**$ 100,000**	**$ 32,973**	**$ 1,780,603**	**$ 426,718**	**$ 1,342,008**	**$ (10,690)**	**$ 3,671,612**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim Consolidated Statements of Condition and Consolidated Statements of Comprehensive Income. Our accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the three months ended March 31, 2019, are not necessarily indicative of the results to be expected for the year ending December 31, 2019. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2018 (2018 Annual Report).

The Consolidated Financial Statements present the consolidated financial results of Compeer Financial, ACA (the Association) and its subsidiaries Compeer Financial, FLCA and Compeer Financial, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

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 balance sheet 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 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.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business.

Standard and effective date	Description	Adoption status and financial statement impact
In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02 “Leases.” In July 2018, the FASB issued ASU 2018-11 “Leases (Topic 842): Targeted Improvements.” The guidance is effective for public business entities in its first quarter of 2019 and early adoption is 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. When this guidance is adopted, a liability for lease obligations and a corresponding right-of-use asset will be 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.” This guidance is effective for public business entities for non-U.S. Securities Exchange Commission filers for the first quarter of 2021 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 have no plans to early adopt this guidance. We have reviewed the accounting standard, selected our system, and are in the process of drafting disclosures. Significant implementation matters yet to be addressed include system development and testing, drafting of accounting policies, and designing processes and controls. We are currently unable to estimate the impact on the financial statements.

NOTE 2: LOANS HELD TO MATURITY AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	**March 31, 2019**		December 31, 2018	
	Amount	%	Amount	%
Real estate mortgage	**$ 9,206,464**	**48.7%**	$ 9,199,249	49.1%
Production and intermediate-term	**3,762,780**	**19.9%**	3,984,347	21.2%
Agribusiness	**3,927,480**	**20.8%**	3,632,104	19.4%
Other	**2,009,667**	**10.6%**	1,937,959	10.3%
Total	**$ 18,906,391**	**100.0%**	$ 18,753,659	100.0%

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.

Credit Quality

We utilize the Farm Credit Administration (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 March 31, 2019, or December 31, 2018.

Credit Quality of Loans

(dollars in thousands)	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of March 31, 2019	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 8,668,595**	**93.3%**	**$ 316,134**	**3.4%**	**$ 310,147**	**3.3%**	**$ 9,294,876**	**100.0%**
Production and intermediate-term	**3,446,501**	**90.5%**	**176,277**	**4.6%**	**187,587**	**4.9%**	**3,810,365**	**100.0%**
Agribusiness	**3,829,115**	**97.0%**	**30,050**	**0.8%**	**86,235**	**2.2%**	**3,945,400**	**100.0%**
Other	**1,940,989**	**96.2%**	**3,149**	**0.2%**	**72,890**	**3.6%**	**2,017,028**	**100.0%**
Total	**$ 17,885,200**	**93.8%**	**$ 525,610**	**2.8%**	**$ 656,859**	**3.4%**	**$ 19,067,669**	**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%

Note: Accruing loans include accrued interest receivable.

Delinquency

Aging Analysis of Loans

(in thousands) **As of March 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	**$ 52,620**	**$ 42,182**	**$ 94,802**	**$ 9,200,074**	**$ 9,294,876**	**$ 2,221**
Production and intermediate-term	**39,969**	**32,681**	**72,650**	**3,737,715**	**3,810,365**	**3,641**
Agribusiness	**796**	**928**	**1,724**	**3,943,676**	**3,945,400**	**--**
Other	**8,505**	**2,998**	**11,503**	**2,005,525**	**2,017,028**	**1,779**
Total	**$ 101,890**	**$ 78,789**	**$ 180,679**	**$ 18,886,990**	**$ 19,067,669**	**$ 7,641**

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

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.

Risk Loan Information

(in thousands) As of:	**March 31 2019**	December 31 2018
Volume with specific allowance	**$ 49,556**	$ 37,103
Volume without specific allowance	**111,295**	96,496
Total risk loans	**$ 160,851**	$ 133,599
Total specific allowance	**$ 19,706**	$ 14,031
For the three months ended March 31	**2019**	2018
Income on accrual risk loans	**$ 286**	$ 269
Income on nonaccrual loans	**1,730**	2,590
Total income on risk loans	**$ 2,016**	$ 2,859
Average risk loans	**$ 142,198**	$ 111,364

Note: Accruing loans include accrued interest receivable. In addition, risk loans include purchased credit-impaired loans.

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

Troubled Debt Restructurings (TDRs)

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 restructured loan. 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 TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

There were no TDRs that occurred during the three months ended March 31, 2019. We completed TDRs of certain production and intermediate-term loans during the three months ended March 31, 2018. Our recorded investment in these loans just prior to restructuring and immediately following the restructuring was $118 thousand during the three months ended March 31, 2018. 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.

TDRs that Occurred Within the Previous 12 Months that Subsequently Defaulted During the Three Months Ended March 31

(in thousands)	2019	2018
Real estate mortgage	$ 291	$ --
Production and intermediate-term	216	287
Total	$ 507	$ 287

TDRs Outstanding

(in thousands) As of:	March 31 2019	December 31 2018
Accrual status:		
Real estate mortgage	$ 10,057	$ 10,337
Production and intermediate-term	748	941
Agribusiness	--	--
Other	--	--
Total TDRs in accrual status	$ 10,805	$ 11,278
Nonaccrual status:		
Real estate mortgage	$ 1,145	$ 1,114
Production and intermediate-term	468	525
Agribusiness	4,215	4,547
Other	64	64
Total TDRs in nonaccrual status	$ 5,892	$ 6,250
Total TDRs:		
Real estate mortgage	$ 11,202	$ 11,451
Production and intermediate-term	1,216	1,466
Agribusiness	4,215	4,547
Other	64	64
Total TDRs	$ 16,697	$ 17,528

Additional commitments to lend to borrowers whose loans have been modified in a TDR were $1.0 million at March 31, 2019.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Three months ended March 31	2019	2018
Balance at beginning of period	$ 59,928	$ 48,849
Provision for loan losses	9,347	3,673
Loan recoveries	129	395
Loan charge-offs	(271)	(318)
Balance at end of period	$ 69,133	$ 52,599

NOTE 3: INVESTMENT SECURITIES

We had held-to-maturity investment securities of $1.1 billion at March 31, 2019, and $995.1 million at December 31, 2018. Our investment securities consisted of:

- Mortgage-backed securities (MBS) issued by the Federal Agricultural Mortgage Corporation (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 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 comprised of either MBS or ABS. All our held-to-maturity investments, except $4.9 million as of March 31, 2019, and $5.5 million as of December 31, 2018, were fully guaranteed by Farmer Mac, SBA, or USDA.

Additional Held-to-Maturity Investment Securities Information

(dollars in thousands) **As of March 31, 2019**	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
MBS	**$ 930,541**	**$ 10,922**	**$ (5,513)**	**$ 935,950**	**4.2%**
ABS	**144,745**	**161**	**(4,555)**	**140,351**	**3.9%**
Bonds	**10,582**	**143**	**--**	**10,725**	**5.1%**
Total	**$ 1,085,868**	**$ 11,226**	**$ (10,068)**	**$ 1,087,026**	**4.2%**

As of December 31, 2018	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
MBS	$ 925,480	$ 3,696	$ (15,728)	$ 913,448	4.2%
ABS	58,495	166	(1,414)	57,247	4.2%
Bonds	11,165	53	(75)	11,143	5.0%
Total	$ 995,140	$ 3,915	$ (17,217)	$ 981,838	4.2%

Investment income is recorded in “Interest income” in the Consolidated Statements of Comprehensive Income and totaled $9.8 million and $8.2 million for the three months ended March 31, 2019, and 2018, respectively.

Contractual Maturities of Held-to-Maturity Investment Securities

(in thousands) **As of March 31, 2019**	Amortized Cost
Less than one year	**$ 1,289**
One to five years	**23,795**
Five to ten years	**73,836**
More than ten years	**986,948**
Total	**$ 1,085,868**

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 March 31, 2019	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
MBS	**$ 3,543**	**$ (179)**	**$ 181,364**	**$ (5,334)**
ABS	**71,237**	**(3,205)**	**21,149**	**(1,350)**
Bonds	**--**	**--**	**--**	**--**
Total	**$ 74,780**	**$ (3,384)**	**$ 202,513**	**$ (6,684)**

	Less than 12 months		Greater than 12 months	
As of December 31, 2018	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
MBS	$ 57,337	$ (551)	$ 613,364	$ (15,177)
ABS	14,527	(458)	27,460	(956)
Bonds	--	--	6,246	(75)
Total	$ 71,864	$ (1,009)	$ 647,070	$ (16,208)

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 available-for-sale investment securities, consisting of MBS, with an amortized cost and fair value of $19.1 million and the contractual maturities were more than 10 years at March 31, 2019. We had no outstanding available-for-sale investment securities at December 31, 2018.

The investment portfolio is evaluated for other-than-temporary impairment. No investments within the portfolio were impaired as of March 31, 2019, and December 31, 2018.

NOTE 4: OTHER INVESTMENTS

We held non-controlling investments in junior capital funds in “Other assets” in the Consolidated Statements of Condition of $2.5 million at March 31, 2019, and December 31, 2018. These investments represent our stake in junior capital funds focused on the needs of rural start-up companies. We had no remaining commitment at March 31, 2019, or December 31, 2018. To date, no income has been distributed from the funds. We received no distributions from the funds during the three months ended March 31, 2019, and 2018. These investments were evaluated for impairment. For the three months ended March 31, 2019, and 2018 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 $39.5 million with varying commitment end dates through November 2023. Certain commitments may have an option to extend under certain circumstances. Our investment in the RBICs are recorded in “Other assets” in the Consolidated Statements of Condition, and totaled $13.9 million at March 31, 2019, and $13.4 million at December 31, 2018. The investments were evaluated for impairment. No investments were impaired as of March 31, 2019, and December 31, 2018.

NOTE 5: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, 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.

NOTE 6: 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 in our 2018 Annual Report 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 $11.9 million and $18.5 million as of March 31, 2019, and December 31, 2018, respectively, which were valued using Level 3 inputs. Total fair value gains related to these loans were $199 thousand and $2 thousand for the three months ended March 31, 2019, and 2018, respectively, which were recognized in “Fee and miscellaneous income, net” 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 available-for-sale investment securities of $19.1 million at March 31, 2019, which were evaluated using Level 3 inputs. We had no outstanding available-for-sale investment securities at December 31, 2018. We had no sales of available-for-sale investment securities during the three months ended March 31, 2019, or 2018.

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 $43.0 million and $28.0 million as of March 31, 2019, and December 31, 2018, 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 in of $390 thousand for the three months ended March 31, 2019, compared to a net gain of $750 thousand for the same period of 2018. These were included in “Fee and miscellaneous income, net” 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 and related write-downs 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 and related losses of foreclosed assets that were measured at fair value 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 March 31, 2019			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$ 31,343**	**$ 31,343**
Other property owned	**--**	**--**	**530**	**530**

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

NOTE 7: SUBSEQUENT EVENTS

We have evaluated subsequent events through May 6, 2019, 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 Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.