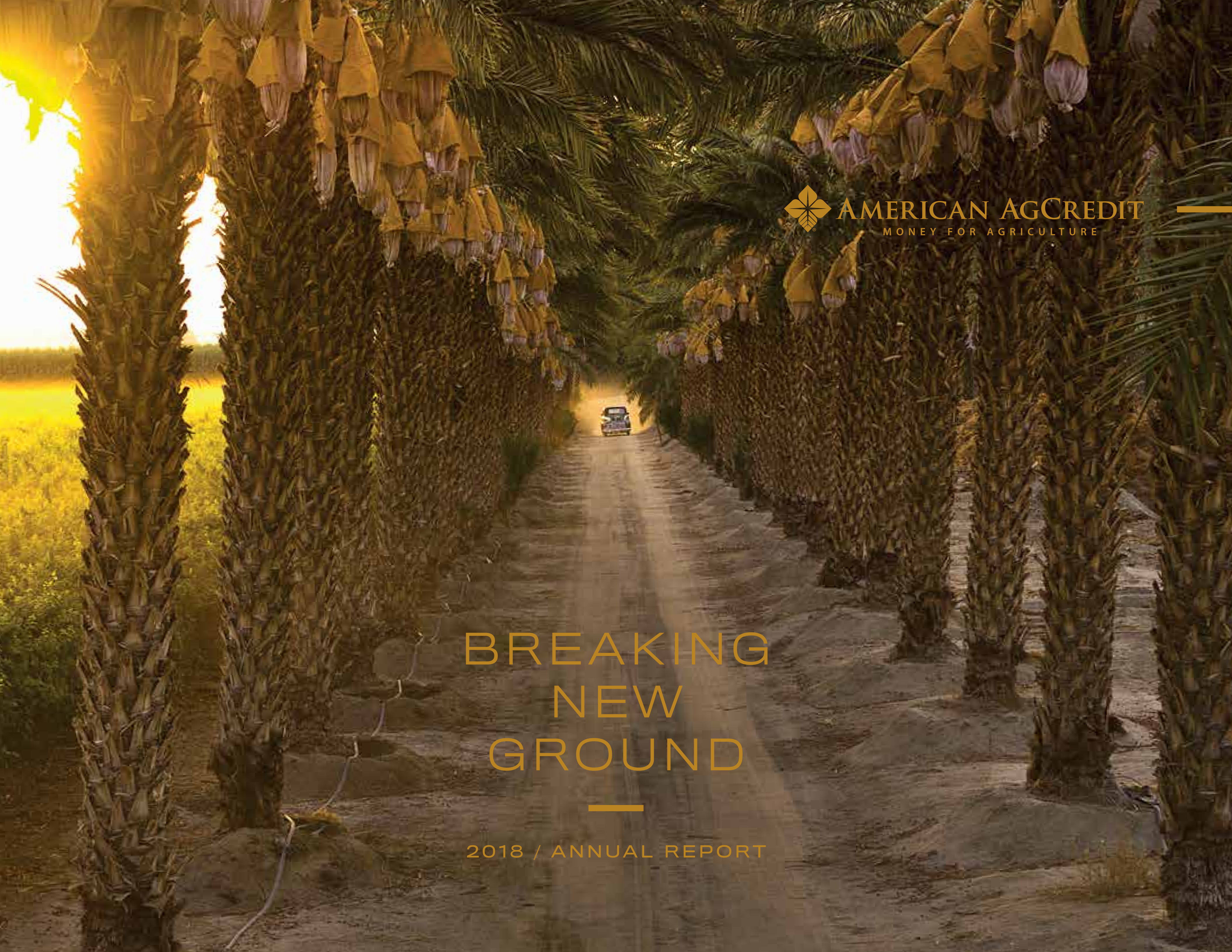


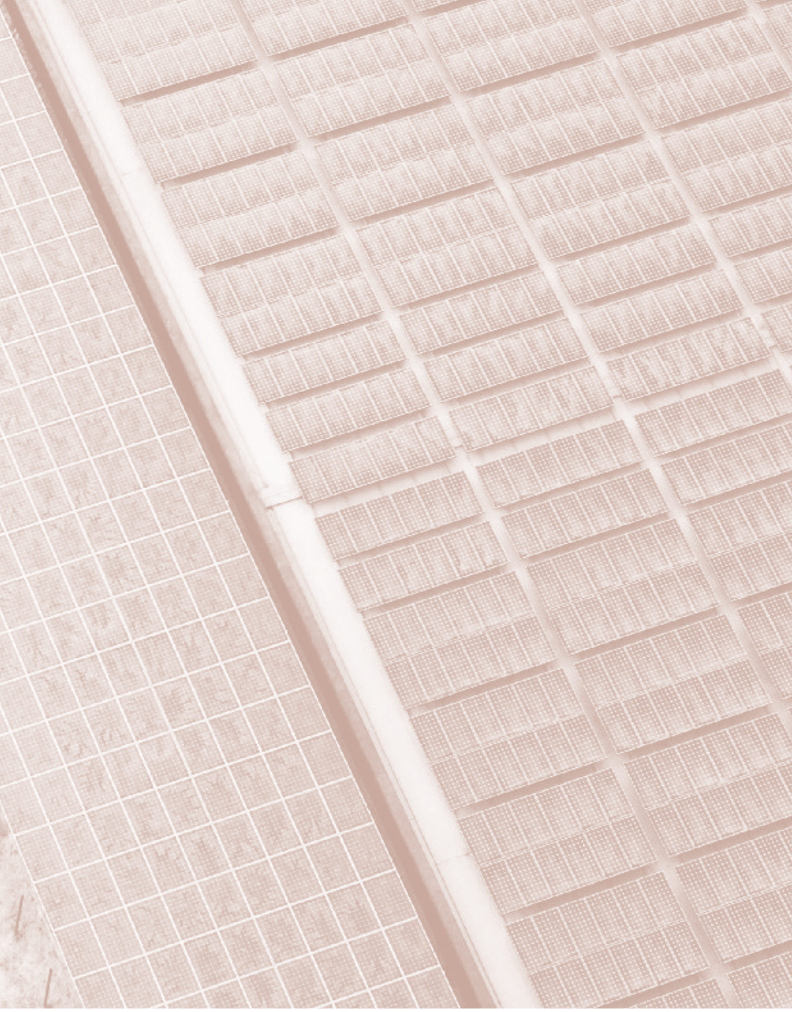
AMERICAN AGCREDIT
MONEY FOR AGRICULTURE

BREAKING NEW GROUND

2018 / ANNUAL REPORT

BREAKING NEW GROUND

ANNUAL REPORT
2018



As your cooperative financial partner, our mission is to serve all segments of agriculture.

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TO OUR SHAREHOLDERS

Once again, we begin this letter with a sense of pride about American AgCredit. As we look back on 2018, it is remarkable how well our Association has performed. We not only realized our most successful year ever in financial performance, we are pleased with what we have accomplished to be able to better serve you – our stockholders, owners, and customers.

It is exciting to share that efficiency gains paved the way to record net earnings while we lowered our average interest rate spread overall to our customers. Those record earnings then allowed us to return a 1% cash patronage distribution. That translates to $86 million in cash back to our shareholders and represents a $26 million increase over the previous year. Again, we did this by finding efficiency gains in the business, not by charging you more – actually, we charged you less spread.

We are also reflecting on our continued work to modernize to keep up with what you have said is important to you. For example, we processed loans to you more quickly, measuring our processing time in order to find out how we can best meet your request as quickly as possible. In 2018, we began a digital investment in order to get you better online tools and access to your accounts. We are faster and more efficient than ever – and constantly improving – but we know you want and deserve more. So though we will be able to offer you the ease and convenience of powerful online tools, we won't sacrifice the personal touch you enjoy with your lenders. Our goal is to meet you where you are. We will continue our work to be better equipped to serve the needs of every farmer and rancher – whether through quick, easy online transactions on a smartphone or across the kitchen table over a warm cup of coffee. We are here for you.

Inside these pages, you can learn more about our record earnings year, and also about customers whose use of ag technology will inspire you. They include a tissue culture lab working to repopulate nearly extinct varieties of date palm trees, and of a tape row planter effecting savings in time and labor. You'll be inspired by a partnership of two American AgCredit customers who came together to purchase a cotton gin to process their cotton harvest, and by the story of a successful family winery utilizing leased solar panels and barrels in their operations. It's easy to understand what inspires us is you.

Finally, we remain committed to agriculture and our knowledge of and expertise in ag. As the ag landscape continues to shift for the farmers and ranchers of America, many of our customers are facing challenges they haven't faced in years. We want to assure you that we are stronger than ever to support you through any turbulent times ahead. Like you, we are building our operation to withstand the unpredictability that will always be a part of agriculture and so a part of our business. As your cooperative, we understand your needs and we are ready to help. Together, we have a promising future.

Sincerely,

George Fontes
Board Chair

Byron E. Enix
Chief Executive Officer

MARCH 1, 2019

"Our goal is to meet you where you are – to continue our work to be better equipped to serve the needs of every farmer and rancher."

KEY FINANCIAL DATA

YEAR ENDED DECEMBER 31, (In thousands)	2018	2017	2016	2015	2014
NET INCOME	$169,368	$159,142	$104,529	$99,739	$98,941
PATRONAGE DECLARED	$86,216	$59,808	$50,194	$43,485	$39,013
PATRONAGE AS % OF NET INCOME	50.90%	37.58%	48.02%	43.60%	39.43%
LOAN VOLUME	$10,214,774	$9,306,922	$8,008,875	$7,291,557	$6,358,767
RETURN ON AVERAGE ASSETS	1.68%	1.70%	1.31%	1.41%	1.53%
MEMBERS' EQUITY AS % OF TOTAL ASSETS	19.39%	20.38%	20.75%	22.88%	25.14%

FINANCIAL HIGHLIGHTS

LOAN VOLUME BY STATE

We manage our loan portfolio and related risks based on the unique characteristics of the agricultural market within each state. Issues related to geography – such as weather, land pricing, or market commodity – may be offset by overall strength within other regions, thereby reducing pressure on the overall portfolio.

(In millions)	2018	2017	2016
CALIFORNIA	$5,307.8	$4,735.6	$4,342.5
KANSAS	1,401.5	1,307.4	684.0
COLORADO	950.6	889.3	878.0
WASHINGTON	350.5	320.8	312.2
OREGON	193.8	249.8	174.5
NEVADA	183.5	170.8	148.9
OTHER	1,827.1	1,633.2	1,468.8
TOTAL	**$10,214.8**	**$9,306.9**	**$8,008.9**

COMMODITIES FINANCED

Through the diversification of our portfolio, we are able to reduce risks associated with a measurable downturn in any one commodity. By diversifying our commodity mix, we can ensure that any material stress on the entire portfolio is minimized.

SAVING THE DATE

ANTHONY FORTIER, BOB HULL, AND JOSE LUIS GOMEZ

Date palms – source of dates, those sweet, nutritional, delicious fruits. With ancient origins in the Middle East, today date palms can be grown almost anywhere thanks to a combination of technology and good old-fashioned farming know-how, as exemplified by Anthony Fortier, Bob Hull, and Jose Louis Gomez – farmers in the Palm Desert region of California – who are interrelated yet independent, and all customers of American AgCredit.

Anthony is founder and CEO of Phoenix Agrotech, a company that creates date palm plants through tissue culture. "The idea around Phoenix Agrotech started back in 2008 when I was already thinking about tissue culturing date palms and I happened to meet my future partner and co-founder Bob Hull," Anthony says. "The benefits of getting plants through the tissue culture process are huge: It guarantees our plants are disease- or pathogen-free, and that they are coming from clean stock. We source all our plants from a farm in the Coachella Valley. So, any plant that comes from our laboratory can be traced back to the mother tree. What would usually take maybe 50, 60, 70 years or more we can do within a 10-year period. It saves literally decades in time, money, and effort."

Bob Hull is not only a co-owner and manager of Phoenix Agrotech, he also owns and manages Beach Line Citrus. "I was born into agriculture," Bob tells us. "I was raised on the farm and I was just really a farm kid. I knew two things when I graduated from high school," he says with a laugh. "I was never going to live in Blythe, and I was certainly never going to farm. And here I am doing both."

After years leading Beach Line, Bob met Anthony and formed Phoenix Agrotech. "I love working with people and helping them," Bob says. "I think about our lab over there in Santa Ana and I love the fact that we're providing good paying jobs for people who are really doing something productive."

Jose Luis Gomez, also known as Chacho, manages parts of Phoenix Agrotech farms, and owns Alexandra Dates, a small family business. Chacho says, "My wife, one of my sons and my daughter work in the office and my other son, Jose, manages all the labor on the dates. For Phoenix Agrotech, we provide all the offshoots so they can extract the tissue culture from them and develop them in the lab."

Supporting them all, and their mission to see date palms thrive worldwide, is Christopher Robertson, a lender with American AgCredit for 26 years.

"I got started in Farm Credit right out of college," Christopher says. "I attended a job fair at school and met the marketing manager. He offered me a job and I've been here ever since. I never thought of doing anything else. To me, a life in agriculture means supporting our farmers and getting to watch them grow and thrive along the way."

And understanding the business from a farmer's point of view. As Chacho says, "American AgCredit is unique because they help a lot of farmers because they know the life, where other banks in the valley don't really understand farming."

From a small corner of Southern California, the impact of American agriculture is truly global. Anthony says, "We're launching a program called 'Palms for Peace' where we're replanting varieties of dates that have been lost, and helping to rebuild the countries that were either in conflict or war or just who have had their own struggles.

"I see it firsthand, traveling around the world and working with people in different cultures and different regions, and realizing everybody is essentially the same. We're all just trying to live, put our kids through school, and build a better life. Contributing to that, to me, is absolutely the best part of my job."

Anthony, Bob, and Chacho represent the gamut of American AgCredit customers – from small farmer to international corporation – utilizing services from credit lines to crop insurance to financing, loans, and leasing; embracing new technology while honoring the legacy of the land. Small snapshot to big picture, with successes literally felt around the world. ■

"We're all just trying to live, put our kids through school, and build a better life. Contributing to that, to me, is absolutely the best part of my job." –ANTHONY FORTIER

GROWING AND GINNING IN THE MIDWEST

BERRY BORTZ AND STUART BRIGGEMAN

Thoughts of cotton typically turn to America's southern climates, but a burgeoning cotton industry in Kansas led one group of growers to purchase a cotton gin to process their own crops and, later, to process other growers' production as well.

"American AgCredit showed a lot of interest in what we were trying to do and were very easy to work with."

–STUART BRIGGEMAN

Berry Bortz, a member of the American AgCredit Board of Directors, and Stuart Briggeman are two longtime farmers operating diversified operations in south-central Kansas: Berry raises corn, wheat, soybeans, alfalfa, and cotton, along with 550 cows and a small feed lot; Stuart raises corn, wheat, soybeans, and cotton.

When Stuart added cotton to his mix in 1999, and Berry in 2003, both faced a steep learning curve, as cotton needs to be treated very differently from the row crops these farmers knew well. The crop brought different pests, different weeds, and the need for more frequent "crop scouting," and has a life cycle that requires the plants be stressed in order to produce abundant cotton bolls. But it also uses less water than other crops, an important consideration given water scarcity.

"Cotton uses about a third of the water that, say, a corn crop uses, so we can generate more money using less water if we put cotton in the rotation," says Berry. "Cotton takes a little more management. Timeliness is very important – controlling the insects early, getting it planted in the right conditions, and just maintaining the growth regulators through the growing season," says Stuart.

Years later, with their knowledge of growing cotton well established, Berry, Stuart, and two other cotton-growing partners found an opportunity to also control their cotton processing: a local cotton gin was available for sale, and American AgCredit was there to finance the purchase.

"When we were approached by the group of investors who were looking to purchase the cotton gin, I sought out a colleague's expertise to run the numbers and extrapolate the production they'd need to be able to break even, and realized they could do it with just their own crop production," says American AgCredit Vice President of Lending, Brandon Rockenbach.

Stuart adds, "American AgCredit showed a lot of interest in what we were trying to do and were very easy to work with. They also offered the dividend or patronage that they pay back, which is a percentage on the interest that they take off, and that actually made them beat anybody else that we were talking with at the time. It was a changing factor in who we would finance with."

Running the gin has its own challenges, of course, and the partners faced another steep learning curve, including establishing quality control and managing for increased production as cotton acreage in the area tripled a year after the group purchased the gin. "We've gained experience with the ginning process and an intimate knowledge of the machines, so we're feeling quite a bit better than we were even just a year ago," says Berry. "Even as we experience breakdowns and difficulties, the quality of our output remains very consistent."

“I think in the next 10 years there will be more changes than in the last 50 years of farming. It’s a pretty exciting time to be part of agriculture.” –BRIAN ANTLE

THE HUMANITY OF INNOVATION

THE SALINAS VALLEY, CALIFORNIA

As the globe’s leading producer of lettuce, the Salinas Valley has long been known as the World’s Salad Bowl. And, as we know, leaders don’t stay on top by standing still; they look ahead and embrace innovation.

Just like salads, innovation can take on many different shapes – sometimes it’s cutting edge technology; sometimes it’s imagining creative solutions for old challenges.

Brian Antle is a farmer first, an innovator co-first, and president of PlantTape – a fully automated transplanting system using tape. “The technology was created in Spain in the early 2000s,” Brian says. “Our parent company, Tanimura & Antle, is a third generation, family and employee-owned company. We acquired the PlantTape technology in 2014 and brought it to the United States for further development, spending three years growing it on our ranches to establish the practices needed for this new method. After 35,000 acres of growing, we were finally ready to share, so in 2017, we launched PlantTape and now we’re selling it all around the world.”

And just what is the PlantTape advantage? Brian answers, “PlantTape allows you to start plants, such as lettuce, in the nursery as opposed to putting the seed directly into the field. This provides better uniformity and better germination. It allows the crop to grow the first three very critical weeks of its life in a controlled nursery environment as opposed to the adverse weather out in the field. Once they're established, we take them from the nursery and transplant them in the field. PlantTape automates the transplant process as opposed to the old way of doing it by hand, which speeds up the efficiencies and increases the acres planted in a day."

Also based in Salinas, The Nunes Company is a third-generation family business as well – a vertically integrated grower/shipper growing both organic and conventional commodity crops that are sold in stores under the Foxy brand name.

The family operation is a good example that, no matter how much technology revolutionizes agribusiness, the heart of farming and ranching is still very much human.

Tom Nunes V, president of The Nunes Company, puts things into perspective: "We understand that the backbone of our organization are the people who bring our product to market. We need an environment that provides stability, not just for our customers, but also for our employees. So we created Boronda Villas – seasonal agricultural employee housing. It can house about 600 people, with two recreational rooms, two laundry rooms, a sports court and field, and a walking path around the complex. It's secure and safe and a great environment for our workers to relax at the end of their long days."

Both Tom and Brian have enjoyed long working relationships with American AgCredit. Brian says, "We've been partners with American AgCredit for over 20 years and they allow us the flexibility to continue to look for new investments and develop new innovations such as PlantTape." Tom adds, "American AgCredit has worked with us in many facets. Not just on ranches in which our families are involved with but also on the housing project. They are very, very involved, and very, very supportive."

Tom and Brian share a deep passion for their work and a firm belief that the best days are still ahead.

"Produce does not know birthdays, does not know anniversaries, does not know holidays," Tom says. "It's a job in which the most important ingredient you put on the crop is your shadow. The dream is to pass family businesses like ours onto the next generation and take care of our employees and all the hands that are involved with our products day in and day out for generations to come."

Brian adds, "I think in the next 10 years there will be more changes than in the last 50 years of farming. It's a pretty exciting time to be part of agriculture."

Of course, American AgCredit will be there with them every step of the way. ■

"The dream is to pass family businesses like ours onto the next generation and take care of our employees and all the hands that are involved with our products day in and day out for generations to come." –TOM NUNES V

CULTIVATING A PARTNERSHIP IN WINE COUNTRY

NAPA VALLEY, CALIFORNIA

On the steep slopes of Napa Valley's renowned Pritchard Hill, the Chappellet family has been producing world-class wines from the fruit they have cultivated there for the past 50 years. Founded by Donn and Molly Chappellet in 1967, the esteemed winery, Chappellet Vineyards, helped establish Pritchard Hill as one of California's most revered winegrowing sites.

The second and third generations of the Chappellet family are continuing to build on its successes. But Cyril Chappellet, the second-eldest child of Donn and Molly, didn't always know he would stay on board. He left for a career in corporate planning and acquisition after college to hone his business skills, and it wasn't until after coming back to help his father with some marketing and sales that he realized there was nothing else he'd rather do than run the family business. Now the CEO, Cyril says a big part of what he does with his family and staff is drive Chappellet to the next level to make it available to future generations. He says, "Everything you see around you here, all of our vineyards, the winery – it's all part of what we were raised for on a daily basis."

Cyril believes good relationships with bankers is critical in the wine business due to the fact it is very capital intensive. Of American AgCredit he says, "I found that they really understood the challenges of being a farming operation. And it wasn't just about loaning money; it was about finding out how to be most successful. You really feel like it is a partnership and that is unique." BJ Bertacco, Vice President of Lending, has enjoyed working with Cyril and his family since 2015. "They just love what they do each and every day and that carries through in every aspect of their business," he says.

Finding unique financing options has been important. Chappellet takes advantage of American AgCredit's leasing program to help improve efficiency, increase cash flow, and lower tax liabilities. As Cyril says, "Leasing doesn't make it cheaper but it does stretch it out over a much longer period of time, and it can be remarkably beneficial." The winery leases barrels and solar panels. Leasing wine barrels, which are leased for three to four years, makes it possible to pay for them while they are using them. And Chappellet recently expanded their existing solar structure by adding more solar panels. Cyril says, "We are able to stretch it out over a much longer period of time, and it's a way of being able to not tie up all of our cash up front." Cyril likes to say putting in solar is the right thing to do, but he adds that the real reason is that economically, it works. "If you build a solar program and panels to the level where you have enough that you can cover 100% of your energy cost, there will be a period of time that you will literally be getting free energy," he says. And that, he adds, is pretty spectacular as the price of energy has continued to rise.

"My daily quest for Chappellet is that our products are so loved and endeared by the people who drink our wines that regardless of the ups and downs in the economy, regardless of the challenges that happen for people, that they're still drinking our wines and really loving them," he says. "That will help the next generation to have a better business and that is what is important to me long term." There is nothing easy about it, he says. Though he makes it his mission every day. ■

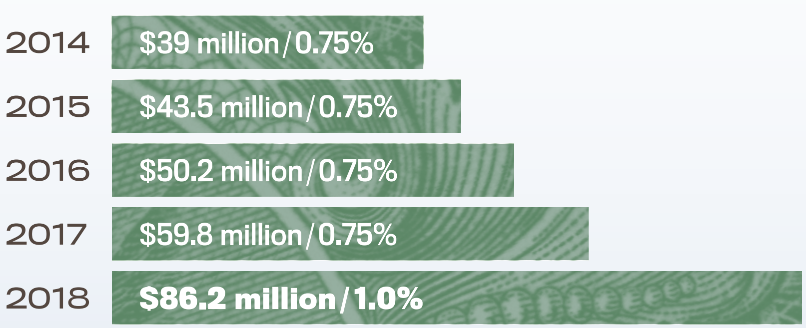
"American AgCredit really understood the challenges of being a farming operation. And it wasn't just about loaning money; it was about finding out how to be most successful. You really feel like it is a partnership and that is unique." –CYRIL CHAPPELLET

PATRONAGE REPORT

This year, our Board voted to increase our cash patronage distribution to a *full 1%*, resulting in a record $86 million cash back to you, our loyal customers. That's $26 million more than last year.

Our efforts to maintain a diversified loan portfolio, balanced across commodities and geographies, help minimize the impacts of stress in any sector. Additionally, we work hard to constantly look for improvement in our operations, bringing efficiencies to our business. Because of these efforts, we are able to share more profits than ever before. Again, we did this by finding efficiency gains in the business, not by charging you more – actually, we lowered the spread we charge to our cost of money.

This year marks the 14th consecutive year the Association has paid cash patronage.



1%

IT PAYS TO BE A MEMBER.

This year American AgCredit increased our cash patronage distribution to a **full 1%**, resulting in a record $86 million cash back to our loyal members – $26 million more than 2017.

REPORT OF MANAGEMENT

The Association's consolidated financial statements are prepared by management, who is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates.

In the opinion of management, the accompanying consolidated financial statements fairly present the financial condition and results of operations of the Association, in conformity with generally accepted accounting principles in the United States of America. Other financial information included in this Annual Report is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost must be related to the benefits derived. To monitor compliance, the Association's internal auditors and review staff perform audits of the accounting records, review accounting systems and internal controls, and recommend improvements as needed. The consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent auditors. Their report is located on page 38. The Association is also examined by the Farm Credit Administration (FCA), regulator of the Farm Credit System.

The Association's Board of Directors, which is composed of directors who are not employees, has overall responsibility for the Association's system of internal control over financial reporting. The Board of Directors meets periodically with management, FCA, outside consulting firms, and the internal auditors and independent external auditors to review the manner in which each of these groups perform their responsibilities and to carry out the Board's oversight role with respect to auditing, internal controls, and financial reporting matters. These internal auditors, independent external auditors, and regulators also have access to the Board of Directors and its individual members at any time.

The undersigned certify that they have reviewed the 2018 Annual Report and that it has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

MARCH 1, 2019

Byron E. Enix
Chief Executive Officer

George Fontes
Board Chair

Vern Zander
Chief Financial Officer

AUDIT COMMITTEE REPORT

The Audit Committee ("Committee") is composed of seven members of the Board of Directors. In 2018, five Committee meetings were held. The Committee oversees the scope of the Association's internal audit program, the independence of the outside 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 Committee approved the appointment of PricewaterhouseCoopers LLP (PwC) as the Association's independent auditors for 2018. The Committee's responsibilities are described more fully in the Association's Internal Control Policy and the Audit Committee Charter.

The fees paid for professional services rendered for the Association by its independent auditors, PwC, during 2018 were $328,587 for audit services and $22,700 for tax services.

Management is responsible for the Association's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the Association's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and Audited Financial Statements for the year ended December 31, 2018 (the "Audited Financial Statements"), with management. The Committee also reviews with PwC the matters required to be discussed by the Statements on Auditing Standards. Both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

The Committee discussed with PwC its independence from the Association. The Committee also reviewed the non-audit services provided by PwC and concluded these services to be compatible with maintaining the independent auditors' independence. The Committee has discussed with management and PwC such other matters and received such assurances from them as the Committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Audited Financial Statements in the Association's 2018 Annual Report and for filing with the FCA.

MARCH 1, 2019

Thomas G. Stegman
Audit Committee Chair

2018 AUDIT COMMITTEE MEMBERS

Derek Davis
Linda Ingo
Larry Kepley
Brian Maloney
Larry Solari
Thomas G. Stegman
Thomas Teixeira

REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's consolidated financial statements.

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2018. In making the assessment, management used the framework in Internal Control – Integrated Framework (2013), 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, 2018, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2018.

MARCH 1, 2019

Byron E. Enix
Chief Executive Officer

Vern Zander
Chief Financial Officer

FIVE-YEAR SUMMARY
OF SELECTED FINANCIAL DATA

December 31, (In thousands)	**2018**	**2017**	**2016**	**2015**	**2014**
CONSOLIDATED STATEMENTS OF CONDITION DATA					
Loans	$10,214,774	$9,306,922	$8,008,875	$7,291,557	$6,358,767
Less: allowance for loan losses	(21,359)	(19,588)	(19,241)	(8,754)	(11,021)
Net loans	**10,193,415**	**9,287,334**	**7,989,634**	**7,282,803**	**6,347,746**
Investment in and receivable from CoBank	384,306	354,876	298,189	286,497	281,905
Accrued interest receivable	98,197	80,155	61,707	51,212	45,272
Other property owned	–	–	–	2,521	2,832
Other assets	238,077	242,389	199,451	175,162	110,343
Total assets	**$10,913,995**	**$9,964,754**	**$8,548,981**	**$7,798,195**	**$6,788,098**
Obligations with maturities of one year or less	$5,316,657	$3,933,852	$6,775,336	$6,013,933	$5,081,538
Obligations with maturities greater than one year	3,481,418	3,999,899	–	–	–
Total liabilities	**8,798,075**	**7,933,751**	**6,775,336**	**6,013,933**	**5,081,538**
Preferred stock	125,766	126,910	128,620	196,515	172,533
Common capital stock and participation certificates	8,791	8,714	7,805	7,680	7,396
Unallocated retained surplus	1,336,892	1,254,530	1,154,462	1,099,399	1,042,921
Additional paid in capital	656,723	656,723	490,564	490,564	490,564
Accumulated other comprehensive loss	(12,252)	(15,874)	(7,806)	(9,896)	(6,854)
Total members' equity	**2,115,920**	**2,031,003**	**1,773,645**	**1,784,262**	**1,706,560**
Total liabilities and members' equity	**$10,913,995**	**$9,964,754**	**$8,548,981**	**$7,798,195**	**$6,788,098**

Year Ended December 31, (In thousands)	**2018**	**2017**	**2016**	**2015**	**2014**
CONSOLIDATED STATEMENTS OF INCOME DATA					
Net interest income	$267,660	$255,083	$212,452	$185,618	$175,119
(Provision for)/Reversal of credit losses	(2,477)	(2,634)	(12,812)	(1,382)	1,465
Patronage distribution from Farm Credit institutions	47,483	37,126	34,044	28,670	26,075
Non-interest expense, net	(143,283)	(130,429)	(129,148)	(113,151)	(103,774)
(Provision for)/Benefit from income taxes	(15)	(4)	(7)	(16)	56
Net income	**$169,368**	**$159,142**	**$104,529**	**$99,739**	**$98,941**

CONSOLIDATED KEY FINANCIAL RATIOS

Year Ended December 31,	2018	2017	2016	2015	2014
Return on average assets	1.68%	1.70%	1.31%	1.41%	1.53%
Return on average members' equity	7.86%	7.78%	5.67%	5.55%	5.85%
Net interest income as a percentage of average earning assets	2.83%	2.90%	2.84%	2.81%	2.89%
Net charge-offs /(Recoveries) as a percentage of average loans	0.00%	0.03%	0.04%	0.00%	(0.03)%
As of December 31,					
Members' common equity as a percentage of total assets	18.23%	19.11%	19.24%	20.36%	22.60%
Members' total equity as a percentage of total assets	19.39%	20.38%	20.75%	22.88%	25.14%
Debt as a ratio to members' equity	4.16:1	3.91:1	3.82:1	3.37:1	2.98:1
Allowance for credit losses as a percentage of loans	0.24%	0.24%	0.28%	0.17%	0.17%
Common Equity Tier 1 (CET1) capital	14.75%	15.37%	n/a	n/a	n/a
Tier 1 capital	14.75%	15.37%	n/a	n/a	n/a
Total capital	14.94%	15.57%	n/a	n/a	n/a
Tier 1 leverage	16.86%	17.61%	n/a	n/a	n/a
Unallocated retained earnings and URE equivalents (UREE) leverage	17.24%	19.08%	n/a	n/a	n/a
Permanent capital ratio	15.99%	16.65%	17.94%	19.70%	21.12%
Other Information					
Cash patronage distributions declared (in thousands)	$86,216	$59,808	$50,194	$43,485	$39,013
Loans serviced for others (in millions)	$4,162	$4,783	$4,200	$4,036	$3,912

The New Capital Regulations took effect on January 1, 2017.

MANAGEMENT'S DISCUSSION & ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion summarizes the financial position and results of operations of American AgCredit, ACA and its subsidiaries American AgCredit, FLCA and American AgCredit, PCA (collectively "the Association") as of December 31, 2018, with comparisons to prior years. The discussion includes significant known trends, commitments, events, or uncertainties that have impacted or are reasonably likely to impact our financial condition and results of operations. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of our Board of Directors. This commentary should be read with the accompanying consolidated financial statements and the related notes appearing in this report.

Our annual and quarterly reports to shareholders are available on our website, www.AgLoan.com, or can be obtained free of charge by calling our corporate headquarters at (707) 545-1200. Annual reports are mailed to all stockholders within 90 days after year-end and are available on our website within 75 days after year-end; quarterly reports are available on our website within 40 days after each calendar quarter-end.

FORWARD-LOOKING INFORMATION

Certain information included in this discussion constitutes forward-looking statements and information that is based on management's belief, as well as certain assumptions made by and with information currently available to management. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. When used in this discussion, words such as "anticipates," "projects," "expects," "believes," "estimates," "could," "should," and similar expressions are intended to identify forward-looking statements. Although management believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations and projections will prove to be correct. Such forward-looking statements are subject to certain risks, uncertainties, and assumptions. Should one or more of these risks materialize, or should such underlying assumptions prove to be incorrect, actual results may vary materially from those anticipated, projected, or expected. Among key factors that may have a direct bearing on operating results are fluctuations in the economy; the relative strengths and weaknesses in the agricultural credit sectors and in the real estate market; regional weather conditions and trends; the actions taken by the Federal Reserve for the purpose of managing the economy; the continued growth of the agricultural market consistent with recent historical experience; the continued influx of government payments to borrowers; and Farm Credit Administration (FCA) mandates and rulings.

BUSINESS OVERVIEW

Farm Credit System Structure and Mission

American AgCredit is one of 69 associations in the Farm Credit System ("the System"), which was created by Congress in 1916 and has served rural communities and agricultural producers for over 100 years. The System's mission is to maintain and improve the income and well-being of American farmers, ranchers, producers or harvesters of aquatic products, and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The FCA is the System's independent safety and soundness federal regulator and was established to supervise, examine, and regulate System institutions.

Our Structure and Focus

As a cooperative, American AgCredit is owned by the members we serve. Our territory extends across a diverse agricultural region that includes parts of California, Kansas, Oklahoma, Colorado, and New Mexico, as well as the state of Nevada. The Association makes short- and intermediate-term loans for agricultural production or operating purposes and long-term real estate mortgage loans. To meet the diverse needs of its borrowers, the Association is structured along geographical and business industry lines that allow for specialized transactions that are unique to various types of customers. The Association's success is highly dependent upon the customer experience it can provide to its borrowers. Business priorities are to serve the needs of all eligible customers, increase loan volume, improve operating efficiencies, build capital, increase profitability, and invest in the people and technological resources that will ensure future success.

As part of the System, the Association obtains funding from CoBank, ACB (CoBank). CoBank is a cooperative of which the Association is a member. CoBank and its affiliated associations and AgVantis, Inc. (AgVantis) are collectively referred to as "the District."

The Association, along with our borrowers' investment in our Association, are materially affected by CoBank's financial condition and results of operations. The CoBank quarterly and annual reports are available free of charge by accessing CoBank's website, www.CoBank.com, or may be obtained at no charge by calling (800) 542-8072 or mailing CoBank at 6340 S. Fiddlers Green Circle, Greenwood Village, CO 80111. Annual reports are available within 75 days after year-end and quarterly reports are available within 40 days after the calendar quarter-end.

ECONOMIC OVERVIEW

Given the Association's significant commodity and geographical diversity, economic conditions in our territory during 2018 generally followed those of the national economy. Inflation remained relatively low but showed signs of upward movement while unemployment continued to decline. Land values continued to face negative pressures in our Midwest regions while remaining relatively stable in the West. Dairy and field crops continued to be challenged with low prices and excess supply while the wine, forest products, and beef segments showed improvement during the year. The Northern California wildfires created small pockets of economic disruption but did not have a material impact on our customer base or the Association. The 2018–2019 water year is off to a good start in much of our territory; the Association will continue to closely monitor water conditions as the possibility of a drought in some parts of our territory continues to be a cause for concern.

U.S. agriculture faces a challenging environment with large global supplies, near-record global demand, and significant competition from other suppliers. World inventories of major crops remain above historical averages, limiting the potential upside price movements. At the same time, global trade flows for most agricultural products are at record or near-record levels amid intense global competition. The competitive position of U.S. exporters has been impacted by the value of the U.S. dollar and uncertainties regarding ongoing trade negotiations and potential trade disputes. The U.S. dollar trended higher in 2018, which has made U.S. goods more expensive to foreign buyers.

The potential for ongoing and escalating trade disputes is a major concern in the near term. The U.S. imposition of tariffs, and the retaliatory actions by trading partners such as China, raise concerns for both short- and long-term supply chain structures. The United States-Mexico-Canada Agreement (USMCA), which will replace NAFTA, was signed by all countries in November 2018. Legislative approval by all three countries may not be completed until mid-2019. The U.S. steel and aluminum tariffs on major trading partners and their retaliatory actions remain in place and are limiting traditional trade flows. The reopening of trade discussions with Europe and Japan have been positive actions, but any escalation in the trade dispute with China would impact growth expectations.

The Agricultural Improvement Act of 2018 ("Farm Bill") was signed into law on December 20, 2018. This new Farm Bill will govern an array of federal farm and food programs, including commodity price and support payments, farm credit, conservation programs, research, rural development, and foreign and domestic food programs for five years through 2023. The new Farm Bill continues to provide support for crop insurance programs and commodity support programs, strengthen livestock disaster programs, and provide dairy producers with an updated voluntary margin protection program that will provide more flexibility to dairy operations. The Farm Bill also authorizes the production and marketing of industrial hemp in accordance with state or federal regulations.

Many provisions of the Farm Bill will require the United States Department of Agriculture to develop rules and procedures to fully implement these authorities. The timing for the issuance of those rules is uncertain and was impacted by the shutdown of portions of the Federal government.

COMMODITY REVIEW AND OUTLOOK

The following highlights the general health of agricultural commodities with the greatest concentrations in the Association's loan portfolio. Major commodities financed by the Association are shown in the table in Note 3 to the consolidated financial statements.

Vineyards and Wineries

The outlook for vineyards and wineries remains relatively stable. Year-to-date sales of domestic wine were 3% higher from the previous year, while direct-to-consumer sales were 12% higher than the previous year. Despite strong sales during 2018, winery managers continue to express some concern over inventory levels that have built up over several years of strong grape production. Managers have also expressed concern that ongoing labor shortages have slightly increased their cost of production and storage. The outlook for wine grape growers is also stable, but somewhat depends on grower location. Growers in Northern California not affected by fire or smoke taint from recent wildfires reported strong yields and contract prices. Demand for grapes exceeding the contracted amount was slightly lower than previous years, but most growers were able to find a buyer for their grapes. Wine grape growers in the Central Valley also had a strong harvest, but noted a softening in the demand for wine grapes. The bulk of the Association's vineyard portfolio continues to be in the super- and ultra-premium segments in the wine market, which have exhibited less volatility than lower price tiers.

Dairies

Demand for dairy products has been strong; however, amplified production has kept stocks large. Large stocks will continue to act as a suppressant to increase in prices. The trade situation still remains unresolved for the dairy producers. The announcement of the NAFTA replacement (USMCA) did eliminate Canada's Class 7 milk, which is expected to return some exports to the United States; however, much of this benefit will go to Northeastern dairy supply chains. Mexico's tariff on U.S. cheese and China's tariffs on all U.S. dairy products remain key roadblocks to the expansion of the export market. Feed costs remain low, though somewhat higher than the previous reporting period. Overall, national feed costs were up 8% from a year ago. Labor costs continue to increase for most producers, adding to input costs.

Beef

The U.S. beef sector is heading into 2019 on strong fundamentals. Fed cattle prices were resilient in 2018 and retail demand for beef products has been some of the best in years. However, calf and cow prices softened towards the end of the year. While input costs increased during the year, the margins for most ranchers are expected to remain positive. Cow prices have decreased from the previous year. The decrease is a result of large supply dampening the market for ground beef. Similarly, the prices for heavier calves also decreased during the year; the decrease in prices was mostly attributed to increased cattle on feed numbers, up about 3% from the previous year, which has backed up prices for most weight classes. Finished cattle prices ended the year on a very positive note as the prices increased slightly on average compared to the prior year.

Vegetables and Field Crops

The vegetable industry is subject to commodity price fluctuation on a daily basis dependent upon current supply and consumer demand. Labor continues to be one of the biggest struggles for the industry. However, the industry continues to mechanize processes, reducing some of the need for labor. Despite good rainfall in 2018, water availability continues to be a long-term concern.

Field crops consist primarily of wheat, corn, soybeans, alfalfa, sorghum, and other grains. Prices continue to be negatively impacted by the growth in domestic and world stocks. The majority of grain producers are on their fourth consecutive year of operating within a challenging environment. Abundant supplies of corn, wheat, and soybeans are weighing on the prices amidst trade disputes. The U.S. soybean market continues to be profoundly affected by the loss of the China market and ongoing trade wars.

Forest Products

Housing starts will likely reach 1.33 million units in 2018, an increase of about 10% from the previous year. These positive gains will continue to be constrained by the lack of buildable lots and tight labor conditions, which will likely push home prices and rents higher over time.

U.S. domestic consumption of softwood lumber increased roughly 6% in 2018. Expansion is supported by growth in all end-use markets (including residential construction, residential repair and remodeling, non-residential construction, and manufacturing).

Log prices have leveled off on the West Coast. Prices have stabilized during 2018 and will likely start to decline in 2019. Given the waning influence of log exports on coastal log markets, prices for hemlock logs are expected to be much more subdued during 2019. The lower harvest levels and greater productivity of the South's managed pine resource has resulted in a rapidly expanding merchantable sawtimber inventory, which will put further pressure on log prices. Looking forward, no substantial price increase is expected in the near term.

Tree Fruits and Nuts

The classification "Tree Fruits and Nuts" largely consists of almond orchards in California's Central Valley. California produced 2.45 billion pounds of almonds for the 2017–2018 crop year on 1.1 million bearing acres. It is uncertain how the current trade war with China will impact demand and prices for U.S. almonds. Prices have softened 5% to 10% since the Chinese tariffs were first announced. Based on the current projections, the almond operations should remain profitable for 2019, but if trade tariffs continue to impact prices, the current outlook could change. China is not a direct major importer of California almonds, therefore tariffs of 40% have not yet had a huge impact on prices. Factors such as the strength of the U.S. dollar and the 2018 production will impact the pricing dynamics for 2019.

FINANCIAL CONDITION

Loan Portfolio

The Association's loan portfolio consists of accrual loans, nonaccrual loans on which the accrual of interest has been suspended, and other loans such as sales contracts arising from the sale of property acquired through foreclosure. Loans were $10.2 billion as of December 31, 2018, compared to $9.3 billion and $8.0 billion for 2017 and 2016, respectively. The 2018 increase of $907.9 million resulted in a 9.8% year-over-year growth rate and was due to strong organic growth. The following table illustrates the major loan volume categories from December 31, 2016, to December 31, 2018.

December 31, (In millions)	2018	Percent of Total	2017	Percent of Total	2016	Percent of Total
Real estate mortgage	$5,833.5	57.1%	$5,281.0	56.7%	$4,498.1	56.2%
Production and intermediate-term	2,227.9	21.8%	2,001.1	21.5%	1,503.0	18.8%
Agribusiness	1,823.9	17.9%	1,718.3	18.5%	1,740.6	21.7%
Rural infrastructure	288.6	2.8%	279.4	3.0%	243.7	3.0%
Agricultural export finance	38.1	0.4%	23.1	0.2%	18.9	0.2%
Rural residential real estate	2.8	0.0%	4.0	0.1%	4.6	0.1%
Total loans	**$10,214.8**	**100%**	**$9,306.9**	**100.0%**	**$8,008.9**	**100.0%**

Factors affecting the changes in loan volume categories are discussed below.

Real Estate Mortgage Loans: Real estate mortgage loan volume was $5.8 billion at December 31, 2018, compared to $5.3 billion and $4.5 billion at year-end 2017 and 2016, respectively. The 2018 increase of $552.5 million resulted in a 10.5% year-over-year growth rate. The increase was due to strong organic growth in loan volume. This portfolio increased by $782.9 million in 2017, which included $434.8 million of loan volume acquired in the Southwest Kansas merger.

Production and Intermediate-Term Loans: Production and intermediate-term loan volume increased to $2.2 billion in 2018, compared to $2.0 billion and $1.5 billion at year-end 2017 and 2016, respectively. The $226.8 million increase resulted in an 11.3% annual growth rate due to strong organic growth in loan volume. The portfolio grew by $498.1 million in 2017, which consisted of $328.2 million in organic loan growth in addition to approximately $169.9 million in loan volume acquired in the Southwest Kansas merger.

Agribusiness Loans: Agribusiness loans are primarily made to finance the throughput of agricultural goods to the marketplace. Such loans consist of long-term mortgages on processing facilities and equipment as well as short- and intermediate-term operating lines of credit. The agribusiness portfolio totaled $1.8 billion at year-end 2018, compared to $1.7 billion for 2017 and $1.7 billion for 2016. This loan portfolio increased by $105.6 million, or 6.2%, during 2018, compared to a $22.3 million decrease in 2017.

Other Loans: This loan portfolio consists of rural infrastructure, agricultural export finance, and loans made for sales contracts and for homes located in rural areas. This portion of the portfolio accounted for less than 4.0% of the total loan portfolio in each of the years reported.

Small loans (less than $250 thousand) accounted for 64.9% of the total number of loans but only 8.0% of loan volume at December 31, 2018. Credit risk on small loans, in many instances, is also reduced by non-farm income sources. Loans greater than $5.0 million account for 2.0% of the total number of loans but 35.7% of the total loan volume.

Geographic Concentrations

The Association's territory covers 38 California counties from the Oregon border to the Mexican border, the entire state of Nevada, and parts of central and southwestern Kansas, northern Oklahoma, western Colorado, and northwestern New Mexico. The geographical distribution of loan volume as of December 31, 2018, 2017, and 2016, is shown in the following table. The Association originates and services loans in areas outside of its chartered territory with the concurrence of the Farm Credit associations where those loans are physically located.

December 31,	2018		2017		2016	
(In millions)	Loan Volume	Percent of Total	Loan Volume	Percent of Total	Loan Volume	Percent of Total
California	$5,307.8	52.0%	$4,735.6	50.9%	$4,342.5	54.2%
Kansas	1,401.5	13.7%	1,307.4	14.1%	684.0	8.5%
Colorado	950.6	9.3%	889.3	9.6%	878.0	11.0%
Washington	350.5	3.4%	320.8	3.4%	312.2	3.9%
Oregon	193.8	1.9%	249.8	2.7%	174.5	2.2%
Nevada	183.5	1.8%	170.8	1.8%	148.9	1.9%
Other	1,827.1	17.9%	1,633.2	17.5%	1,468.8	18.3%
Total	**$10,214.8**	**100%**	**$9,306.9**	**100%**	**$8,008.9**	**100.0%**

We are party to a Territorial Approval Agreement ("Agreement") with other associations in the states of Oklahoma, Colorado, Kansas, and New Mexico. The Agreement eliminates territorial restrictions and allows associations that are a party to the Agreement to make loans in any other association's territory regardless of a borrower's place of residence, location of operations, location of loan security, or location of headquarters. This Agreement can be terminated upon the earlier to occur of the following:

1) The time when all but one association has withdrawn as a party to the Agreement; or

2) December 31, 2025; or

3) When requested by FCA.

The Association routinely sells portions of large loans to other financial institutions to manage portfolio risk. These institutions are geographically dispersed and come from within the Farm Credit System, the commercial banking industry, and life insurance companies. In addition, the Association has entered into participation agreements with these institutions in which the Association services the entire loan but owns only a small portion. Participating in or selling loans allows the Association to manage its lending limits and its internal capital requirements, as well as to diversify risk. Neither the principal nor any unused commitments related to the participated or sold portion of these loans are included on the Association's Consolidated Statements of Condition. Participation and other multi-lender activity at December 31 is summarized below.

(In millions)	2018	2017	2016
Loans sold to others	$3,393.4	$3,537.4	$2,851.0
Retained interest in sold loans	$1,292.4	$1,329.1	$1,012.4
Loans purchased from others	$2,000.8	$1,756.9	$1,023.6
Syndications serviced for others	$769.0	$1,246.0	$1,348.6

To further manage portfolio credit risk, the Association participates in a Federal Agricultural Mortgage Corporation (Farmer Mac) guarantee program. Under this program, the Association pays a guarantee fee to Farmer Mac to assume the balance of pre-designated loans if they become delinquent. Management considers these fees to be intrinsic credit enhancement costs that affect the yield on the pool of guaranteed loans. The Association paid $182 thousand, $49 thousand, and $68 thousand in guarantee fees during 2018, 2017, and 2016, respectively. These fees are included in interest expense in the Consolidated Statements of Comprehensive Income. Farmer Mac guaranteed loans at December 31, 2018, 2017, and 2016, were $61.9 million, $8.6 million, and $10.7 million, respectively.

High-Risk Assets

FCA regulations specify three high-risk loan performance categories – nonaccrual, restructured, and loans 90 days past due still accruing interest. These are referred to as impaired loans. Loans outstanding, including accrued interest, for each loan performance category as of December 31 follows.

(In thousands)	2018	2017	2016
Nonaccrual	$38,544	$29,849	$27,409
Accruing Restructured	10,903	11,421	8,626
Accrual > 90 days past due	348	–	1,300
Total impaired loans	49,795	41,270	37,335
Other property owned	–	–	–
Total high-risk assets	**$49,795**	**$41,270**	**$37,335**
Nonaccrual loans/total loans	0.38%	0.32%	0.34%
Nonaccrual loans current as to principal and interest	$24,639	$15,823	$10,206

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of principal and/or interest. Nonaccrual loan volume increased by $8.7 million in 2018, from $29.8 million at December 31, 2017, to $38.5 million at December 31, 2018. While the Association does not accrue interest on loans classified as nonaccrual, 63.9% of the nonaccrual loan volume at December 31, 2018, was current as to principal and interest compared to 53.0% at December 31, 2017, and 37.2% at year-end 2016. Nonaccrual loan volume measured as a percentage of total loans increased in 2018 to 0.38%, compared to 0.32% as of year-end 2017 and 0.34% as of year-end 2016.

High-risk asset volume could increase in the future as the Association is currently experiencing near-record-high credit quality. Given the cyclical nature of agriculture, management anticipates that factors such as product oversupply, declining commodity prices, water issues, regulatory demands, increasing interest rates, and public demand for commodities may adversely impact high-risk volume over time. While the U.S. economy is expected to continue to grow, the global economy and supply and demand dynamics are negatively impacting a number of U.S. agricultural segments. In addition, potential drought conditions throughout our territory could have a negative impact on our borrowers and the credit quality of our loan portfolio. The Association maintains a Risk Management Department to proactively monitor and address portfolio risk.

Allowance for Credit Losses

The allowance for credit losses is composed of the allowance for loan losses (ALL) and the reserve for unfunded lending commitments. The allowance for credit losses is our best estimate of the amount of probable losses inherent in our loan portfolio as of the balance sheet date. The allowance for credit losses is determined based on a periodic evaluation of the loan portfolio and unfunded lending commitments, which generally considers types of loans, credit quality, specific industry conditions, general economic conditions, weather-related conditions, and changes in the character, composition, and performance of the portfolio, among other factors. The allowance for credit losses is calculated based on a historical loss model that takes into consideration various risk characteristics of our loan portfolio. We evaluate the reasonableness of this model and determine whether adjustments to the allowance are appropriate to reflect the risk inherent in the portfolio.

We maintain a reserve for unfunded lending commitments that reflects our best estimate of losses inherent in lending commitments made to customers but not yet disbursed. Factors such as the likelihood of disbursements and the likelihood of losses given disbursement are utilized in determining the reserve. This reserve is reported with Other Liabilities on the Consolidated Statements of Condition and totaled $2.9 million, $2.4 million, and $2.9 million at December 31, 2018, 2017, and 2016, respectively.

The ALL increased $1.8 million to $21.4 million in 2018, from $19.6 million in 2017. The increase was primarily due to $2.0 million of provision for loan loss partially offset by $209 thousand of net charge-offs. The additional provision was due to incremental loan growth and some credit quality deterioration. Overall, charge-off activity remains low relative to the size of our loan portfolio. Comparative ALL coverage as a percentage of loans and certain other credit quality indicators as of December 31 is shown in the following table.

	2018	2017	2016
Allowance for loan losses as a percentage of:			
Loans	0.21%	0.21%	0.24%
Impaired loans	42.89%	47.46%	51.54%

Further discussion of the allowance can be found in Note 3 to the consolidated financial statements.

Other Assets

Other assets were $109.8 million at December 31, 2018, an increase of $5.5 million when compared to year-end 2017. The other assets consisted of $44.8 million of patronage receivable from CoBank, $43.8 million of pension assets, $12.0 million of investments in other Farm Credit institutions, and $9.2 million of other receivables and assets. The change was primarily due to an increase in pension assets of $10.3 million, a $2.2 million increase in patronage receivables, and a $1.1 million increase in investments. These increases were partially offset by an $8.1 million decrease in other accounts receivable. Other assets were $104.6 million at December 31, 2017, an increase of $13.7 million compared to year-end 2016.

Other Liabilities

Other liabilities were $109.2 million at December 31, 2018, an increase of $313 thousand when compared to year-end 2017. The other liabilities consisted of $46.1 million of pension liability, $31.0 million of short- and long-term incentive compensation payable, $11.1 million of other accounts payable, $6.6 million of Farm Credit System Insurance Corporation (FCSIC) payable, and $14.3 million of other liabilities. The year-over-year change was primarily due to a $6.1 million increase in incentive compensation, a $1.9 million increase in other accounts payable, and a $1.6 million increase in pension liability. These increases were partially offset by a $5.8 million decrease in participations payable and a $3.5 million decrease in FCSIC premium payable. Other liabilities totaled $108.9 million at December 31, 2017, an increase of $22.9 million when compared to year-end 2016.

RESULTS OF OPERATIONS

Earnings

The Association produced after-tax net income of $169.4 million in 2018, compared to $159.1 million in 2017 and $104.5 million in 2016. The $10.3 million increase in net income from 2017 was primarily due to a $12.6 million increase in net interest income as a result of strong organic loan growth and a $17.4 million increase in non-interest income attributable to an increase in patronage and a FCSIC premium refund. These increases were partially offset by a $19.9 million increase in non-interest expense largely driven by an increase in salaries and benefits and technology expense.

The Association's 2017 net income of $159.1 million was $54.6 million higher than 2016's net income of $104.5 million. The increase was driven by a $42.6 million increase in net interest income as a result of strong organic loan growth and the merger with Southwest Kansas. Other factors impacting 2017 net income consisted of a $10.2 million decrease in provision for credit losses and a $4.5 million increase in non-interest income partially offset by a $2.7 million increase in non-interest expense.

The major components of change in net income over the past two years are summarized in the following pages.

(In thousands)	2018 vs. 2017	2017 vs. 2016
Net income, prior year	$159,142	$104,529
Increase in interest income	78,077	78,762
(Increase) in interest expense	(65,499)	(36,131)
Increase in net interest income	12,578	42,631
Decrease in provision for credit losses	157	10,178
Increase in non-interest income	17,357	4,530
(Increase) in non-interest expense	(19,854)	(2,729)
(Increase) / Decrease in income tax benefit / provision	(12)	3
Increase in net income	**10,226**	**54,613**
Net income, current year	**$169,368**	**$159,142**

Net Interest Income

The table below provides an analysis of the individual components of the change in net interest income for 2018 and 2017.

(In thousands)	2018 vs. 2017	2017 vs. 2016
Net interest income, prior year	$255,083	$212,452
Increase in net interest income due to changes in:		
Net interest margin	(7,100)	4,969
Volume of average earning assets	19,927	36,801
Margin/volume combination	(250)	861
Increase in net interest income	**12,577**	**42,631**
Net interest income, current year	**$267,660**	**$255,083**

The 2018 net interest income was $267.7 million, compared to $255.1 million in 2017 and $212.5 million in 2016. The 2018 increase of $12.6 million represents a 4.9% increase over 2017 and was primarily due to strong growth in loan volume. Average earning assets grew by $663.0 million during 2018, representing an annual growth rate of 7.5%.

Net interest income in 2017 increased 20.0% from $212.5 million in 2016 to $255.1 million. The $42.6 million increase was driven by strong organic accrual loan volume growth and the Southwest Kansas merger. Average earning assets increased in 2017 by $1.3 billion, representing an annual growth rate of 17.3%.

	2018	2017	2016
Average rate on earning assets	4.93%	4.43%	4.15%
Average rate on interest-bearing liabilities	2.56%	1.86%	1.62%
Net interest margin	2.82%	2.90%	2.84%

The Association administers its variable rate loans based on its cost of funds. Although adjustments to borrower variable rates have generally followed changes in the Prime Rate, that rate has become increasingly less relevant as an indicator of credit demand. The Association's variable cost of funds is indexed to a blend of two rates – the Farm Credit Discount Note Rate and the one-month London Interbank Offered Rate (LIBOR). Management closely monitors interest rate movements and will adjust variable rates to customers to preserve adequate net interest income to sustain the growth of the Association.

The Association has a differential pricing policy for interest rates, which is based on loan size, servicing requirements, and credit risk of a loan. Management's objective is to maintain interest rates that are competitive with other lenders providing similar-type loans. The Association's competitiveness is evaluated by periodic surveys of other lending institutions in its lending territory.

Provision for Credit Losses

Management reviews the allowance for loan losses and the reserve for unfunded lending commitments on a quarterly basis and makes adjustments that reflect the changing risks in the portfolio. Generally speaking, increased loan volume and unfunded commitments will require additional allowance for credit losses. The Association's strong 2018 loan volume growth resulted in a $2.5 million provision for credit loss, compared to a $2.6 million provision for credit loss in 2017. The 2017 provision was largely driven by declining credit quality in addition to strong loan growth. The Association recorded a provision for credit loss in 2016 in the amount of $12.8 million due to deterioration of credit quality and increased loan growth.

Non-interest Income

Non-interest income consists primarily of CoBank patronage, loan origination and servicing fees, insurance income, and other gains and losses. Total non-interest income was $77.9 million in 2018, compared to $60.6 million in 2017 and $56.0 million in 2016. The $17.3 million increase in non-interest income during 2018 was primarily due to a $10.1 million increase in CoBank patronage caused by a $6.5 million special patronage distribution from CoBank during the year and higher direct note borrowings, a $5.6 million FCSIC premium refund, and a $2.0 million increase in loan origination and servicing fees.

Non-interest income increased by $4.5 million in 2017 primarily due to a $2.9 million increase in CoBank patronage, an $845 thousand increase in loan origination fees, and a $560 thousand increase in other gains and losses.

During August 2017, CoBank management announced changes to their capital plans and patronage programs for eligible customer-owners designed to address a number of marketplace challenges. The changes are intended to strengthen CoBank's long-term capacity to serve customers' borrowing needs, enhance CoBank's ability to capitalize future customer growth, and ensure equitability among different customer segments. The new target patronage levels took effect in 2018 calendar year and will be reflected in patronage distributions made in March 2019. Affiliated Associations will transition to their new target patronage levels over a multi-year period ending in 2020.

Non-interest Expenses

Non-interest expenses consist of salaries and benefits, occupancy costs, insurance fund premiums, supervisory expenses, and other operating costs. Non-interest expenses were $173.7 million in 2018, compared to $153.9 million in 2017 and $151.2 million in 2016. The $19.9 million increase in non-interest expense in 2018 was primarily driven by an $11.0 million increase in salaries and benefits and a $6.6 million increase in technology expense. The modest $2.7 million increase in 2017 was primarily driven by salaries and benefits.

Provision for Income Taxes

The Association's effective tax rate is primarily affected by the mix of taxable and tax-exempt lending activities. The provision was relatively unchanged in 2018 compared to 2017 and 2016.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss (AOCL) arises from the recognition of an unfunded pension liability. AOCL is included in the Association's equity portion of the Consolidated Statements of Condition. The liability and the associated other comprehensive loss may fluctuate from year to year depending on the pension plan's performance and underlying actuarial assumptions and obligations. The actual loss or income to be realized as pension liabilities are paid will not be determinable until the liabilities expire. See Note 11 to the consolidated financial statements for further discussion.

Liquidity and Funding

Liquidity is necessary to meet our financial obligations, such as paying our note with CoBank, funding loans and other commitments, and funding operations in a cost-effective manner. Our liquidity policy is intended to manage short-term cash flow, maximize debt reduction, and liquidate nonearning assets. Our direct loan with CoBank, cash on hand, and borrower loan repayments provide adequate liquidity to fund our ongoing operations and other commitments. The Association also has the ability to sell qualified loans to the Farmer Mac secondary market programs to generate additional liquidity as needed.

The Association's primary source of funds (excluding capital) and largest liability is its direct loan from CoBank. As further described in Note 7 to the consolidated financial statements, this direct loan is governed by a General Financing Agreement (GFA), is collateralized by a pledge of substantially all of the Association's assets, and is also subject to regulatory borrowing limits. The GFA includes financial and credit metrics that, if not maintained, can result in increases to our funding costs. The GFA also requires compliance with FCA regulations regarding liquidity. To meet this requirement, the Association is allocated a share of CoBank's liquid assets for calculation purposes. The Association is currently in compliance with the GFA and does not foresee any issues with obtaining funding or maintaining liquidity. The Association applies substantially all cash received to the direct loan and draws all cash disbursements from it. The Association's ability to incur debt from other sources is subject to statutory and regulatory restrictions.

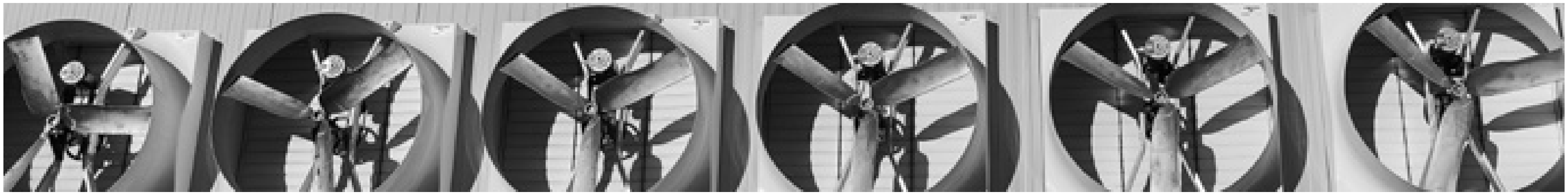
CoBank's primary source of funds is the issuance of Farm Credit System debt securities through the Federal Farm Credit Bank Funding Corporation. The continued liquidity of the Association is therefore directly dependent upon the ability of the Farm Credit System to continue to sell debt securities at competitive rates. Historically, this access has provided a dependable source of competitively priced debt that is critical for supporting our mission of providing credit to agriculture and rural America. Although financial markets continue to experience significant volatility, the Association anticipates continued access to the funding necessary to support its lending and business operations.

The Association adopted a block funding methodology to debt issuance in the third quarter of 2017. Effective August 1, 2017, all of the Association's debt is block-funded through a direct note with CoBank. The interest rate on the debt may periodically be adjusted by CoBank based on the terms and conditions of the borrowing.

The Association also obtains a measurable amount of funding from customer Funds Held accounts and Class H Preferred Stock, both of which currently pay an interest rate that is comparable to the short-term interest rate component that is paid on the direct loan with CoBank. The Funds Held accounts are uninsured and the rate is variable. Customer investments in H stock are also uninsured and the dividend rate on H stock is also variable. From a funding perspective, in combination, Funds Held and H stock provide a cost-effective alternative to borrowing on our direct loan with CoBank. Both are offered to customers of the Association as investment vehicles for excess operating funds. Restrictions apply to the purpose for which the Funds Held may be withdrawn, the maximum dollar amount a customer may maintain in Funds Held, and the maximum amount a customer may invest in H stock.

ASSET / LIABILITY MANAGEMENT

In the normal course of lending activities, the Association is subject to interest rate risk. The asset/liability management objective is monitored and managed within interest rate risk limits designed to target reasonable stability in net interest income over an intermediate planning horizon and to preserve a relatively stable market value of equity over the long term. Mismatches and exposure in interest rate re-pricing and indices of assets and liabilities can arise from product structures, customer activity, capital re-investment, and liability management. While the Association actively manages interest rate risk within the policy limits approved by the Association's Board of Directors through the strategies established by the Market Risk Committee (MRC) and Market Strategies Committee (MSC), there is no assurance that these mismatches and exposures will not adversely impact earnings and capital. The overall objective is to develop competitively priced and structured loan products for the customers' benefit and fund these products with an appropriate blend of equity and debt obligations.



December 31, 2018 (In thousands)	1 Month or Less	Over 1 Month to 6 Months	Over 6 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Total
Interest-earning assets:						
Floating rate loans	$4,833,856	$1,073,339	–	–	–	$5,907,195
Adjustable rate loans	6,762	14,913	9,969	15,368	–	47,012
Fixed rate loans, prepayable	92,147	174,296	198,203	1,619,548	948,816	3,033,010
Fixed rate loans	37,229	108,715	71,554	618,135	353,380	1,189,013
Nonaccrual loans	33,623	312	593	4,016	–	38,544
Total interest-earning assets	**$5,003,617**	**$1,371,575**	**$280,319**	**$2,257,067**	**$1,302,196**	**$10,214,774**
Interest-bearing liabilities:						
Floating rate debt	$4,057,404	$240,000	–	–	–	$4,297,404
Adjustable rate debt	20,854	1,688	9,588	14,664	–	46,794
Discount notes	246,067	1,791,233	–	–	–	2,037,300
Fixed rate debt, callable	14,964	181,531	81,769	181,807	425,650	885,721
Fixed rate debt	94,382	72,294	74,913	525,767	446,759	1,214,115
Funds Held	94,491	–	–	–	–	94,491
Fair value adjustment	3,795	–	–	–	–	3,795
Total interest-bearing liabilities	**$4,531,957**	**$2,286,746**	**$166,270**	**$722,238**	**$872,409**	**$8,579,620**
Interest rate sensitivity gap	**$471,660**	**$(915,171)**	**$114,049**	**$1,534,829**	**$429,787**	**$1,635,154**
Cumulative gap	**$471,660**	**$(443,511)**	**$(329,462)**	**$1,205,367**	**$1,635,154**	
Cumulative gap/total interest-earning assets	4.62%	(4.34)%	(3.23)%	11.80%	16.01%	

The interest rate gap analysis shown in the previous table presents a comparison of interest-earning assets and interest-bearing liabilities in defined time segments at December 31, 2018. The interest rate gap analysis is a static indicator for how the Association is positioned by comparing the amount of assets and liabilities that re-price at various time periods in the future. The value of this analysis can be limited given other factors, such as the differences between interest rate indices on loans and the underlying funding, the relative changes in the levels of interest rates over time, and optionality included in loans and the respective funding that can impact future earnings and market value.

The Association's re-pricing gap as of December 31, 2018, can be characterized as slightly liability sensitive over a one year period. A liability-sensitive position would indicate that the Association has more interest-rate-sensitive liabilities than interest-rate-sensitive assets for particular time periods into the future. It is also an indication that the Association's equity is being deployed to fund longer-term assets. Given some of the inherent weaknesses with interest rate gap analysis, simulation models are used to develop additional interest-rate-sensitivity measures and estimates. The assumptions used to produce anticipated results are periodically reviewed and models are tested to help ensure reasonable performance. Various simulations are produced for net interest income and the market value of equity. These simulations help to assess interest rate risk and make adjustments as needed to the products and related funding strategies.

The Association's Asset/Liability Management Board policy establishes limits for changes in net interest income and market value of equity sensitivities. These limits are measured and reviewed by MRC monthly and reported to the Board at least quarterly. The Board policy limit for net interest income is a negative 10% change, and the market value of equity policy limit is a negative 15% change given parallel and instantaneous shocks of interest rates up and down 200 basis points. In instances when the rate on the three-month U.S. Treasury bill is less than 4%, FCA guidelines provide the Regulatory Down Policy shock measure should be used in lieu of the down 200 basis point measure, with that measure equal to one-half of the three-month U.S. Treasury bill rate. This was the case as of December 31, 2018, with the Regulatory Down Policy shock measure being at 1.18%. The GFA also uses these simulation results to assess the interest rate risk position and whether corrective action is necessary. The following table shows the percentage impacts to net interest income and market value of equity using parallel and instantaneous interest rate increases of 100 basis points and 200 basis points. Due to the current low short-term interest rate environment, the Regulatory Down Policy interest rate shock measure was used. As of December 31, 2018, all interest rate risk-related measures were within the Board policy limits, GFA requirements, and management guidelines.

December 31, 2018	Regulatory Down Policy Shock	+ 1% Shock	+ 2% Shock
Change in net interest income	2.17%	0.61%	0.88%
Change in market value of equity	4.03%	(2.78)%	(5.37)%

CREDIT RISK MANAGEMENT

The Association utilizes a portfolio risk management process to evaluate and monitor the risk associated with major commodity groups, credit classifications, unsecured loans, and purchased loans. This process employs the use of shock analysis to determine the impact of significant credit deterioration in any one group on the portfolio as a whole. Credit classification trends are identified and monitored as an early warning sign of potential non-performing assets. The Association employs management personnel to perform the risk management process that the Board of Directors oversees. In addition, the Association conducts internal credit reviews to evaluate the effectiveness of the process.

Credit risk arises from the potential failure of a borrower to meet repayment obligations that result in a financial loss to the lender. Credit risk exists in our loan portfolio (including letters of credit and unfunded loan commitments), and is actively managed on an individual and portfolio basis through application of sound lending and underwriting standards, policies, and procedures. Underwriting standards are developed and utilized to determine an applicant's operational, financial, and management resources available for repaying debt within the terms of the note or loan agreement. Underwriting standards include, among other things, an evaluation of the following:

- **Character:** borrower integrity and credit history;
- **Capacity:** repayment capacity of the borrower based on cash flows from operations or other sources of income;
- **Collateral:** protects the lender in the event of default and also serves as a secondary source of loan repayment;
- **Capital:** ability of the operation to survive unanticipated risks; and
- **Conditions:** intended use of the loan funds, terms, restrictions, etc.

Processes for information gathering, balance sheet and income statement verification, loan analysis, credit approvals, disbursements of proceeds, and subsequent loan servicing actions are established and followed. Underwriting standards vary by industry and are updated periodically to reflect market and industry conditions.

By regulation, the Association cannot have loan commitments to one borrower for more than 15% of regulatory capital. Additionally, the Association has set lending limits to manage loan concentration. Lending limits are established for individual loan size, commodity, special lending programs, and geographic concentrations. The Association has established internal lending delegations to properly control the loan approval process. Delegations to staff are based on the Association's risk-bearing ability, loan size, complexity, type, and risk, as well as the expertise of the credit staff member. Larger and more complex loans are typically approved by a loan committee with the most experienced and knowledgeable credit staff serving as members.

One method for managing concentration is through the use of participation programs with other System and non-System institutions. Buying and selling loan volume, within and outside the System, can help reduce concentrations and manage growth and capital positions while allowing for a sharing of credit expertise. Concentrations and credit risk are also managed through the utilization of government guarantee programs and Farmer Mac guarantee programs. The Association has further diversified concentrations in agricultural production by developing rural residence, part-time farmer, and agribusiness portfolios. Rural residents and part-time farmers often derive a significant portion of earnings from nonagricultural sources, thus helping diversify repayment risk to sources other than agricultural production income.

The majority of Association lending is first-mortgage real estate lending. Production and intermediate-term lending accounts for most of the remaining volume and is typically secured. Collateral evaluations are made within FCA and Uniform Standards of Professional Appraisal Practices requirements. All property is appraised at market value. Certain appraisals must be performed by individuals with a state certification or license.

The Association utilizes a Combined System Risk Model ("Model") in its loan and portfolio management processes. The Model is a two-dimensional risk rating system that estimates each loan's probability of default and loss given default. The Model uses objective and subjective criteria to identify inherent strengths, weaknesses, and risks in each loan. The Model estimates loan losses with levels of risk granularity, particularly related to acceptable loans. The Model's 14-point scale provides for nine acceptable categories, one other assets especially mentioned (OAEM) category, two substandard categories, one doubtful category, and one loss category. This Model also serves as the basis for future economic capital modeling.

The following table presents selected statistics related to the credit quality of loans including accrued interest at December 31.

	2018	2017	2016
Acceptable and OAEM	98.4%	98.2%	98.5%
Substandard	1.6%	1.8%	1.5%
Total	**100.0%**	**100.0%**	**100.0%**

The Association's credit quality remained strong during 2018 as Acceptable and OAEM as a percentage of total loans was 98.4%, a slight increase from 98.2% during 2017. Credit quality was positively impacted by the continued strength in the U.S. economy but was partially offset by the global economic conditions and other challenges facing agriculture. The Association's Acceptable and OAEM credit quality declined from 98.5% in 2016 to 98.2% at year-end 2017. The agricultural sectors most impacted in 2017 were field crops and dairy. Both industries continue to face low commodity prices, which negatively impact profitability. Even with the industry pressures in 2018, the Association had no loans classified as doubtful or loss. The credit quality of the Association's loan portfolio remains strong due to our geographical and commodity diversification and our continued emphasis on sound underwriting standards. Agriculture remains a cyclical business that is heavily influenced by production, operating costs, commodity prices, and global economic conditions. Each of these can be significantly impacted by uncontrollable events. Credit quality is expected to face continued pressure in 2019 due to weak commodity prices, trade disputes, and adverse global conditions. In addition, potential droughts could negatively impact water conditions in our lending territory.

CREDIT COMMITMENTS

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount 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 contract. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2018.

(In thousands)	Less Than 1 Year	1–3 Years	4–5 Years	Over 5 Years	Total
Commitments to extend credit	$401,766	$993,485	$955,406	$607,005	$2,957,662
Standby letters of credit	40,325	5,284	13	55	45,677
Total commitments	**$442,091**	**$998,769**	**$955,419**	**$607,060**	**$3,003,339**

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their contractual amounts are not reflected on the Consolidated Statements of Condition until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and the Association applies the same credit policies to these commitments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

CAPITAL RESOURCES

Capital supports asset growth and provides protection for unexpected credit and operating losses. Capital is also needed for investments in new products and services. We believe a sound capital position is critical to our long-term financial success and our ability to serve our mission. Over the past several years, we have been able to build capital primarily through net income retained after patronage. Members' equity at December 31, 2018, totaled $2,116 million, compared with $2,031 million at December 31, 2017, and $1,774 million at December

31, 2016. The $84.9 million increase in 2018 was primarily due to net income of $169.4 million, partially offset by $86.2 million of cash patronage distributions declared to our customers. Our capital position is reflected in the following ratio comparisons.

	2018	2017	2016
Total capital (in millions)	$2,115.9	$2,031.0	$1,773.6
Debt to capital	4.16:1	3.91:1	3.82:1
Capital to net loans	20.8%	21.9%	22.2%
Capital to total assets	19.4%	20.4%	20.7%
Capital to total liabilities	24.0%	25.6%	26.2%

As a prudent business practice, the Association has established a capital adequacy plan that outlines objectives relating to maintaining a stable, secure capital base. Permanent capital, as defined by FCA regulations, is generated from two sources: retained earnings and at-risk stock. Retained earnings (including additional paid in capital) represented 94.2%, 94.1%, and 92.7% of total capital at December 31, 2018, 2017, and 2016, respectively. For a description of classes of stock and regulatory capital requirements, as well as a description of the Association's Capital Adequacy Plan, please see Note 8 to the consolidated financial statements. The Board and management consider current capital ratios to be adequate in view of anticipated loan growth, operating performance, and identified risks.

Association bylaws require each borrower to invest in the capital stock of the Association. The Association may require additional capital contributions in accordance with federal regulations. Equities purchased by members and surplus accumulated from earnings provide the capital resources used in the Association's operations.

The Board of Directors has adopted an Obligating Resolution to distribute 2019 patronage-sourced earnings to patrons of the Association, contingent upon the Association achieving certain capital criteria.

CAPITAL PLAN AND REGULATORY REQUIREMENTS

Our Board of Directors establishes a formal capital adequacy plan that addresses capital goals in relation to risks. The capital adequacy plan assesses the capital level necessary for financial viability and to provide for growth. Our plan is updated annually and approved by our Board of Directors. FCA regulations require the plan consider the following factors in determining optimal capital levels, including:

- Regulatory capital requirements;
- Asset quality;
- Needs of our customer base; and
- Other risk-oriented activities, such as funding and interest rate risks, contingent and off-balance sheet liabilities, and other conditions warranting additional capital.

In 2016, the FCA adopted final rules (the New Capital Regulations) relating to regulatory capital requirements for System banks and associations. The New Capital Regulations took effect January 1, 2017. The stated objectives of the New Capital Regulations are as follows:

- To modernize capital requirements while ensuring that System institutions continue to hold sufficient regulatory capital to fulfill the System's mission as a government-sponsored enterprise;
- To ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System;
- To make System regulatory capital requirements more transparent; and
- To meet certain requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act).

The New Capital Regulations, among other things, replaced existing Core surplus and Total surplus requirements with Common Equity Tier 1 (CET1), Tier 1, and total capital (Tier 1 plus Tier 2) risk-based capital ratio requirements. The New Capital Regulations also added a Tier 1 leverage ratio for all System institutions, which replaced the existing net collateral ratio for System banks. In addition, the New Capital Regulations established a capital conservation buffer and a leverage buffer and enhanced the sensitivity of risk weightings. The revisions to the risk-weightings included alternatives to the use of credit ratings, as required by the Dodd-Frank Act.

The New Capital Regulations set the following minimum risk-based requirements:

- A CET1 capital ratio of 4.5%;
- A Tier 1 capital ratio (CET1 capital plus additional Tier 1 capital) of 6%; and
- A total capital ratio (Tier 1 capital plus Tier 2) of 8%.

The New Capital Regulations also set a minimum Tier 1 leverage ratio (Tier 1 capital divided by total assets) of 4%, of which at least 1.5% must consist of Unallocated Retained Earnings (URE) and URE Equivalents (UREE), which are nonqualified allocated equities with certain characteristics of URE.

The New Capital Regulations established a capital cushion (capital conservation buffer) of 2.5% above the risk-based CET1, Tier 1, and total capital requirements. In addition, the New Capital Regulations established a leverage capital cushion (leverage buffer) of 1% above the Tier 1 leverage ratio requirement. If capital ratios fall below the regulatory minimum plus buffer amounts, capital distributions (equity redemptions, cash dividend payments, and cash patronage payments) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. The New Capital Regulations established a three-year phase-in of the capital conservation buffer beginning January 1, 2017. There is no phase-in of the leverage buffer. The Permanent capital ratio continues to remain in effect; however, the risk-adjusted assets are calculated differently than in the past.

As shown in the following table, at December 31, 2018, our capital and leverage ratios exceeded regulatory minimums. If these capital standards are not met, the FCA can impose restrictions, including limiting our ability to pay patronage distributions, retire equities, and pay preferred stock dividends.

	Regulatory Minimums	Capital Conservation Buffer	Total	As of December 31, 2018
Common Equity Tier 1 ratio	4.5%	2.5%	7.0%	14.75%
Tier 1 capital ratio	6.0%	2.5%	8.5%	14.75%
Total capital ratio	8.0%	2.5%	10.5%	14.94%
Permanent capital ratio	7.0%	0.0%	7.0%	15.99%
Tier 1 leverage ratio	4.0%	1.0%	5.0%	16.86%
UREE leverage ratio	1.5%	0.0%	1.5%	17.24%

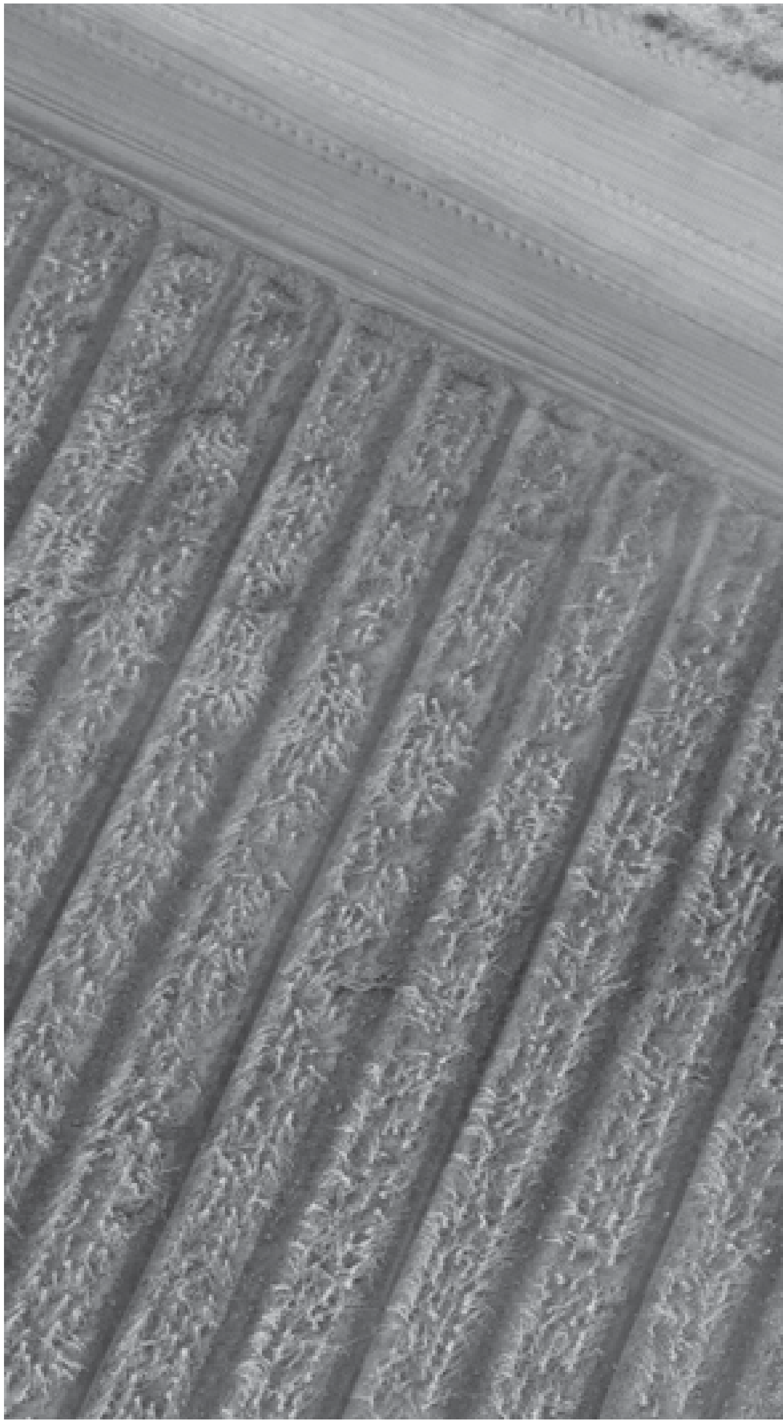
REGULATORY MATTERS

As of December 31, 2018, there were no enforcement actions in effect and FCA took no enforcement actions on the Association during the year.

MERGERS

Effective January 1, 2017, American AgCredit, ACA acquired Southwest Kansas, ACA in a stock-for-stock exchange. The combined Association is headquartered in Santa Rosa, California. The primary reason for the stock exchange/merger was to ensure long-term stability by increasing the capital base and increasing portfolio and geographical diversification, thus allowing the combined Association to withstand fluctuations in the agriculture markets. The Association also expects to realize operating efficiencies and cost savings. The effects of the stock exchange/merger are included in American AgCredit's results of operations, balance sheet, average balances, and related metrics beginning January 1, 2017.

On February 14, 2019, the boards of American AgCredit and Farm Credit Services of Hawaii approved the terms of an Agreement and Plan of Combination, which, once finalized, will allow for the sale of the net assets of Farm Credit Services of Hawaii, ACA to American AgCredit, ACA. The transaction is scheduled to occur on July 1, 2019, and will not materially impact American AgCredit's financial condition or its results of operations.



REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of American AgCredit, ACA and Subsidiaries:

We have audited the accompanying consolidated financial statements of American AgCredit, ACA and its subsidiaries (the “Association”), which comprise the consolidated statements of condition as of December 31, 2018, 2017 and 2016, and the related consolidated statements of comprehensive income, of changes in members’ equity, and of cash flows for the years then ended.

Management’s Responsibility for the Consolidated Financial Statements

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

Auditors’ Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American AgCredit, ACA and its subsidiaries as of December 31, 2018, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

MARCH 1, 2019

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CONSOLIDATED STATEMENTS
OF CONDITION

December 31, (In thousands)	**2018**	**2017**	**2016**
ASSETS			
Loans	$10,214,774	$9,306,922	$8,008,875
Less: allowance for loan losses	(21,359)	(19,588)	(19,241)
Net loans	**10,193,415**	**9,287,334**	**7,989,634**
Cash	47,482	51,202	17,184
Accrued interest receivable	98,197	80,155	61,707
Investment in CoBank	339,519	312,302	261,711
Premises and equipment, net	125,602	129,123	127,819
Mission-related investments	180	–	–
Other assets	109,600	104,638	90,926
Total assets	**$10,913,995**	**$9,964,754**	**$8,548,981**
LIABILITIES			
Notes payable to CoBank	$8,485,129	$7,658,255	$6,561,500
Funds Held accounts	94,491	86,599	67,562
Accrued interest payable	23,020	20,183	10,045
Cash patronage and preferred stock dividends payable	86,222	59,818	50,199
Other liabilities	109,213	108,896	86,030
Total liabilities	**8,798,075**	**7,933,751**	**6,775,336**
Commitments and contingencies (Note 14)			
MEMBERS' EQUITY			
Preferred stock	125,766	126,910	128,620
Common stock and participation certificates	8,791	8,714	7,805
Additional paid-in capital	656,723	656,723	490,564
Unallocated retained surplus	1,336,892	1,254,530	1,154,462
Accumulated other comprehensive loss	(12,252)	(15,874)	(7,806)
Total members' equity	**2,115,920**	**2,031,003**	**1,773,645**
Total liabilities and members' equity	**$10,913,995**	**$9,964,754**	**$8,548,981**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS
OF COMPREHENSIVE INCOME

For the Year Ended December 31, (In thousands)	2018	2017	2016
INTEREST INCOME			
Loans	$467,799	$389,722	$310,960
Total interest income	**467,799**	**389,722**	**310,960**
INTEREST EXPENSE			
Notes payable to CoBank	198,468	133,641	98,205
Funds Held and other interest	1,671	998	303
Total interest expense	**200,139**	**134,639**	**98,508**
Net interest income	**267,660**	**255,083**	**212,452**
Provision for credit losses	(2,477)	(2,634)	(12,812)
Net interest income after provision for credit losses	**265,183**	**252,449**	**199,640**
NON-INTEREST INCOME			
Loan origination fees and late charges	12,466	10,519	9,783
Servicing fees	3,542	3,461	3,352
Patronage distributions from Farm Credit institutions	47,483	37,126	34,044
Other gains, net	232	718	158
Miscellaneous	14,222	8,764	8,721
Total non-interest income	**77,945**	**60,588**	**56,058**

For the Year Ended December 31, (In thousands)	2018	2017	2016
NON-INTEREST EXPENSES			
Salaries and employee benefits	105,361	94,319	95,343
Occupancy and equipment expense	10,434	10,425	11,867
Insurance fund premiums	6,654	10,189	9,704
Supervisory and examination expense	2,948	2,992	2,462
Losses /(Gains) on other property owned, net	4	3	(21)
Merger costs	16	229	365
Other operating expenses	48,328	35,734	31,442
Total non-interest expenses	**173,745**	**153,891**	**151,162**
Income before income taxes	169,383	159,146	104,536
Provision for income taxes	(15)	(4)	(7)
Net income	**$169,368**	**$159,142**	**$104,529**
COMPREHENSIVE INCOME			
Actuarial gain/(loss) in retirement obligation	3,622	(8,068)	2,090
Total comprehensive income	**$172,990**	**$151,074**	**$106,619**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS
OF CHANGES IN MEMBERS' EQUITY

(In thousands)	Stock and Participation Certificates	Preferred Stock	Additional Paid-in Capital	Unallocated Retained Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
BALANCE AT DECEMBER 31, 2015	**$7,680**	**$196,515**	**$490,564**	**$1,099,399**	**$(9,896)**	**$1,784,262**
Comprehensive income				104,529	2,090	106,619
Common stock/participation certificates issued	980					980
Common stock/participation certificates retired	(855)					(855)
Preferred stock issued		322,046				322,046
Preferred stock retired		(390,822)				(390,822)
Preferred stock dividends paid		881				881
Preferred stock dividends accrued				(701)		(701)
Patronage distribution declared				(50,194)		(50,194)
Reversal of prior-year patronage declared but not paid				1,429		1,429
BALANCE AT DECEMBER 31, 2016	**$7,805**	**$128,620**	**$490,564**	**$1,154,462**	**$(7,806)**	**$1,773,645**
Comprehensive income				159,142	(8,068)	151,074
Common stock/participation certificates issued	1,166					1,166
Common stock/participation certificates retired	(1,219)					(1,219)
Preferred stock issued		203,758				203,758
Preferred stock retired		(206,834)				(206,834)
Equity issued or re-characterized upon merger	962		166,159			167,121
Preferred stock dividends paid		1,366				1,366
Preferred stock dividends accrued				(1,370)		(1,370)
Patronage distribution declared				(59,808)		(59,808)
Reversal of prior-year patronage declared but not paid				2,104		2,104
BALANCE AT DECEMBER 31, 2017	**$8,714**	**$126,910**	**$656,723**	**$1,254,530**	**$(15,874)**	**$2,031,003**
Comprehensive income				169,368	3,622	172,990
Common stock/participation certificates issued	1,239					1,239
Common stock/participation certificates retired	(1,162)					(1,162)
Preferred stock issued		261,760				261,760
Preferred stock retired		(265,564)				(265,564)
Preferred stock dividends paid		2,660				2,660
Preferred stock dividends accrued				(2,657)		(2,657)
Patronage distribution declared				(86,216)		(86,216)
Reversal of prior period patronage declared but not paid				1,867		1,867
BALANCE AT DECEMBER 31, 2018	**$8,791**	**$125,766**	**$656,723**	**$1,336,892**	**$(12,252)**	**$2,115,920**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS
OF CASH FLOWS

(In thousands)	For the Year Ended December 31, 2018	2017	2016
Cash flows from operating activities:			
Net income	$169,368	$159,142	$104,529
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	2,477	2,634	12,812
Depreciation	6,318	6,592	5,916
Amortization/(Accretion) of loans and notes payable acquired in merger	(1,447)	4,312	(226)
Other (gains)/losses, net	(244)	47	(40)
Loss/(Gain) on sale of other property owned, net	4	3	(21)
Loss/(Gain) on sale of other assets	12	(765)	(118)
Stock patronage from CoBank	(2,629)	(2,647)	(1,868)
Change in assets and liabilities:			
Increase in accrued interest receivable	(18,063)	(10,513)	(10,448)
(Increase)/Decrease in other assets	(3,328)	1,434	(11,168)
Increase in accrued interest payable	2,837	9,316	1,451
Increase in other liabilities	3,442	8,446	9,056
Net cash provided by operating activities	**$158,747**	**$178,001**	**$109,875**
Cash flows from investing activities:			
Increase in loans, net	$(910,267)	$(620,091)	$(736,977)
Recovery of loans charged-off	2,173	814	2,439
Acquisition of premises and equipment, net	(3,198)	(3,217)	(23,828)
Purchase of CoBank stock, net	(24,588)	(22,782)	(3,877)
Proceeds from sale of premises and equipment	645	2,322	444
Proceeds from sale of other property owned, net of expenses	(4)	(3)	2,542
Net contributions to AgDirect, LLP	(880)	(1,096)	(1,087)
Contribution to mission-related investments	(180)	–	–
Cash acquired in merger transaction	–	18,339	–
Net cash used in investing activities	**$(936,299)**	**$(625,714)**	**$(760,344)**

CONSOLIDATED STATEMENTS
OF CASH FLOWS

(In thousands)	2018	For the Year Ended December 31, 2017	2016
Cash flows from financing activities:			
Net draws on note payable to CoBank	$827,608	$532,557	$739,209
Increase in Funds Held accounts	7,892	5,042	10,656
Cash patronage distributions paid	(57,941)	(52,739)	(42,056)
Issuance of common stock and participation certificates	1,239	1,166	980
Retirement of common stock and participation certificates	(1,162)	(1,219)	(855)
Issuance of preferred stock	261,760	203,758	322,046
Retirement of preferred stock	(265,564)	(206,834)	(390,822)
Net cash provided by financing activities	**$773,832**	**$481,731**	**$639,158**
Net increase / (decrease) in cash	$(3,720)	$34,018	$(11,311)
Cash at beginning of year	51,202	17,184	28,495
Cash at end of year	**$47,482**	**$51,202**	**$17,184**
Supplemental cash flow information:			
Cash paid for interest	$198,036	$126,439	$99,680
Cash paid for income taxes	$15	$4	$7

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES (In thousands)	2018	For the Year Ended December 31, 2017	2016
Cash patronage and preferred stock dividends currently payable	$86,222	$59,818	$50,199
Loan charge-offs	$2,382	$3,686	$5,549
Cash patronage accrual adjustment to prior year	$1,867	$2,104	$1,429
Preferred stock dividends paid	$2,660	$1,366	$881
Preferred stock dividends declared	$2,656	$1,370	$701
Impact of merger transaction:			
Assets acquired	–	$720,075	–
Liabilities assumed	–	$571,293	–
Equity issued	–	$167,121	–

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (dollars in thousands, except as noted)

NOTE 1 - ORGANIZATION AND OPERATIONS

A. Organization: American AgCredit, ACA and subsidiaries, American AgCredit, PCA and American AgCredit, FLCA (collectively called "the Association"), is a member-owned cooperative that provides credit and credit-related services to and for the benefit of eligible borrowers/stockholders for qualified agricultural purposes in the state of Nevada and the following California counties: Alameda, Alpine, Amador, Calaveras, Contra Costa, Del Norte, El Dorado, Humboldt, Lake, Lassen, Marin, Mariposa, Mendocino, Merced, Modoc, Mono, Monterey, Napa, Plumas, Riverside, Sacramento, San Benito, San Bernardino, San Diego, San Francisco, San Joaquin, San Mateo, Santa Clara, Santa Cruz, Sierra, Siskiyou, Sonoma, Stanislaus, Tuolumne, and portions of Los Angeles, Fresno, and Trinity. In Kansas, the Association serves the counties of Barber, Barton, Butler, Chautauqua, Clark, Cloud, Comanche, Cowley, Edwards, Elk, Ellis, Ellsworth, Finney, Ford, Graham, Grant, Gray, Greeley, Greenwood, Hamilton, Harper, Harvey, Haskell, Jewell, Kearny, Kingman, Kiowa, Lane, Lincoln, McPherson, Meade, Mitchell, Morton, Norton, Osborne, Ottawa, Pawnee, Phillips, Pratt, Reno, Republic, Rice, Rooks, Rush, Russell, Saline, Scott, Sedgwick, Seward, Smith, Stafford, Stanton, Stevens, Sumner, Trego, and Wichita. In Oklahoma, the Association serves the counties of Kay, Noble, and Osage. In Colorado, the Association serves the counties of Adams, Arapahoe, Archuleta, Boulder, Clear Creek, Delta, Denver, Dolores, Douglas, Eagle, part of Elbert, Garfield, Gilpin, Grand, Gunnison, part of Hinsdale, Jackson, Jefferson, La Plata, Larimer, Mesa, Moffat, Montezuma, Montrose, Ouray, Pitkin, Rio Blanco, Routt, San Juan, San Miguel, part of Saquache, Summit, and Weld. The Association also serves the counties of San Juan and half of Rio Arriba that lies west of the Continental Divide in the state of New Mexico.

The Association is a lending institution of the Farm Credit System ("the System"), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended ("Farm Credit Act"). At December 31, 2018, the System was composed of three Farm Credit Banks (FCBs), one Agricultural Credit Bank (ACB), and 69 associations. Each FCB and the ACB serve Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans, and/or Agricultural Credit Associations (ACAs) that may originate and service long-term, short-term, and intermediate-term loans. Production Credit Associations (PCAs), FLCAs, and ACAs are collectively referred to as associations.

CoBank, its related associations, and AgVantis, Inc. (AgVantis) are collectively referred to as "the District." CoBank provides the funding to associations within the District and is responsible for supervising certain activities of the District associations. AgVantis, which is owned by the entities it serves, provides technology and other operational services to certain associations. As of December 31, 2018, the District consisted of CoBank, 22 ACAs, which each have two wholly owned subsidiaries (a FLCA and a PCA), and AgVantis.

ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. Generally, the FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

American AgCredit participates in AgDirect, LLP (AgDirect), a trade credit financing program that includes originations and re-financing of agricultural equipment loans through independent equipment dealers. AgDirect is an entity created by Farm Credit Services of America (FCSA), which is responsible for the marketing, operation, and implementation of the program. FCSA serves as the master servicer for the program assets and provides periodic reporting to investor associations. At December 31, 2018, the Association's investment in AgDirect, which was included in other assets in the Consolidated Statements of Condition, was $11.9 million, representing a 5.8% ownership in the partnership.

Congress has delegated authority to the FCA to regulate the System banks and associations. The FCA examines the activities of System institutions to ensure their compliance with the Farm Credit Act, FCA regulations, and safe and sound banking practices.

The Farm Credit Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund ("Insurance Fund"). By law, the Insurance Fund is required to be used to insure the timely payment of principal and interest on System-wide debt obligations ("insured debt"), ensure the retirement of protected borrower capital at par or stated value, and for other specified purposes. The Insurance Fund is also available for discretionary uses by the FCSIC in providing assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System bank is required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its annual average outstanding insured debt, adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments until the assets in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2.0% of the aggregate insured debt or such other percentage of the insured debt as the Insurance Corporation, in its sole discretion, determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums as necessary to maintain the Insurance Fund at the 2.0% level. As required by the Farm Credit Act, as amended, the FCSIC may return excess funds above the secure base amount to System institutions. The Bank passes this premium expense and the return of excess funds, as applicable, through to the District associations based on their average adjusted note payable with the Bank.

B. Operations: The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow from the Association, and financial services that can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments, and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses. The Association also serves as an intermediary in offering credit life insurance and multi-peril crop insurance.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Association conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Significant estimates are discussed in these notes, as applicable. Actual results may differ from these estimates. Certain amounts in prior years' consolidated financial statements have been reclassified to conform to the current year's financial statement presentation. The Consolidated Statements of Cash Flows were modified to provide additional information. Preferred stock dividends declared was added to the presentation. The provision for income taxes presentation was also modified to provide additional details. The current state tax provision and the current federal tax provision are now separately itemized. In 2017, the Association replaced the Standard Industrial Classification (SIC) codes with the North American Industry Classification System (NAICS) codes for classifying loan commodity groups.

The consolidated financial statements include the accounts of American AgCredit, PCA and American AgCredit, FLCA. All significant inter-company transactions have been eliminated in consolidation.

A. Recently Issued Accounting Pronouncements: In August 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. Early adoption is permitted. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

In August 2018, the FASB issued guidance entitled "Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans." The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the Association's financial condition or its results of operations, but will impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled "Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement." The guidance modifies the requirements on fair value measurements by removing, modifying, or adding to the disclosures. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted and an entity is permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The Association early adopted the removal and modified disclosures during the fourth quarter of 2018. The adoption of this guidance did not impact the Association's financial condition or its results of operations, but will impact the fair value measurements disclosures.

In February 2018, the FASB issued guidance entitled "Income Statement – Reporting Comprehensive Income – Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This guidance allows for the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the recently issued tax legislation, Tax Cuts and Jobs Act (TCJA), which lowered the federal corporate tax rate from 35% to 21%. The amount of the reclassification shall include the effect of the change in the tax rate on gross deferred tax amounts and related valuation allowances at the date of enactment of the TCJA related to items remaining in accumulated other comprehensive income. The guidance became effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Association early-adopted this guidance effective January 1, 2018. The adoption of this guidance did not impact the Association's financial condition or its results of operations.

In March 2017, the FASB issued guidance entitled "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost." The guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This guidance became effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not materially impact the Association's financial condition but did change the classification of certain items in the results of operations.

In January 2017, the FASB issued guidance entitled "Clarifying the Definition of a Business." The guidance clarifies the definition of a business for purposes of determining whether transactions should be accounted for as acquisitions of assets or businesses. The guidance requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the set of transferred assets and activities is not a business. The guidance also requires a business to include at least one substantive process and narrows the definition of outputs by more closely aligning it with how outputs are described in Accounting Standards Codification (ASC) Topic 606. For public business entities, this guidance became effective for interim and annual periods beginning after December 15, 2017, and was therefore adopted by the Association during the first quarter of 2018.

In August 2016, the FASB issued guidance entitled "Classification of Certain Cash Receipts and Cash Payments." The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. This guidance became effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not impact the Association's financial condition or its results of operations but did change the classification of certain items in the statement of cash flows.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." 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. For public business entities that are not U.S. Securities and Exchange Commission filers, this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and its results of operations.

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. In July 2018, the FASB issued an update entitled "Leases – Targeted Improvements," which provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. An entity that elects this additional transition method must provide the required disclosures of the now current standard for all prior periods presented. The guidance and related amendments in this update became effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association will adopt this guidance during the first quarter of 2019 using the optional transition method. The impact of the adoption of this standard is not expected to have a material impact on the financial condition or results of operations of the Association.

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." The guidance affects, among other things, the presentation and disclosure requirements for financial instruments. For public business entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance became effective for interim and annual periods beginning after December 15, 2017. The Association adopted this guidance effective January 1, 2018. The adoption of this guidance did not impact the Association's financial condition or its results of operations but did impact the Association's fair value disclosures.

In May 2014, the FASB issued guidance entitled "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. The guidance sets forth the requirement for new and enhanced disclosures. The Association adopted the new standard effective January 1, 2018, using the modified retrospective approach. As the majority of the Association's revenues are not subject to the new guidance, the adoption of the guidance did not have a material impact on the financial position, results of operations, equity, or cash flows.

B. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have maturities ranging up to 30 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less.

Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

Loans acquired in a business combination are initially recognized at fair value based on current interest rates and taking into account the borrowers' credit quality; therefore, no "carryover" of the allowance for loan losses is permitted. The difference between the book value and fair value of these loans at acquisition date is accreted into interest income during the estimated remaining life of the acquired loans. Those loans with evidence of credit quality deterioration at purchase price are required to follow the relevant accounting guidance. This guidance addresses accounting for differences between contractual cash flows and cash flows expected to be collected from the initial investment in loans if those differences are attributable, at least in part, to credit quality. The initial fair values for these types of loans are determined by discounting both principal and interest cash flows expected to be collected using an observable discount rate for similar instruments with adjustments that management believes a market participant would consider in determining fair value. Subsequent decreases to expected principal cash flows will result in a charge to the provision for loan losses and a corresponding increase to allowance for loan losses. Subsequent increases in expected principal cash flows will result in recovery of any previously recorded allowance for loan losses, to the extent applicable, and a reclassification from nonaccretable difference to accretable yield for any remaining increase. For variable rate loans, expected future cash flows were initially based on the rate in effect at acquisition; expected future cash flows are recalculated as rates change over the lives of the loans.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless adequately collateralized and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) and/or included in the recorded nonaccrual balance (if accrued in prior years). Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest.

When loans are in nonaccrual status, loan payments are generally applied against the recorded investment in the loan asset. Nonaccrual loans may, at times, be maintained on a cash basis. Generally, cash basis refers to the recognition of interest income from cash payments received on certain nonaccrual loans for which the collectibility of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered charge-off associated with it. Nonaccrual loans may be transferred to accrual status when contractual 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, and the loan is not classified as doubtful or loss. Loans are charged-off at the time they are determined to be uncollectible.

A restructured loan constitutes a troubled debt restructuring if, for economic or legal reasons related to the debtor's financial difficulties, the Association grants a concession to the debtor that it would not otherwise consider. In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual term of the loan, the loan is classified as a restructured loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

Loan origination fees and certain direct origination costs for mortgage loans and commercial loans with terms greater than one year are capitalized and the net fee or cost is amortized over the life of the related loan as an adjustment of the yield of the related loan.

The Association purchases loan and lease participations from other System and non-System entities to generate additional earnings and diversify risk- related to existing commodities financed and the geographic area served. Additionally, the Association sells a portion of certain large loans to other System and non-System entities to reduce risk and comply with established lending limits. When loans are sold the sale terms comply with requirements under ASC Topic 860, "Transfers and Servicing."

The Association uses a two-dimensional loan rating model based on internally generated combined system risk-rating guidance, and actual Association loss history, that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk-rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a 9 to other assets especially mentioned, and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

The credit risk-rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is increased through provision for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic and environmental conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions, and prior loan loss experience. The allowance for loan losses encompasses various judgments, evaluations, and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty, imprecision, and variability. Changes in the agricultural economy and environment and their impact on borrower repayment capacity will cause various judgments, evaluations, and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the Association's expectations and predictions of those circumstances. Management considers the following macro-economic factors in determining and supporting the level of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects, and weather-related influences.

A specific allowance may be established for impaired loans under GAAP. Impairment of these loans is measured by the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, by the loan's observable market price, or fair value of the collateral, if the loan is collateral dependent.

The reserve for unfunded lending commitments is based on management's best estimate of losses inherent in lending commitments made to customers but not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement were utilized in determining this contingency.

C. Cash: Cash, as included in the consolidated financial statements, represents cash on hand and on deposit at financial institutions. At times, cash deposits may be in excess of federally insured limits.

D. Investment in CoBank: The Association's required investment in CoBank is in the form of Class A stock. The minimum required investment is 4.0% of the prior year's average direct loan volume. The investment in CoBank is composed of patronage-based stock and purchased stock. The requirement for capitalizing patronage-based participation loans sold to CoBank is 8.0% of the prior 10-year average of such participations sold to CoBank. The Association has elected the alternative to measure its investment in CoBank at cost, as no readily determinable fair value is available.

E. Other Property Owned: Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at 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. On at least an annual basis, revised estimates to the fair value 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. Income and expenses from operations and carrying value adjustments are included in losses on other property owned, net in the Consolidated Statements of Income.

F. Premises and Equipment: Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation and amortization computed principally by the straight-line method over the estimated useful lives of the assets. Useful lives for buildings are 39 years and range from four to seven years for furniture, equipment, and automobiles. Progress payments for assets under construction or development are held in construction in progress and do not begin depreciation or amortization until the asset is designated as complete and placed in service by the Association. Gains and losses on dispositions are reflected in current operating results. Maintenance and repairs are expensed, and improvements above certain thresholds are capitalized.

G. Other Assets and Other Liabilities: Other assets are composed primarily of patronage receivable from CoBank, investment in the nonqualified deferred compensation plan, and the investment in AgDirect. Significant components of other liabilities primarily include accounts payable, employee benefits, and reserve for unfunded commitments.

H. Funds Held Accounts: The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such Funds Held is restricted, the Funds Held are netted against the borrower's related loan balance. Unrestricted Funds Held are included in liabilities in the Consolidated Statements of Condition. Restricted Funds Held are primarily associated with mortgage loans, while unrestricted are primarily related to production and intermediate-term loans and insurance proceeds on mortgage loans. Funds Held are not insured. Interest is generally paid by the Association on Funds Held accounts.

I. Employee Benefit Plans: Certain employees of the Association participate in either the Ninth Farm Credit District Pension Plan ("Pension Plan") or the Eleventh District Defined Benefit Retirement Plan ("Defined Benefit Plan") and/or the Farm Credit Foundations Defined Contribution/401(k) Plan ("Defined Contribution Plan"). The Pension Plan and Defined Benefit Plan are noncontributory defined benefit plans. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. The Defined Benefit Plan was closed to employees hired after December 31, 1997. The Pension Plan was closed to employees beginning January 1, 2007.

The Defined Contribution Plan has two components. Employees who do not participate in the Defined Benefit Plan may receive benefits through the Employer Contribution portion of the Defined Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions. Employees hired on or after January 1, 1998, are eligible to participate only in the Defined Contribution Plan. All defined contribution costs are expensed in the same period that participants earn employer contributions.

The Association also participates in the Ninth and Eleventh District Nonqualified Defined Benefit Pension Restoration Plans. These plans provide retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under the plans are offset by the benefits payable from the Pension Plan and the Defined Benefit Plan.

Certain eligible employees may also participate in a nonqualified deferred compensation plan, which was included in other assets and other liabilities in the Consolidated Statements of Condition, where they are able to defer a portion of their compensation. The Association matches a certain percentage of employee contributions to the plan.

The Association also provides certain health and life insurance benefits to eligible current and retired employees through the Farm Credit Foundation Retiree Medical and Retiree Life Plans. Substantially all employees may become eligible for those benefits if they reach normal retirement age while working for the Association. The anticipated costs of these benefits are accrued during the period of the employee's active service. The authoritative accounting guidance requires the accrual of the expected cost of providing postretirement benefits during the years that the employee renders service necessary to become eligible for these benefits.

J. Income Taxes: As previously described, the ACA holding company conducts its business activities through two wholly owned subsidiaries. Long-term mortgage lending activities are operated through a wholly owned FLCA subsidiary, which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through a wholly owned PCA subsidiary. The ACA, which is the holding company, and the PCA subsidiary are subject to income taxes. The Association accounts for income taxes under the liability method. Accordingly, deferred taxes are recognized for estimated taxes ultimately payable or recoverable based on federal, state, or local laws. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation.

The Association elected to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock, or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the carrying amounts reflected in the financial statements and tax bases of assets and liabilities. In addition, a valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50% probability), based on management's estimate, that the deferred tax assets will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings.

At December 31, 2018, deferred income taxes have not been provided on approximately $78.7 million of patronage refunds received from the Bank before January 1, 1993, the adoption date of accounting guidance on income taxes. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. Management's intent is to permanently invest these undistributed earnings in CoBank, thereby indefinitely postponing their conversion to cash.

The Association has not provided deferred income taxes on amounts allocated to the Association that relate to the Bank's post-1992 earnings to the extent that such earnings will be passed through to Association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on the Bank's post-1992 unallocated earnings. CoBank currently has no plans to distribute unallocated CoBank earnings and does not contemplate circumstances that, if distributions were made, would result in taxes being paid at the Association level.

For state tax purposes, the Association can exclude from taxable income all patronage-sourced income. Therefore, the provision for state income taxes is made only on non-patronage-sourced taxable earnings.

K. Patronage Distribution from CoBank: Patronage distributions from CoBank are accrued by the Association in the year earned.

L. Other Comprehensive Income/Loss: Other comprehensive income/loss refers to revenue, expenses, gains, and losses that under generally accepted accounting principles are recorded as an element of members' equity and comprehensive income but are excluded from net income. Accumulated other comprehensive income/loss refers to the balance of these transactions. The Association records other comprehensive income/loss associated with the liability under the Pension Restoration Plan.

M. Fair Value Measurement: Accounting guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets include assets held in trust funds that relate to the Association's deferred compensation plan and supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

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 the following: (a) quoted prices for similar assets or liabilities in active markets; (b) 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, the prices are not current, or principal market information is not released publicly; (c) inputs other than quoted prices that are observable, such as interest rates and yield curves, prepayment speeds, credit risks, and default rates; and (d) inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Unobservable inputs are those that are supported by little or no market activity and that are significant to the determination of the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose values are 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. Level 3 assets include loans acquired in an acquisition or merger, impaired loans, and other property owned.

The fair value disclosures are presented in Note 15.

N. Off-Balance-Sheet Credit Exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES

Components of loans in the Consolidated Statements of Condition are as follows:

December 31,	2018	2017	2016
Real estate mortgage	$5,833,468	$5,280,957	$4,498,055
Production and intermediate-term	2,227,848	2,001,070	1,502,995
Agribusiness	1,823,927	1,718,331	1,740,584
Rural infrastructure	288,646	279,440	243,706
Agricultural export finance	38,078	23,070	18,970
Rural residential real estate	2,807	4,054	4,565
Total	**$10,214,774**	**$9,306,922**	**$8,008,875**

The unamortized premium on loans acquired in mergers remaining at December 31, 2018, 2017, and 2016, was $2.0 million, $1.3 million, and $6.6 million, respectively.

The Association, in the normal course of business, purchases and sells participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. All loans sold to others are sold without recourse. The table on the following page presents information regarding participations purchased and sold as of December 31, 2018.

December 31, 2018	Other Farm Credit Institutions		Non–Farm Credit Institutions		Total	
	PARTICIPATIONS PURCHASED	PARTICIPATIONS SOLD	PARTICIPATIONS PURCHASED	PARTICIPATIONS SOLD	PARTICIPATIONS PURCHASED	PARTICIPATIONS SOLD
Real estate mortgage	$237,068	$1,088,196	$25	–	$237,093	$1,088,196
Production and intermediate-term	364,055	692,735	–	–	364,055	692,735
Agribusiness	1,102,822	1,544,116	1,829	–	1,104,651	1,544,116
Rural infrastructure	256,949	68,345	–	–	256,949	68,345
Rural residential real estate	–	–	–		–	–
Agricultural export finance	38,078	–	–	–	38,078	–
Total	**$1,998,972**	**$3,393,392**	**$1,854**	**$0**	**$2,000,826**	**$3,393,392**

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's lending activities is collateralized and the exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

December 31,	2018		2017		2016	
Commodity	Amount	%	Amount	%	Amount	%
Vineyards and wineries	$1,728,353	17%	$1,545,939	17%	$1,360,201	17%
Field crops	1,598,564	16%	1,504,406	16%	997,298	12%
Dairies	1,307,418	13%	1,178,126	13%	1,039,148	13%
Tree fruits and nuts	1,146,315	11%	976,058	10%	884,723	11%
Beef	1,078,009	10%	900,676	9%	717,869	9%
Forest products	989,393	10%	1,001,539	11%	933,770	12%
Vegetables	363,423	4%	346,806	4%	318,154	4%
Other	2,003,299	19%	1,853,372	20%	1,757,712	22%
Total	**$10,214,774**	**100%**	**$9,306,922**	**100%**	**$8,008,875**	**100%**

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, as well as receivables. Long-term real estate loans are secured by first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85% (97% if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in loan-to-value ratios in excess of the regulatory maximum.

One credit quality indicator utilized by the Association is the Farm Credit Administration 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 (OAEM): Assets are currently collectible but exhibit some potential weakness;

Substandard: Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan;

Doubtful: Assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions, and values that make collection in full highly questionable; and

Loss: Assets are considered uncollectible.

The determination of the allowance for loan losses is based on estimates that are susceptible to changes in the economic environment and market conditions, and is based on the Association's past loss experience, known and inherent risks in the portfolio, the estimated value of the underlying collateral, and current economic conditions. Management believes that as of December 31, 2018, the allowance for loan losses is adequate based on information currently available.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of December 31.

December 31,	2018	2017	2016
Real estate mortgage			
Acceptable	96.49%	96.98%	97.56%
OAEM	2.04	1.53	1.24
Substandard/Doubtful	1.47	1.49	1.20
	100.00%	100.00%	100.00%
Production and intermediate-term			
Acceptable	94.94%	93.73%	94.05%
OAEM	3.23	4.30	4.44
Substandard/Doubtful	1.83	1.97	1.51
	100.00%	100.00%	100.00%
Agribusiness			
Acceptable	98.10%	96.98%	96.92%
OAEM	0.02	–	0.41
Substandard/Doubtful	1.88	3.02	2.67
	100.00%	100.00%	100.00%
Rural infrastructure			
Acceptable	98.69%	100.00%	98.49%
OAEM	1.31	–	1.51
Substandard/Doubtful	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate			
Acceptable	88.77%	92.48%	92.03%
OAEM	3.18	4.51	6.31
Substandard/Doubtful	8.05	3.01	1.66
	100.00%	100.00%	100.00%
Agricultural export finance			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/Doubtful	–	–	–
	100.00%	100.00%	100.00%
Total loans			
Acceptable	96.51%	96.38%	96.79%
OAEM	1.92	1.80	1.67
Substandard/Doubtful	1.57	1.82	1.54
	100.00%	100.00%	100.00%

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms. The following table presents information relating to impaired loans (including accrued interest).

December 31,	2018	2017	2016
Nonaccrual:			
Current as to principal and interest	$24,639	$15,823	$10,206
Past due	13,905	14,026	17,203
Total nonaccrual loans	38,544	29,849	27,409
Accrual:			
Accrual > 90 days past due	348	–	1,300
Accruing restructured loans	10,903	11,421	8,626
Total impaired accrual loans	11,251	11,421	9,926
Total impaired loans	**$49,795**	**$41,270**	**$37,335**

Commitments to lend additional funds to debtors whose loans were classified as impaired at December 31 was $2.9 million for 2018, $253 thousand for 2017, and $0 for 2016.

High-risk assets consist of impaired loans and other property owned. The following table presents these in a more detailed manner than the previous table. These non-performing assets (including accrued interest) are as follows:

December 31,	2018	2017	2016
Nonaccrual loans:			
Real estate mortgage	$16,132	$19,544	$21,377
Production and intermediate-term	7,905	10,263	5,972
Agribusiness	14,491	14	22
Rural residential real estate	16	28	38
Total nonaccrual loans	38,544	29,849	27,409
Accruing restructured loans:			
Real estate mortgage	10,903	11,421	8,626
Total accruing restructured loans	10,903	11,421	8,626
Accruing loans 90 days or more past due:			
Real estate mortgage	348	–	1,300
Total accruing loans 90 days or more past due	348	–	1,300
Total impaired loans	49,795	41,270	37,335
Other property owned	–	–	–
Total high-risk assets	**$49,795**	**$41,270**	**$37,335**

Additional impaired loan information follows:

	AT DECEMBER 31, 2018			FOR THE YEAR ENDED DECEMBER 31, 2018	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Production and intermediate-term	$4,464	$6,187	$739	$1,801	$1
Agribusiness	5,385	5,570	3,043	3,090	127
Total	**$9,849**	**$11,757**	**$3,782**	**$4,891**	**$128**
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$27,383	$35,281	–	$34,705	$1,725
Production and intermediate-term	3,441	12,294	–	5,309	759
Agribusiness	9,106	12,037	–	6,868	469
Rural residential real estate	16	28	–	18	1
Total	**$39,946**	**$59,640**	**$0**	**$46,900**	**$2,954**
Total impaired loans:					
Real estate mortgage	$27,383	$35,281	–	$34,705	$1,725
Production and intermediate–term	7,905	18,481	739	7,110	760
Agribusiness	14,491	17,607	3,043	9,958	596
Rural residential real estate	16	28	–	18	1
Total	**$49,795**	**$71,397**	**$3,782**	**$51,791**	**$3,082**

Additional impaired loan information, continued.

	AT DECEMBER 31, 2017			FOR THE YEAR ENDED DECEMBER 31, 2017	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	–	–	–	$146	–
Production and intermediate-term	2,354	3,216	600	2,147	–
Total	**$2,354**	**$3,216**	**$600**	**$2,293**	**$0**
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$30,965	$39,874	–	$32,305	$1,053
Production and intermediate-term	7,909	16,014	–	3,458	310
Agribusiness	14	1,991	–	12	10
Rural residential real estate	28	38	–	22	–
Total	**$38,916**	**$57,917**	**$0**	**$35,797**	**$1,373**
Total impaired loans:					
Real estate mortgage	$30,965	$39,874	–	$32,451	$1,053
Production and intermediate–term	10,263	19,230	600	5,605	310
Agribusiness	14	1,991	–	12	10
Rural residential real estate	28	38	–	22	–
Total	**$41,270**	**$61,133**	**$600**	**$38,090**	**$1,373**

	AT DECEMBER 31, 2016			FOR THE YEAR ENDED DECEMBER 31, 2016	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$504	$707	$84	$323	–
Production and intermediate-term	4,128	6,721	663	1,278	–
Total	**$4,632**	**$7,428**	**$747**	**$1,601**	**$0**
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$30,799	$41,887	–	$39,513	$5,236
Production and intermediate-term	1,844	3,022	–	3,441	598
Agribusiness	22	44	–	20	5
Rural residential real estate	38	46	–	34	–
Total	**$32,703**	**$44,999**	**$0**	**$43,008**	**$5,839**
Total impaired loans:					
Real estate mortgage	$31,303	$42,594	$84	$39,836	$5,236
Production and intermediate-term	5,972	9,743	663	4,719	598
Agribusiness	22	44	–	20	5
Rural residential real estate	38	46	–	34	–
Total	**$37,335**	**$52,427**	**$747**	**$44,609**	**$5,839**

Note: The recorded investment in the loan receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the loan receivable.

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2. The following table presents interest income recognized on impaired loans.

For the Year Ended December 31,	2018	2017	2016
Interest income recognized on:			
Nonaccrual loans	$2,485	$732	$5,401
Accruing restructured loans	573	641	374
Accrual loans 90 days or more past due	24	–	64
Interest income recognized on impaired loans	**$3,082**	**$1,373**	**$5,839**

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans follows.

For the Year Ended December 31,	2018	2017	2016
Interest income that would have been recognized under the original loan terms	$6,763	$6,980	$8,944
Less: interest income recognized	(3,058)	(1,373)	(5,775)
Foregone interest income	**$3,705**	**$5,607**	**$3,169**

The following table provides an age analysis of past due loans (including accrued interest).

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 Loans
Real estate mortgage	$22,002	$13,058	$35,060	$5,868,452	$5,903,512
Production and intermediate-term	9,840	507	10,347	2,236,191	2,246,538
Agribusiness	954	–	954	1,831,708	1,832,662
Rural infrastructure	–	–	–	289,052	289,052
Rural residential real estate	125	–	125	2,693	2,818
Agricultural export finance	–	–	–	38,389	38,389
Total	**$32,921**	**$13,565**	**$46,486**	**$10,266,485**	**$10,312,971**

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 Loans
Real estate mortgage	$12,452	$10,237	$22,689	$5,315,211	$5,337,900
Production and intermediate-term	7,282	2,096	9,378	2,006,363	2,015,741
Agribusiness	2,775	–	2,775	1,723,569	1,726,344
Rural infrastructure	–	–	–	279,916	279,916
Rural residential real estate	130	–	130	3,939	4,069
Agricultural export finance	–	–	–	23,107	23,107
Total	**$22,639**	**$12,333**	**$34,972**	**$9,352,105**	**$9,387,077**

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 Loans
Real estate mortgage	$6,956	$13,203	$20,159	$4,520,846	$4,541,005
Production and intermediate-term	9,444	4,140	13,584	1,500,050	1,513,634
Agribusiness	4,107	–	4,107	1,744,271	1,748,378
Rural infrastructure	–	–	–	243,989	243,989
Rural residential real estate	103	–	103	4,478	4,581
Agricultural export finance	–	–	–	18,995	18,995
Total	**$20,610**	**$17,343**	**$37,953**	**$8,032,629**	**$8,070,582**

A restructuring of debt constitutes a troubled debt restructuring (TDR) if the creditor, for economic reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider.

The following table presents additional information regarding TDRs, whether accrual or non-accrual, that occurred during the period presented. The Association had $5.6 million in new TDRs in 2018, $5.0 million in 2017, and $75 thousand in 2016.

Year Ended December 31, 2018	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings:		
Production and intermediate-term	$50	$50
Agribusiness	5,502	5,502
Total	**$5,552**	**$5,552**

Year Ended December 31, 2017	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings:		
Real estate mortgage	$4,133	$4,133
Production and intermediate-term	881	881
Total	**$5,014**	**$5,014**

Year Ended December 31, 2016	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings:		
Production and intermediate-term	$75	$75
Total	**$75**	**$75**

*Pre-modification represents the recorded investment in the loan receivable just prior to restructuring, and post-modification represents the recorded investment in the loan receivable immediately following the restructuring. The recorded investment is the face amount of the loan receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the loan receivable.

In the allowance for loan loss analysis, TDR loans are individually evaluated and a specific allowance is established based on the likelihood the current events will result in an anticipated loss on the individual loans.

The following table provides information on the outstanding principal balance of loans restructured in TDR at period-end. These loans are included as impaired loans in the impaired loan table.

The Association had no TDRs for which there was a payment default during the years presented.

Additional commitments to lend to borrowers whose loans have been modified in TDRs were $1.3 million at December 31, 2018.

December 31,		2018	2017	2016
Loans Modified as TDRs	Real estate mortgage	$12,119	$13,964	$11,731
	Production and intermediate-term	801	825	256
	Agribusiness	5,359	–	–
	Total	**$18,279**	**$14,789**	**$11,987**
TDRs in Nonaccrual Status	Real estate mortgage	$1,238	$2,564	$3,105
	Production and intermediate-term	801	825	257
	Agribusiness	5,359	–	–
	Total	**$7,398**	**$3,389**	**$3,362**

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

Ending Balance at December 31, 2018	Allowance for Loan Losses		Recorded Investments in Loans Outstanding	
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate mortgage	–	$5,294	$27,383	$5,876,129
Production and intermediate-term	739	7,838	7,905	2,238,633
Agribusiness	3,043	3,746	14,491	1,818,171
Rural infrastructure	–	506	–	289,052
Rural residential real estate	–	3	16	2,802
Agricultural export finance	–	190	–	38,389
Total	**$3,782**	**$17,577**	**$49,795**	**$10,263,176**

Ending Balance at December 31, 2017	Allowance for Loan Losses		Recorded Investments in Loans Outstanding	
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate mortgage	–	$4,007	$30,965	$5,306,935
Production and intermediate-term	600	8,367	10,263	2,005,477
Agribusiness	–	5,929	14	1,726,330
Rural infrastructure	–	643	–	279,916
Rural residential real estate	–	4	28	4,042
Agricultural export finance	–	38	–	23,107
Total	**$600**	**$18,988**	**$41,270**	**$9,345,807**

Ending Balance at December 31, 2016	Allowance for Loan Losses		Recorded Investments in Loans Outstanding	
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate mortgage	$84	$3,771	$31,303	$4,509,702
Production and intermediate-term	663	5,685	5,972	1,507,661
Agribusiness	–	8,285	22	1,748,355
Rural infrastructure	–	730	–	243,989
Rural residential real estate	–	4	38	4,543
Agricultural export finance	–	19	–	18,995
Total	**$747**	**$18,494**	**$37,335**	**$8,033,245**

	Balance at December 31, 2017	Charge-offs	Recoveries	Provision for Loan Losses /(Loan Loss Reversals)	Balance at December 31, 2018
Real estate mortgage	$4,007	$(12)	$1,253	$46	$5,294
Production and intermediate-term	8,967	(1,822)	912	520	8,577
Agribusiness	5,929	(548)	8	1,400	6,789
Rural infrastructure	643	–	–	(137)	506
Rural residential real estate	4	–	–	(1)	3
Agricultural export finance	38	–	–	152	190
Total	**$19,588**	**$(2,382)**	**$2,173**	**$1,980**	**$21,359**

	Balance at December 31, 2016	Charge-offs	Recoveries	Provision for Loan Losses /(Loan Loss Reversals)	Balance at December 31, 2017
Real estate mortgage	$3,855	–	$92	$60	$4,007
Production and intermediate-term	6,348	(3,686)	722	5,583	8,967
Agribusiness	8,285	–	–	(2,356)	5,929
Rural infrastructure	730	–	–	(87)	643
Rural residential real estate	4	–	–	–	4
Agricultural export finance	19	–	–	19	38
Total	**$19,241**	**$(3,686)**	**$814**	**$3,219**	**$19,588**

	Balance at December 31, 2015	Charge-offs	Recoveries	Provision for Loan Losses /(Loan Loss Reversals)	Balance at December 31, 2016
Real estate mortgage	$2,886	$(570)	$298	$1,241	$3,855
Production and intermediate-term	2,216	(4,978)	2,136	6,974	6,348
Agribusiness	2,747	(1)	5	5,534	8,285
Rural infrastructure	882	–	–	(152)	730
Rural residential real estate	4	–	–	–	4
Agricultural export finance	19	–	–	–	19
Total	**$8,754**	**$(5,549)**	**$2,439**	**$13,597**	**$19,241**

A summary of the changes in the reserve for unfunded lending commitments follows:

Year Ended December 31,	2018	2017	2016
Balance at the beginning of the year	$2,364	$2,949	$3,734
Provision for /(Reversal of) unfunded lending commitments	497	(585)	(785)
Balance at end of the year	**$2,861**	**$2,364**	**$2,949**

To mitigate the risk of loan losses, the Association may enter into Long-Term Standby Commitment to Purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac). The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event a delinquency of four months occurs, subject to certain conditions. The balance of the loans under the Long-Term Standby Commitment to Purchase agreements was $61.9 million, $8.6 million, and $10.7 million at December 31, 2018, 2017, and 2016, respectively. Fees paid to Farmer Mac for such commitments totaled $182 thousand, $49 thousand, and $68 thousand for the years ended December 31, 2018, 2017, and 2016, respectively. These amounts are classified as interest expense in the Consolidated Statements of Comprehensive Income. Farmer Mac has not purchased any loans under this agreement.

NOTE 4 - INVESTMENT IN COBANK

At December 31, 2018, the Association's investment in CoBank is in the form of Class A stock with a par value of $100 per share. The Association is required to own stock in CoBank to capitalize its direct loan balance and participation loans sold to CoBank. The current requirement for capitalizing its direct loan from CoBank is 4% of the Association's prior-year average direct loan balance. The 2018 requirement for capitalizing its patronage-based participation loans sold to CoBank is 8% of the Association's prior 10-year average balance of such participations sold to CoBank. Under the current CoBank capital plan applicable to such participations sold, patronage from CoBank related to these participations sold is paid 75% cash and 25% Class A stock. The capital plan is evaluated annually by CoBank's board of directors and management and is subject to change.

CoBank may require the holders of its equities to subscribe for such additional capital as may be needed to meet its capital requirements or its joint and several liability under the Act and regulations. In making such a capital call, CoBank shall take into account the financial condition of each such holder and such other considerations, as it deems appropriate.

The Association owned approximately 9.99% of the outstanding common stock of CoBank at December 31, 2018.

NOTE 5 - PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

December 31,	2018	2017	2016
Buildings and improvements	$122,911	$122,295	$119,224
Furniture and equipment	29,245	29,158	27,751
Land	13,370	13,395	12,886
Construction in progress	1,432	557	125
Vehicles	2,855	2,767	2,042
Premises and equipment at cost	169,813	168,172	162,028
Less: accumulated depreciation	(44,211)	(39,049)	(34,209)
Premises and equipment, net	**$125,602**	**$129,123**	**$127,819**

The Association is obligated under various non-cancelable operating leases of certain vehicles and equipment. At December 31, 2018, future minimum lease payments for all non-cancelable leases are as follows:

2019	2020	2021	2022	2023	Thereafter	Total
$1,005	$813	$616	$342	$174	$1,816	$4,766

NOTE 6 - OTHER PROPERTY OWNED

Gains and losses on other property owned, as reflected on the Consolidated Statements of Income, consisted of the following:

December 31,	2018	2017	2016
Gains			
Gains on sale	–	–	$24
Carrying value adjustments	–	–	–
Total gains	–	–	24
Losses			
Loss on sale	–	–	–
Carrying value adjustments	–	–	–
Operating expense, net	4	3	3
Total losses	4	3	3
Losses /(Gains) on other property owned, net	**$4**	**$3**	**$(21)**

NOTE 7 - NOTES PAYABLE

The Association's indebtedness to CoBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets to CoBank and is governed by a General Financing Agreement (GFA). The GFA is subject to renewal periodically in accordance with normal business practice and requires the Association to comply with certain covenants. The GFA matures on January 1, 2023. Management expects renewal of the GFA at that time. The Association adopted a block-funding methodology to debt issuance in the third quarter of 2017. Effective August 1, 2017, all of the Association's debt is block-funded through a direct note with CoBank. Payments and disbursements are made on the note payable to CoBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by CoBank based on the terms and conditions of the borrowing. The weighted average interest rate was 2.51% at December 31, 2018, compared with 1.86% at December 31, 2017, compared with 1.69% at December 31, 2016.

The unamortized premium related to loans acquired in mergers at December 31, 2018, 2017, and 2016, was $3.8 million, $4.5 million, and $7.2 million, respectively.

Through the note payable, the Association was liable for the following:

December 31,	2018	2017	2016
Fixed rate debt	$2,099,835	$1,936,161	–
Floating rate debt	3,968,326	3,826,093	–
Discount notes	2,037,301	1,296,886	–
Daily revolving line of credit	375,872	594,586	–
Match-funded debt	–	–	6,561,500
Total	**$8,481,334**	**$7,635,726**	**$6,561,500**

The Association's direct note at December 31, 2017, was $7.7 billion. Prior to 2017, all of the Association's borrower loans were match-funded with CoBank. The Association's direct note was $6.6 billion at December 31, 2016.

Fixed rate debt typically has original maturities ranging from one to 30 years, and at December 31, 2018, included callable debt of $885.7 million, with a range of call dates between January 2019 and October 2021. Floating rate notes generally have maturities ranging from one year to five years. Discount notes have maturities from one day to 365 days. The daily revolving line of credit is renewed annually and is priced at the overnight discount note rate.

The maturities of debt within the note payable to CoBank as of December 31, 2018, are shown below:

Year of Maturity	Amount	Weighted Average Interest Rate
2019	$4,999,916	2.39%
2020	1,683,199	2.44%
2021	215,865	2.45%
2022	110,876	2.40%
2023	96,867	2.87%
Subsequent years	1,374,611	3.06%
Total	**$8,481,334**	**2.51%**

Under the Farm Credit Act, the Association is obligated to borrow from CoBank, unless CoBank gives approval to borrow elsewhere.

NOTE 8 - MEMBERS' EQUITY

A description of the Association's capitalization requirements, capital protection mechanisms, regulatory capitalization requirements and restrictions, and equities is provided below.

A. Common Stock and Participation Certificates

In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in common stock (for agricultural loans) or participation certificates (for rural home and farm-related business loans) in the Association as a condition of borrowing. In accordance with the Association's capitalization bylaws, the required investment is currently the lesser of $1,000 or 2% of the total borrower's commitment.

The borrower acquires ownership of the common stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. At the discretion of the Board of Directors, retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

B. Additional Paid in Capital

The additional paid in capital represents the excess value received over the par value of capital stock and participation certificates issued, and arose from the issuance of American AgCredit capital stock and participation certificates in connection with mergers.

C. Regulatory Capitalization Requirements and Restrictions

The Farm Credit Administration sets minimum regulatory capital requirements for banks and associations. Effective January 1, 2017, new regulatory capital requirements for banks and associations were adopted. These new requirements replaced the Core surplus and Total surplus requirements with Common Equity Tier 1, Tier 1 capital, and total capital risk-based capital ratio requirements. The new requirements also replaced the existing net collateral ratio for System banks with a Tier 1 leverage ratio and an Unallocated Retained Earnings (URE) and URE Equivalents leverage ratio that are applicable to both the banks and associations. The Permanent capital ratio continues to remain in effect; however, the risk-adjusted assets are calculated differently than in the past.

The following sets forth the regulatory capital ratio requirements and ratios at December 31, 2018:

Ratio	Primary Components of Numerator	Denominator	Ratios as of December 31, 2018	Ratios as of December 31, 2017	Minimum with Buffer*	Minimum Requirement
Common Equity Tier 1 (CET1) capital	URE, common cooperative equities (qualifying capital stock and allocated equity)[1]	Risk-adjusted assets	14.75%	15.37%	7.00%	4.50%
Tier 1 capital	CET1 capital, non-cumulative perpetual preferred stock	Risk-adjusted assets	14.75%	15.37%	8.50%	6.00%
Total capital	Tier 1 capital[2], allowance for loan losses, common cooperative equities[3], and term preferred stock and subordinated debt[4]	Risk-adjusted assets	14.94%	15.57%	10.50%	8.00%
Tier 1 leverage**	Tier 1 capital	Total assets	16.86%	17.61%	5.00%	4.00%
URE and URE equivalents (UREE) leverage	URE and URE equivalents	Total assets	17.24%	19.08%	–	1.50%
Permanent capital	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	Risk-adjusted assets	15.99%	16.65%	–	7.00%

*The New Capital Requirements have a 3-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.

**Must include the regulatory minimum requirement for the URE and UREE leverage ratio.

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

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

D. Description of Equities

Class A Common Stock: (Nonvoting, at-risk, no shares outstanding, $5 par value.) Class A Common Stock may be issued as a patronage distribution or in exchange for a like number of shares of Class C Common Stock when said holder has fully retired his loan or loans with the Association and has not had a borrowing relationship with the Association for two years. Class A Common Stock may be converted to Class C Common Stock if the holder becomes a borrower eligible to own Class C Common Stock, and to Class F Participation Certificates if the holder becomes a borrower eligible to own Class F Participation Certificates.

Class C Common Stock: (Voting, at-risk, 1,725,699 shares outstanding, $5 par value.) Each owner of Class C Common Stock is entitled to a single vote. Other classes of borrower equities do not provide voting rights to their owners. Voting stock may not be transferred to another person unless such person is eligible to hold voting stock.

Class D Common Stock: (Nonvoting, at-risk, no shares outstanding, $1,000 par value.) Issued to CoBank or to any person through direct sale. Retirement is at the sole discretion of the Board of Directors.

Class F Participation Certificates: (Nonvoting, at-risk, 32,430 shares outstanding, $5 par value.) Class F Participation Certificates may be issued or transferred to rural residents, persons furnishing farm-related services, or to other persons eligible to borrow for the purpose of qualifying for services offered by the Association who are not eligible to hold Class C Common Stock.

Class H Preferred Stock: Class H Preferred Stock may be issued to, and may be acquired by, members and equity holders who, at the time of such issuance or acquisition, hold any class of common stock or participation certificates. Class H Preferred Stock is transferable only to another holder of Class H Preferred Stock, and then only after the transferor provides written notice to the Association in a form prescribed by the Association's Board. The holders of the H stock are limited to voting on matters that would affect any preference accorded to the H stock and any amendments that would authorize a new class of preferred stock. Each holder of the H stock is entitled to receive dividends in an amount equal to a specified percentage ("Dividend Rate") as declared by the Board of Directors. The Dividend Rate is a per annum rate that may change monthly at the discretion of the Board, but is limited to 8.0% per annum. Dividends accrue daily and will accumulate until declared and paid in the form of additional shares of H stock. The H stock is redeemable at par plus cumulative unpaid dividends. At December 31, 2018, the Dividend Rate was 2.10%.

H stock is considered "at-risk" as redemption of the H stock is at the discretion of the Board and such redemption is not assured due to future financial operational or regulatory limitations on the Association. In the event of liquidation or dissolution of the Association and after satisfaction of all liabilities, each share of H stock is entitled to a first liquidation preference of any assets remaining, pro rata, to the extent of par value plus any accrued but unpaid dividends. At December 31, 2018, there were 125,765,697 shares of the H stock outstanding at a par value of $1 per share.

The Association has the authority to issue other classes of stock, no shares of which are outstanding. The voting rights, duties, and liabilities of such classes of stock are similar to those discussed above.

Losses that result in impairment of capital stock and participation certificates will be allocated to the common classes of equity described above on a pro rata basis and then to preferred stock. Upon liquidation of the Association, any assets remaining after the settlement of all liabilities will be distributed first to redeem the par value of equities, beginning with preferred stock. After the retirement of stock, any remaining assets will be distributed to holders of allocated surplus as evidenced by nonqualified written notices of allocation. Any assets remaining after such distribution will be shared pro rata on a patronage basis by all common stock and certificate holders of record immediately before the liquidation distribution.

E. Patronage Distributions

The Association's bylaws provide for the payment of patronage distributions. All patronage distributions to a borrower shall be on such proportionate patronage basis as may be approved by the Association's Board of Directors, consistent with the requirement of Subchapter T of the Internal Revenue Code.

The Association's Board of Directors adopted a resolution establishing the distribution of 2018 patronage-sourced net earnings. The resolution established the cash patronage in the amount of 1.0% of the Association's borrowers' average daily loan balances. This calculation resulted in cash patronage of $86.2 million, which will be distributed to qualified patrons in 2019. This amount was recognized as a liability on the Association's Consolidated Statements of Condition at December 31, 2018.

In December 2018, the Association's Board of Directors adopted an Obligating Resolution to distribute 2019 patronage-sourced earnings to patrons of the Association, contingent upon the Association maintaining certain capital criteria.

Cash patronage of $59.8 million and $50.2 million were paid on the Association's patronage-sourced earnings for 2017 and 2016, respectively. These amounts were recognized as a liability on the Association's balance sheet at December 31 in the year they were declared and paid in the first quarter of the following year. Cash patronage represented 0.75% of the Association's borrowers' average daily loan balances for both 2017 and 2016.

F. Unallocated Retained Earnings

Net income can be distributed annually in the form of cash or allocated retained earnings; it may also be retained as unallocated retained earnings. Thus, unallocated retained earnings include patronage-sourced net income that is retained each year. The Board of Directors must approve any use of unallocated retained earnings.

G. Accumulated Other Comprehensive Income / (Losses)

The Association reports accumulated comprehensive income/(loss) in its Consolidated Statements of Changes in Members' Equity. As more fully described in Note 11, other comprehensive income/(loss) results from the recognition of the Pension Restoration Plan's net unamortized gains and (losses) and prior service costs or credits of $3.6 million, $(8.1) million, and $2.1 million in 2018, 2017, and 2016, respectively. There were no other items affecting comprehensive income or loss.

NOTE 9 - PATRONAGE DISTRIBUTIONS FROM SYSTEM INSTITUTIONS

Patronage income recognized from Farm Credit institutions to the Association follows:

Year Ended December 31,	2018	2017	2016
CoBank	$45,705	$35,626	$32,699
AgDirect, LLP	1,582	1,082	989
Foundations	16	43	36
FCS Insurance Exchange	180	375	320
Total	**$47,483**	**$37,126**	**$34,044**

Patronage distributed from CoBank is received in cash and stock. The amount in 2018 was accrued and is included in other assets on the Consolidated Statements of Condition and will be paid by CoBank in March 2019. The amount earned and accrued in 2017 was paid in March 2018.

NOTE 10 - INCOME TAXES

The provision for income taxes follows:

Year Ended December 31,	2018	2017	2016
Current federal tax provision/(benefit)	$13	$(1)	$5
Current state tax provision	2	5	2
Total provision for income taxes	**$15**	**$4**	**$7**

The following table quantifies the differences between the provision/(benefit) for income taxes and the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income of the Association.

Year Ended December 31,	2018	2017	2016
Federal tax at statutory rate	$35,570	$54,110	$35,506
State tax, net	2	5	2
Tax-exempt FLCA income	(31,647)	(46,851)	(34,240)
Cash patronage distributions paid	(4,117)	(7,611)	(3,197)
Change in deferred tax valuation allowance	191	(572)	1,927
Change in tax rate	–	918	–
Other	16	5	9
Provision for income taxes	**$15**	**$4**	**$7**

The Tax Cuts and Jobs Act of 2017 (TCJA) was enacted in late 2017, which, among other things, lowered the federal corporate tax rate from 35% to 21% beginning in 2018. In accordance with GAAP, the change to the lower corporate tax rate led to a revaluation of our deferred tax liabilities and deferred tax assets in the period of enactment (2017). Management's position is that none of the deferred tax benefits will be realized in future periods and accordingly a valuation allowance is provided against net deferred tax assets. Consequently, no net tax benefit was recognized.

Deferred tax assets and liabilities result from the following:

Year Ended December 31,	2018	2017	2016
Gross deferred tax asset:			
Allowance for loan losses	$2,149	$2,213	$3,699
Deferred loan fees	828	633	1,097
Nonaccrual loan interest	669	561	461
Gross deferred tax asset	3,646	3,407	5,257
Gross deferred tax liabilities:			
Mineral depletion	(49)	(49)	(78)
Accrued CoBank patronage	(1,923)	(1,875)	(3,124)
Net deferred tax asset before valuation allowance	1,674	1,483	2,055
Deferred tax asset valuation allowance	(1,674)	(1,483)	(2,055)
Net deferred tax asset	**$0**	**$0**	**$0**

The calculation of deferred tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings, including the amount of non-patronage income and patronage income retained. The expected future tax rates are based upon enacted tax laws.

The Association had a valuation allowance of $1.7 million in 2018, $1.5 million in 2017, and $2.1 million in 2016. The Association will continue to evaluate the likely realization of these deferred tax assets and adjust the valuation allowance accordingly.

The Association had no uncertain tax positions to be recognized as of December 31, 2018, 2017, and 2016.

The Association recognizes interest and penalties related to unrecognized tax benefits as an adjustment to income tax expense. There were no interest or penalties recognized in 2018, 2017, or 2016. The tax years that remain open for federal and major state income tax jurisdictions are 2015 and forward.

NOTE 11 - EMPLOYEE BENEFIT PLANS

Certain employees participate in the Ninth and Eleventh Retirement Plans, multi-employer defined benefit retirement plans. The Department of Labor has determined the plans to be governmental plans; therefore, the plans are not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plans are not subject to ERISA, the plans' 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 plans' termination is contingent on the sufficiency of the plans' net assets to provide benefits at that time. The plans are noncontributory and cover eligible employees. The assets, liabilities, and costs of the plans 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 the Association chooses to stop participating in the plan, it may be required to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Because of the multi-employer nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee moves to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of these plans.

The defined benefit pension plans reflect an unfunded liability totaling $69.5 million for the Ninth Plan and $61.9 million for the Eleventh Plan at December 31, 2018. The pension benefits funding status 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 projected benefit obligation and fair value of the multi-employer plan assets at December 31 follows:

(In millions)	2018	2017	2016
Projected benefit obligation			
Ninth Plan	$274.4	$292.6	$270.6
Eleventh Plan	$253.9	$271.1	$257.9
Fair value of plan assets			
Ninth Plan	$204.9	$208.0	$175.6
Eleventh Plan	$192.0	$200.7	$172.2

The amount of the pension benefits 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. The Association recognizes its proportional share of expense and contributes a proportional share of funding.

Costs and contributions for the multi-employer plans at December 31 follows:

(In millions)	2018	2017	2016
Total plan expenses for all participating employers			
Ninth Plan	$10.8	$12.7	$11.3
Eleventh Plan	$1.9	$3.6	$5.9
The Association's allocated share of plan expenses included in salaries and benefits			
Ninth Plan	$3.0	$3.7	$2.6
Eleventh Plan	$0.7	$1.4	$2.9
Total plan contributions for all participating employers			
Ninth Plan	$20.0	$20.0	$20.4
Eleventh Plan	$16.0	$16.0	$17.5
The Association's allocated share of plan contributions			
Ninth Plan	$5.6	$5.8	$4.7
Eleventh Plan	$5.3	$5.7	$5.9

While the plans are governmental plans and are not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plans with sufficient assets to meet the benefits to be paid to participants. The amount of the total employer contributions expected to be paid into the pension plans during 2019 is $36.0 million. The Association's allocated share of these pension contributions is expected to be $10.5 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 anticipated.

Postretirement benefits other than pensions are provided through the Farm Credit Foundations Retiree Medical Plan to eligible current and retired employees of the Association. Benefits provided are determined on a graduated scale based on years of service. The anticipated costs of these benefits were accrued during the period of the employee's active service. Postretirement benefits (primarily health care benefits) included in salaries and employee benefits were $18 thousand for 2018, $154 thousand for 2017, and $111 thousand for 2016. These expenses are equal to the Association's cash contributions for each year.

The Association participates in two nonqualified defined benefit Pension Restoration Plans that are unfunded. The plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under the Pension Restoration Plans are offset by the benefits payable from the Pension Plans. Pension Restoration Plan expenses included in salaries and employee benefits were $4.6 million for 2018, $2.8 million for 2017, and $2.9 million for 2016.

The funded status and the amounts recognized in other liabilities in the Consolidated Statements of Condition for the Association's Pension Restoration Plans follow:

Nonqualified Pension Restoration Benefits	2018	2017	2016
Change in benefit obligation:			
Benefit obligation at beginning of the period	$27,248	$20,274	$21,937
Benefit obligation acquired in merger	–	21	–
Service cost	735	487	524
Interest cost	756	512	536
Net actuarial (gain)/loss	(471)	9,854	(253)
Benefits paid	(2,481)	(3,900)	(2,470)
Benefit obligation at December 31	**$25,787**	**$27,248**	**$20,274**
Amounts recognized in other liabilities in the Consolidated Statements of Condition consist of:			
Projected benefit obligation	$25,787	$27,248	$20,274

The following table represents the amounts included in accumulated other comprehensive income (AOCI)/loss for the Pension Restoration Plans:

	2018	2017	2016
Net actuarial loss	$12,252	$15,874	$7,806
Prior service costs	–	–	–
Total amount recognized in AOCI/loss	**$12,252**	**$15,874**	**$7,806**

An estimated net actuarial loss of $2.3 million for the Pension Restoration Plans will be amortized into income during 2019.

The projected and accumulated benefit obligation for the Pension Restoration Plans at December 31 was as follows:

	2018	2017	2016
Projected benefit obligation	$25,787	$27,248	$20,274
Accumulated benefit obligation	$20,904	$20,577	$14,906

The net periodic pension expense for the defined benefit Pension Restoration Plans included in salaries and benefits in the Consolidated Statements of Income is composed of the following at December 31.

Pension Benefits	2018	2017	2016
Components of net periodic benefit cost:			
Service cost	$735	$487	$524
Interest cost	756	512	536
Net amortization and deferral	3,151	1,355	1,837
Net periodic cost	**$4,642**	**$2,354**	**$2,897**

Changes in benefit obligation recognized in accumulated other comprehensive income are included in the following table.

	2018	2017	2016
Current year net actuarial loss/(gain)	$(471)	$9,854	$(253)
Amortization of net actuarial (gain)	(3,151)	(1,355)	(1,837)
Adjustment due to settlement accounting	–	(431)	–
Total recognized in other comprehensive (income)/loss	**$(3,622)**	**$8,068**	**$(2,090)**

Weighted average discount rate and rate of compensation increase assumptions used to determine benefit obligation at December 31 were as follows:

Nonqualified Pension Restoration Benefits	2018	2017	2016
Discount rate – Ninth Plan	4.06%	3.35%	3.51%
Discount rate – Eleventh Plan	3.81%	2.99%	3.20%
Rate of compensation increase – Ninth Plan	5.00%	5.00%	5.00%
Rate of compensation increase – Eleventh Plan	5.50%	5.50%	5.50%

The Association estimates it will contribute $2.1 million to the Pension Restoration Plans in 2019.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid.

2019	2020	2021	2022	2023	2024–2028
$2,116	$2,493	$1,662	$2,417	$2,101	$15,711

The Association participates in the Farm Credit Foundations Defined Contribution/401(k) Plan. Under this plan, the Association matches a certain percentage of employee contributions. The plan has two components. Employees who do not participate in the Pension Plans may receive benefits through the Employer Contribution portion of the Contribution Plan. The Association provides a contribution based on a defined percentage of the employee's salary. Also, employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions. Employer contributions to the plan included in salaries and employee benefits were $5.3 million in 2018, $4.9 million for 2017, and $4.2 million for 2016.

NOTE 12 - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Association enters into loan transactions with directors or employees of the Association, their immediate families, and other organizations with which such directors or employees of the Association may be associated (related party borrowers). These loans are 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 unrelated borrowers.

The Association has a policy that loans to directors and senior officers must be maintained at an acceptable or other assets especially mentioned (OAEM) credit classification. If the loan falls below the OAEM credit classification, corrective action must be taken and the loan brought back to either acceptable or OAEM within a year. If not, the director or senior officer must resign from the Board or employment.

Loan information to related parties for the years ended December 31 is shown below.

	2018	2017	2016
Beginning balance	$93,577	$44,886	$48,384
New loans	$66,249	$43,359	$60,533
Repayments	$27,478	$39,950	$51,548
Loans no longer related parties	$6,371	$445	$12,483
Loans acquired in merger	–	$45,727	–
Ending balance	**$125,977**	**$93,577**	**$44,886**

In the opinion of management, none of these loans outstanding at December 31, 2018, involved more than a normal risk of collectibility.

The Association also has business relationships with certain other System entities. The Association paid $389 thousand in 2018, $388 thousand in 2017, and $355 thousand in 2016 to Farm Credit Foundations for human resource services. As of December 31, 2018, the Association's investment in AgDirect was $11.9 million, which was included in Other Assets on the Consolidated Statements of Condition. Income recorded related to AgDirect was $1.6 million in 2018, $1.1 million in 2017, and $989 thousand in 2016.

NOTE 13 - REGULATORY ENFORCEMENT MATTERS

There are no regulatory enforcement actions in effect for the Association.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

The Association has various commitments outstanding and contingent liabilities. With regard to contingent liabilities, there are no actions pending against the Association in which claims for monetary damages are asserted.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated 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 contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2018, $3.0 billion of commitments to extend credit were outstanding.

Since many of these commitments and letters of credit are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Statements of Condition until funded or drawn upon. The credit risk associated with issuing commitments is substantially the same as that involved in extending loans to borrowers, and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2018, $45.7 million of standby letters of credit were outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2019 to 2025. The maximum potential amount of future payments the Association is required to make under the guarantees is $45.7 million.

The Association maintains a contingency reserve for unfunded commitments, which reflects management's best estimate of losses inherent in lending commitments made to customers but not yet disbursed upon. The reserve totaled $2.9 million, $2.4 million, and $2.9 million at December 31, 2018, 2017, and 2016, respectively.

NOTE 15 - FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. The fair value measurement is not an indication of liquidity. See Note 2 for additional information.

Quoted market prices are generally not available for certain financial instruments, as described below. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Assets measured at fair value on a non-recurring basis at December 31 for each of the fair value hierarchy values are summarized below. During the years presented, there were no assets measured at fair value on a non-recurring basis categorized as Level 1 or Level 2.

	Hierarchy Level 3	Total Fair Value	Total Gain/(Loss)
2018			
Loans	$6,067	$6,067	$(3,782)
2017			
Loans	$1,754	$1,754	$(600)
2016			
Loans	$3,885	$3,885	$(747)

Assets measured at fair value on a recurring basis at December 31 for each of the fair value hierarchy values are summarized below. During the years presented, there were no assets measured at fair value on a recurring basis categorized as Level 2 or Level 3.

Assets Held in Nonqualified Benefits Trusts	Hierarchy Level 1	Total Fair Value
2018	$20,397	$20,397
2017	$17,373	$17,373
2016	$15,524	$15,524

During the three years presented, the Association recorded no transfers in or out of Levels 1, 2, or 3. The Association has no liabilities measured at fair value on a recurring basis for the periods presented.

Valuation Techniques

As more fully discussed in Note 2, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair values of financial instruments represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability in active markets among willing participants at the reporting date. Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, certain of the estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction. The following presents a brief summary of the valuation techniques used by the Association for assets and liabilities subject to fair value measurement:

A. Loans: Fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the District's current loan origination rates as well as management's estimates of credit risk. Management has no basis to determine whether the estimated fair values presented would be indicative of the assumptions and adjustments that a purchaser of the Association's loans would seek in an actual sale.

For purposes of determining the fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair value of loans in a nonaccrual status is estimated as described above, with appropriately higher interest rates, which reflect the uncertainty of continued cash flows. For noncurrent nonaccrual loans, it is assumed that collection will result only from the disposition of the underlying collateral. Fair value of these loans is estimated to equal the aggregate net realizable value of the underlying collateral, discounted at an interest rate, which appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. Where the net realizable value of the collateral exceeds the legal obligation for a particular loan, the legal obligation is generally used in place of the net realizable value.

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral dependent for which real estate is the collateral. The fair value measurement process uses appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral, and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

B. Assets Held in Nonqualified Benefits Trusts: Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace. Assets held in nonqualified benefits trusts are included in other assets in the Consolidated Statements of Condition.

C. Other Property Owned: Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. As a result, these fair value measurements fall within Level 3 of the hierarchy. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

NOTE 16 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 1, 2019, which is the date the financial statements were available to be issued. On February 14, 2019, the boards of American AgCredit and Farm Credit Services of Hawaii approved the terms of an Agreement and Plan of Combination, which, once finalized, will allow for the sale of the net assets of Farm Credit Services of Hawaii, ACA to American AgCredit, ACA; the issuance of stock of American AgCredit, ACA to the stockholders of Farm Credit Services of Hawaii, ACA; and the liquidation of Farm Credit Services of Hawaii, ACA. Total assets at Farm Credit Services of Hawaii were approximately $89 million as of December 31, 2018. The transaction is scheduled to occur on July 1, 2019, and will not materially impact American AgCredit's financial condition or its results of operations.

OTHER REGULATORY DISCLOSURE INFORMATION (UNAUDITED)

Financial Statements

The Association will post the annual report and quarterly reports to shareholders on the Association's website (www.AgLoan.com) approximately 40 days after the end of each calendar quarter for the quarterly reports and 75 days after year-end for the annual report. Copies of these reports may be obtained free of charge by contacting American AgCredit at P.O. Box 1120, Santa Rosa, CA 95402, or by calling (800) 800-4865.

Description of Property

American AgCredit is headquartered in Santa Rosa, California. The Association owns and leases various facilities throughout the territory, which is described in this annual report.

In 2016, the Association completed construction of a 120,000-square-foot office building located near the Charles M. Schultz–Sonoma County Airport in Santa Rosa, California. This facility replaced the old Santa Rosa headquarters facility. The Association occupies 80,000 square feet of the new building, while the remaining space is leased. The new facility's cost, including land, building, furniture, and equipment, was $80.4 million. Construction expenses were funded from capital.

The Association constructed a 35,000-square-foot office building in Wichita, Kansas. This facility was completed in 2016 and replaced the Association's old Wichita regional facility. The new facility's cost, including land, building, furniture, and equipment, was $17.0 million. Construction expenses were funded from capital.

Legal Proceedings and Enforcement Actions

Other than ordinary routine litigation incidental to the business, there are no material legal proceedings pending to which the Association is a party, of which any of its property is the subject, or which involve claims that the Association may be required to satisfy. There are no enforcement actions in effect against the Association.

Relationship with Independent External Auditors

There has been no change in independent external auditors and no material disagreements on any matters of accounting principles or financial statement disclosures during the period.

Borrower Privacy

As a member-owner of this institution, your privacy and the security of your personal information are vital to our continued ability to serve your ongoing credit needs. FCA regulations require that borrower information be held in confidence by Farm Credit institutions, their directors, officers, and employees. FCA regulations specifically restrict Farm Credit institution directors and employees from disclosing information not normally contained in published reports or press releases about the institution or its borrowers or members. These regulations also provide Farm Credit institutions clear guidelines for protecting their borrowers' non-public information.

Board Oversight

The Association is governed by a 20-member Board that oversees the management of our Association. Of these directors, 16 are elected by the stockholders and four are appointed by the elected directors. The Board represents the interests of stockholders and meets regularly to perform the following functions, among others:

- Select, evaluate, and compensate the chief executive officer;
- Establish the strategic plan and approve annual operating plan and budget;
- Oversee the lending operations;
- Advise and counsel management on significant issues; and
- Oversee the financial reporting process, communications with stockholders, and legal and regulatory compliance.

Director Independence

All directors must exercise sound judgment in deciding matters in the Association's interest. All directors are independent from the perspective that no management or staff serves as Board members. However, as a financial service cooperative, the Association is required by the Farm Credit Act and FCA regulations to have elected directors that have a loan relationship with the Association.

The elected directors, as borrowers, have a vested interest in ensuring the Association remains strong and successful. However, the borrowing relationship could be viewed as having the potential to compromise the independence of an elected director. For this reason, the Board has established independence criteria to ensure that a loan relationship does not compromise the independence of the Board. Annually, in conjunction with the independence analysis and reporting on loans to directors, each director provides financial information and any other documentation and/or assertions needed for the Board to determine the independence of each Board member.

Audit Committee

The Audit Committee is composed of six members and is responsible for oversight of financial reporting and examinations. During 2018, five meetings were held. The Audit Committee responsibilities include, but are not limited to, the following:

- Oversight of the financial reporting risk and the accuracy of the quarterly and annual shareholder reports;
- Oversight of the system of internal controls related to the preparation of quarterly and annual shareholder reports;
- Review and assessment of the impact of accounting and auditing developments on the consolidated financial statements; and
- Establishment and maintenance of procedures for the receipt, retention, and treatment of confidential and anonymous submission of concerns regarding accounting, internal accounting controls, and auditing matters.

Compensation Committee

The Compensation Committee is responsible for the oversight of employee and director compensation. The committee is composed of six members and meets regularly to review and evaluate all aspects of compensation, including benefits programs. Seven meetings were held in 2018.

Governance Committee

The Governance Committee is composed of six members. Five meetings were held in 2018. The committee oversees and evaluates matters of corporate governance and structure, including, without limitation, the director nomination and election process, evaluation and development of Board performance and processes, director orientation and continuing education, and the independence of directors. The Governance Committee's responsibilities include, but are not limited to, the following:

- Develop and recommend to the Board a set of corporate governance guidelines applicable to the Association;
- Conduct periodic reviews of the number of Board members and composition and make recommendations regarding any changes;
- Determine the qualifications, qualities, skills, and other expertise desired for directors;
- Oversee annual Board self-evaluation; and
- Oversee Nominating Committee process.

Strategy and Risk Committee

The Strategy and Risk Committee (SRC) assists the Board in fulfilling its oversight responsibilities for strategic planning and the enterprise-wide risk management framework of the Association. The SRC is composed of the Board's Vice Chair and at least two additional Board members. In addition, the Association's CEO and at least two members of senior management shall attend every SRC meeting but shall not serve as members of the committee. Five meetings were held in 2018. The SRC's responsibilities include, but are not limited to, the following:

- Collaborate with management on the development and periodic update of the Association's overall strategy, business objectives, and strategic initiatives;
- Discuss and present recommendations to the Board related to the Association's mission, vision, risk appetite, and major programs;
- Develop Association's merger criteria and evaluate potential merger partners;
- Oversee that management has identified and assessed the risks the Association faces;
- Ensure that risk is appropriately considered in strategy setting;
- Coordinate the risk oversight activities of the various standing committees of the Board;
- Coordinate with the Audit Committee to understand how the Association's internal audit plan is aligned with its key risks; and
- Recommend to the Board policies governing enterprise risk management.

ASSOCIATION DIRECTORS

It is the Association's policy to reimburse directors and senior officers for mileage as well as documented business expenses while serving in an official capacity. A copy of the Association's reimbursement policies is available to shareholders upon request. There were five regularly scheduled Board meetings in 2018. The committee meetings are called as needed to address Association business.

The following identifies all Board members who served during the year and describes the business activities and principal occupation for the past five years, as well as current committee assignments, for those directors serving on the Board during the year.

George Fontes, Chair
Term Expires: 2019
Committee(s): Executive

Mr. Fontes is a fourth-generation farmer in Salinas Valley, California. His family operation has included beef cattle, grain hay production, and vegetable farming. Currently, he owns and operates Fontes Farms LLC, providing farm management, equipment rental, and repair services. He was president and co-owner of Comgro Incorporated, growing lettuce, broccoli, mix lettuce, and spinach. He also serves on the board of Farm Credit Foundations. He attended five regularly scheduled Board meetings, two special Board meetings, and 22 committee meetings for which he was compensated $69,437.50.

Gary Harshberger, Vice Chair
Term Expires: 2023
Committee(s): Executive & Strategy and Risk

Mr. Harshberger is a farmer with an operation consisting of dryland and irrigated wheat, corn, milo, and soybeans with a summer grass stocker program. Gary is currently Chairman of the Kansas Water Authority. In addition, he operates Harshberger Enterprises and Harshberger Seeds, is President of Double H Farms, Inc., and a member of Harshberger Land, LLC and Hatcher Holdings, LLC, which are all involved in farm commodity production. He is also involved in the ethanol industry as a director of Conestoga Energy. He attended five regularly scheduled Board meetings, two special Board meetings, and 10 committee meetings for which he was compensated $57,437.50.

Joe Alamo, Director
Term Expires: 2021
Committee(s): Governance

Mr. Alamo has been a partner in Alamo Dairy and Alamo Farms since 1997. He currently milks 4,000 cows and grows nearly 4,000 acres of corn, winter forage, alfalfa, and almonds. He is also a partner in Mills Orchards LLC, currently developing 700 acres of almonds. He attended five regularly scheduled Board meetings, two special Board meetings, and five committee meetings for which he was compensated $48,000.

Berry Bortz, Director
Term Expires: 2022
Committee(s): Governance

Mr. Bortz farms in partnership with his family in eastern Pratt, southwest Reno, and southern Wichita counties in Kansas, producing corn, wheat, soybeans, alfalfa, cotton, sorghum, and bermuda. They also have a commercial and registered cow herd along with a feedlot and recently bought into a cotton gin in Cullison, Kansas. He attended five regularly scheduled Board meetings, one special Board meeting, and seven committee meetings for which he was compensated $49,000.

Robert Boynton, Director
Term Expires: 2022
Committee(s): Compensation & Strategy and Risk

Mr. Boynton has been actively involved in agriculture for his entire professional life, and grew up on a small family dairy farm in Humboldt County, California, which he owns today. He has a PhD in Ag Economics from Michigan State University. Bob has an extensive agricultural business background, having served as Executive Director of the Dairy Institute of California and as Sr. VP of Marketing & Sales for Leprino Foods. He attended five regularly scheduled Board meetings, two special Board meetings, and eight committee meetings for which he was compensated $49,500.

John Caldwell, Director
Term Expires: 2020
Committee(s): Audit

Mr. Caldwell resides in Longmont, Colorado. His business experience is in cattle feeding and brokerage, grain merchandising, and farming. He attended five regularly scheduled Board meetings, two special Board meetings, and six committee meetings for which he was compensated $50,000.

James Cooksey, Director
Term Expires: 2019
Committee(s): Governance

Mr. Cooksey resides in Roggen, Colorado. His business experience is in farming and ranching. He attended five regularly scheduled Board meetings, two special Board meetings, and four committee meetings for which he was compensated $49,000.

Derek Davis, Director

Term Expires: 2020
Committee(s): Audit

Mr. Davis has 29 years of executive management experience, most recently as Executive VP/Chief Operating Officer at Teac America, Inc., and has served on multiple boards. He has a master's degree in business administration from San Diego State University and is a Certified Public Accountant. He owns an avocado ranch property in Valley Center, California. He attended five regularly scheduled Board, one special Board meeting, and six committee meetings for which he was compensated $49,500.

Randall Doll, Director

Term Expires: 2019
Committee(s): Compensation

Mr. Doll joined the Board of Directors in July 2014. He is a farmer and rancher in Butler County, Kansas, overseeing production of alfalfa, bluestem prairie hay, brome, milo, and wheat. He also has extended family ranch and farming operations located in Barton, Finney, and Gray counties in Kansas. He attended five regularly scheduled Board meetings, two special Board meetings, and 10 committee meetings for which he was compensated $58,000.

Linda Ingo, Director

Term Expired: 2018
Committee(s): Audit

Ms. Ingo resides on the family ranch near Ridgway, Colorado. Working together with family, she raises hay and Red Angus cattle, hosts big-game hunters, and manages their water, wildlife, and timber resources. She attended two regularly scheduled Board meetings, one special Board meeting, and three committee meetings for which she was compensated $24,000.

Kimberly Clauss Jorritsma, Director

Term Expires: 2020
Committee(s): Governance

Ms. Jorritsma is a third-generation dairy farmer and key member of Clauss Dairy Farms management team in Hilmar, California. Clauss Dairy Farms currently includes two registered Jersey dairies, a farming operation, and employs over 40 people. She is a co-owner of Hilmar Cheese Company, Inc., serving on their Board of Directors. Kimberly was the first female chairperson of the National Dairy Board and has served on many other agriculture-based boards and groups throughout her professional career. She attended one regularly scheduled Board meeting and one committee meeting for which she was compensated $8,000.

Larry Kepley, Director

Term Expired: 2018
Committee(s): Audit

Mr. Kepley is a farmer/stockman with an operation consisting of wheat seed production and sales, corn and milo production, and a beef cow herd. Larry's operation includes both dryland and irrigated production and he operates Kepley Wheat Seed. He has numerous affiliations and board relationships including the following: Farmer Direct Foods member, Kansas Wheat Commission board member, U.S. Wheat Association board member, Grant County Farm Bureau board member, and Southwest Kansas Irrigation Association board member. He attended two regularly scheduled Board meetings, one special Board meeting, and two committee meetings for which he was compensated $23,000.

Kirvin Knox, PhD, Appointed Director

Term Expires: 2020
Committee(s): Executive & Compensation

Dr. Knox resides in Fort Collins, Colorado. His business experience is in energy, production agriculture, academic administration, and agriculture research. He attended five regularly scheduled Board meetings, two special Board meetings, and 11 committee meetings for which he was compensated $53,500.

Alan List, Director

Term Expired: 2018
Committee(s): Governance & Strategy and Risk

Mr. List served as a board member and chairman of both Intermountain Farm Credit and AgCredit Financial prior to their merger into American AgCredit. He is the owner and operator of a hay, grain, and seed business in Lovelock, Nevada, and serves as a director of List Cattle Co., Lovelock Hay Market Inc., and Nevada Agricultural Self Insurance Group. He has been a director of American AgCredit since 2005. He attended two regularly scheduled Board meetings, one special Board meeting, and five committee meetings for which he was compensated $28,000.

Brian Maloney, Director

Term Expires: 2021
Committee(s): Audit

Mr. Maloney is a fifth-generation farmer/rancher in south-central Kansas. The family-based operation includes wheat, corn, soybeans, sorghum, canola, and beef cattle. Prior to joining the farming operation, Mr. Maloney spent 20 years working in the Farm Credit System, including Farm Credit of Southwest Kansas, CoBank, and the Farm Credit Administration. He attended five regularly scheduled Board meetings, two special Board meetings, and five committee meetings for which he was compensated $48,500.

Kristin McMenomey, Appointed Director

Term Expires: 2023
Committee(s): Compensation

Mrs. McMenomey resides in Potter Valley, California. She and her husband, John, farm 200 acres of vineyard property in Potter Valley consisting of Chardonnay, Sauvignon Blanc, Merlot, Pinot Noir, and Pinot Gris. She has 21 years of government experience in purchasing, information technology, and risk management. Kristin served 17 years as a board member of the CSAC Excess Insurance Authority Board of Directors, including Vice-President. She attended Board Orientation for which she was compensated $8,000.

Richard Miller, Director

Term Expired: 2018
Committee(s): Compensation

Richard Miller is a fourth-generation western Kansas farmer residing in Leoti, Kansas. His farming operation produces wheat, corn, and grain sorghum. He currently owns Miller Ag, Inc. and is co-owner of R&M Miller Farms, Inc. Mr. Miller has served on Farm Credit boards since 1994. He attended two regularly scheduled Board meetings, one special Board meeting, and three committee meetings for which he was compensated $25,500.

Jason Ochs, Director

Term Expires: 2022
Committee(s): Compensation

Mr. Ochs is a member of Plum Creek Farms, LLC in Syracuse, Kansas, an agricultural entity that produces dryland wheat, milo, corn, and custom farming including harvesting, tillage, planting, and CRP management. He attended five regularly scheduled Board meetings, two special Board meeting, and 11 committee meetings for which he was compensated $60,500.

Teresa Reimer, Director

Term Expires: 2023
Committee(s): Governance

Ms. Reimer resides on a ranch near Kalvesta, Kansas, and is a fifth-generation farmer and rancher. Her cattle operation consists of cow/calf, backgrounding, and finishing that is complemented by a dryland farm producing wheat, sorghum, and forages. She attended three regularly scheduled Board meetings, one special Board meeting, and five committee meetings for which she was compensated $25,000.

Greg Ringler, Director

Term Expired: 2018
Committee(s): Compensation

Mr. Ringler runs a diversified operation consisting of wheat, milo, beans, alfalfa, and beef cattle in Kansas. He attended two regularly scheduled Board meetings, one special Board meeting, and three committee meetings for which he was compensated $23,000.

ASSOCIATION DIRECTORS (CONTINUED)

David Santos, Director
Term Expires: 2022
Committee(s): Compensation

Mr. Santos is an apricot, cherry, and almond farmer in Stanislaus County, California. He is a partner/owner in Lucich & Santos Farms and Blossom Hill Packing Company, a packing and marketing company. He also has served as a board member and chair of Central Valley Production Credit prior to the merger into American AgCredit. He attended five regularly scheduled Board meetings, two special Board meeting, and seven committee meetings for which he was compensated $48,500.

Larry Solari, Appointed Director
Term Expires: 2022
Committee(s): Audit

Mr. Solari is a Certified Public Accountant and partner in BPM LLP located in Stockton, California. He was appointed as an outside director of the Association Board of Directors in January 1994. He also serves on the San Joaquin County Assessment Appeals Board. He attended five regularly scheduled Board meetings, one special Board meeting, and five committee meetings for which he was compensated $45,000.

Thomas G. Stegman, Appointed Director
Term Expires: 2020
Committee(s): Executive & Audit

Mr. Stegman is retired. Most recently, he served as President and CEO of AgVantis. Prior to that, he served in various information technology management positions at Farm Credit Bank of Wichita, Kansas. Mr. Stegman was raised on a family farm in southwestern Kansas and now resides in Oro Valley, Arizona. He attended five regularly scheduled Board meetings, two special Board meetings, and 11 committee meetings for which he was compensated $54,000.

Charles Talbott, Director
Term Expires: 2020
Committee(s): Governance & Strategy and Risk

Mr. Talbott resides in Palisade, Colorado. His business experience is in tree fruit and wine grape production, packing, processing, and marketing. He attended five regularly scheduled Board meetings, two special Board meetings, and 17 committee meetings for which he was compensated $68,375.

Thomas Teixeira, Director
Term Expires: 2023
Committee(s): Audit & Strategy and Risk

Mr. Teixeira is partner/owner of Teixeira and Sons and grows 6,000 acres of alfalfa, almonds, cantaloupes, corn, cotton, fresh-market tomatoes, processing tomatoes, and wheat. Teixeira and Sons also operates a tomato transplant greenhouse facility and are part owners in Pacific Ginning LLC, Eagle Valley Ginning LLC, and 360 Agri LLC. Pacific Ginning and Valley Ginning are cotton ginning operations and 360 is a custom cotton harvesting company. He attended five regularly scheduled Board meetings, two special Board meetings, and eight committee meetings for which he was compensated $57,500.

For 2018, directors were compensated for their services based on annual retainers as follows:

Chair	$57,000
Vice Chair	$54,500
Audit Committee Chair	$49,500
Compensation Committee Chair	$47,000
Governance Committee Chair	$47,000
Director	$42,000

Retainer amounts are adjusted for meeting absences or attendance at meetings in excess of scheduled Board meetings. The total compensation paid to directors for 2018, as described above, amounted to $1,080,250. The aggregate amount of compensation and reimbursements for travel, subsistence, and other related expenses for all directors were $1,908,532 for 2018, $1,865,680 for 2017, and $1,536,000 for 2016.

SENIOR OFFICERS

Byron E. Enix, Chief Executive Officer

Mr. Enix was promoted to Chief Executive Officer on January 1, 2014. He previously served as Chief Operating Officer and Senior Vice President – Credit Heartland Region since 2012 and 2010, respectively. Prior to the Farm Credit Services of the Mountain Plains merger and since 2006, he served as Chief Financial Officer–Mountain Plains. He has 34 years of Farm Credit System experience in credit, operations, and finance.

Greg Somerhalder, Chief Operating Officer

Mr. Somerhalder was promoted to Chief Operating Officer on March 1, 2014. He previously served as Chief Corporate Strategist since 2013. He has over 36 years of experience with Farm Credit in many areas of banking, including lending, credit, risk, and strategy. Mr. Somerhalder serves as a director of Farm Credit System Associations Captive Insurance Company. He also serves on the board of three charity organizations: St. George Christian Orthodox Endowment, The Treehouse, and Laham Family Foundation.

Lynn Scherler, Chief Lending Officer

Mr. Scherler joined American AgCredit as Chief Lending Officer in October 2017. He previously served as President – Strategic Relationship Division for CoBank; as Interim President & CEO of Farm Credit of Southwest Kansas from October 2015–March 2016; and a number of other relationship and leadership roles at CoBank. Mr. Scherler has more than 20 years of banking experience, 17 of which have been served in the Farm Credit System, with experience in the areas of relationship management, credit, and strategy.

Alan Feit, Chief Banking Officer

Mr. Feit served as Chief Banking Officer since 2014. He previously served as Senior Vice President – Credit since 2012. Mr. Feit left American AgCredit in October 2018 to become the CEO of Farm Credit of New Mexico.

Vern Zander, Chief Financial Officer

Mr. Zander has served as Chief Financial Officer since 2012. He previously served as Vice President – Relationship Manager in the Association's Capital Markets Group. He is a Certified Public Accountant and has been with American AgCredit for the last 16 years, with a total of 31 years of Farm Credit service.

Roger Bastow, Chief Administrative Officer

Mr. Bastow has served as Chief Administrative Officer since 2009. He previously served as Senior Vice President – Finance and Operations from 1999 to 2009 at Farm Credit of the Heartland. He is a Certified Public Accountant and has served in human resources, operations, and finance roles over the past 27 years in the Farm Credit System and is a member of the Farm Credit Foundations Trust Committee.

Sean O'Day, Chief Banking Officer - Corporate

Mr. O'Day currently serves as the Chief Banking Officer for Corporate Banking. Agribusiness lending and Capital Markets operate under the Corporate Banking umbrella. Prior to assuming the position of Chief Banking Officer, Mr. O'Day served as Senior Vice President – Capital Markets. For the past 28 years, his focus has been in the areas of corporate finance and loan syndications, and he has a total of 39 years of Farm Credit System service.

Jerry Rose, Chief Risk Officer

Mr. Rose has served as Chief Risk Officer since 2013 and previously served as Senior Vice President – Risk Management since 2012. He has held risk and financial management roles for the past 30 years in the Farm Credit System.

REGIONAL AND SENIOR VICE PRESIDENTS

Paul Anderson
SVP Human Resources

Rachel Angress
SVP General Counsel

Mike Banks
SVP Chief Credit Officer

Marc Busalacchi
SVP Western District

Heather Callens
SVP Underwriting Manager

Alan Duensing (retired 1/2/18)
SVP Chief Appraisal Officer

Chase Hafner
SVP Chief Technology Officer

Matt Keating
SVP Underwriting Manager

Vicky Lagorio
SVP Operations

Claudia McGinness
SVP Express

Paula Olufs
SVP Chief Innovation Officer

Erik Person
SVP Chief Audit Executive

Dennis Regli
SVP Underwriting Manager – Corporate

Greg Reno
SVP Midwest Banking

Deb Seedorf
SVP Chief Transformation Officer

Steve Stephens
SVP Chief Appraiser

Gary Van Schuyver
SVP Corporate Banking

SENIOR OFFICERS' COMPENSATION

The Compensation Committee of the Board of Directors ("Compensation Committee") follows a comprehensive compensation philosophy where the objectives of the Compensation Plans ("Plans") are to:

- Provide market-based compensation through base salary and annual and long-term incentive components that will allow the Association to attract, motivate, and retain superior executive talent;
- Place a portion of total compensation for the executive at risk and contingent upon the Association remaining financially sound and meeting established performance goals; and
- Ensure that long-term financial stability of the Association is emphasized over short-term results and decisions.

The Plans are designed to:

- Reward successful business year results through an annual Incentive Compensation Plan (ICP);
- Foster long-term financial stability through the Long-Term Deferral Plan (LTDP); and
- Significantly contribute to the retention of the President/Chief Executive Officer (CEO) and other senior officers.

The Compensation Committee annually reviews market information related to the level and mix of salaries, benefits, and incentive plans for the CEO and other senior officers. The Compensation Committee considers the structure, effectiveness, and risk associated with the Plans on an annual basis. Due to the cooperative business structure of the Association, the Plans do not contain stock-based compensation components.

The Association maintains the ICP for senior officers and employees that rewards performance based on objective criteria. Such criteria include achievement of corporate and individual strategic business goals. The ICP is administered by the Compensation Committee. The ICP was revised in recent years to enhance the alignment of rewards, with progress towards the organization's overall strategic initiatives.

Select senior officers may also participate in a supplemental incentive compensation plan. Supplemental incentive compensation plans are administered by the Compensation Committee and include specialized earnings goals. Supplemental incentive compensation plans were revised in 2014 to enhance their alignment with risk associated with the activities the incentives were based on.

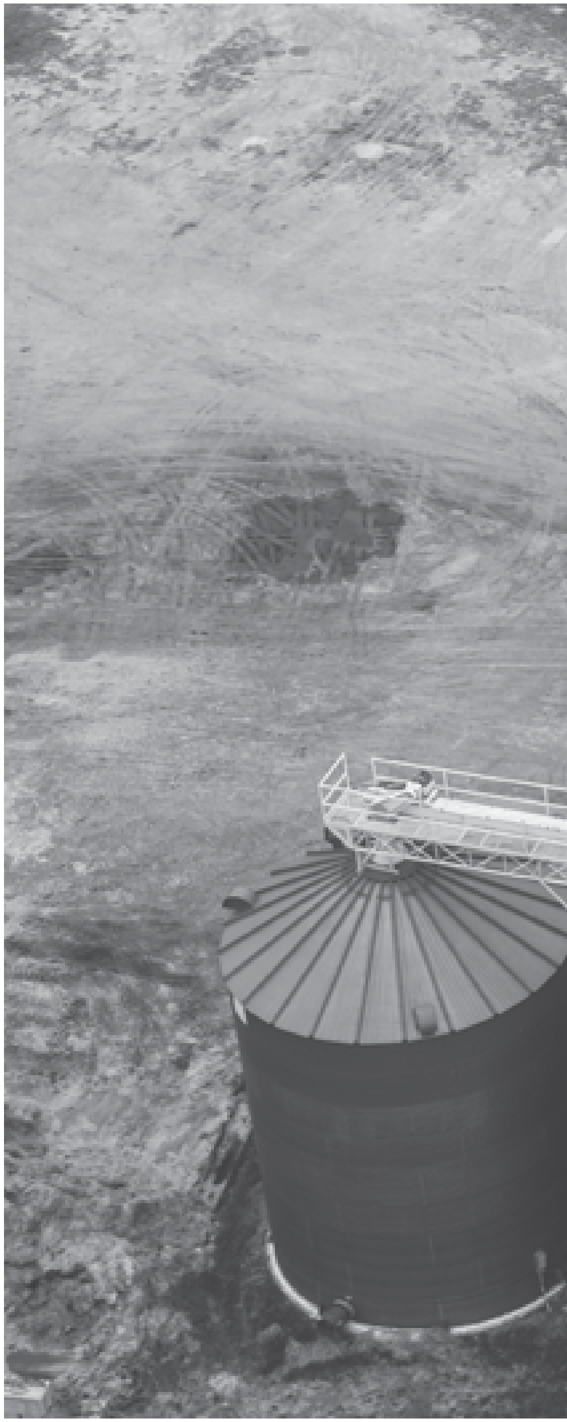
LTDP incentives provide targeted long-term awards for senior officers based on position and responsibilities.

Starting in 2014, certain executives began participation in an LTDP, which defers payment of a portion of the incentive earned under the ICP or supplemental incentive compensation plans for three years into a Long-Term Incentive, to ensure the long-term performance objectives of the Association are met.

Certain senior officers participate in the Ninth Farm Credit District Pension Plan or the Eleventh Farm Credit District Employee's Retirement Plan ("Pension Plans"). These plans have been closed to new participants for many years.

Compensation earned by the CEO and aggregate compensation of other senior officers and highly compensated employees for the year ended December 31, 2018, amounted to $9.7 million, compared to $12.0 million for 2017 and $10.8 million for 2016. Changes in several key leadership roles and changes/refinement in the actuarial assumptions in the Pension Plans' assumptions were the primary contributor to the increase from 2015 to 2016. The increase from 2016 to 2017 was the result of final vesting of the LRT plan. The decrease from 2017 to 2018 was the result of a significant decline in the amount of annual increase in Pension Plan value.

Disclosure of fiscal year 2018, 2017, and 2016 compensations for the CEO and senior officers as defined by regulation, or to any other employee whose compensation is among the five highest amounts paid by the Association, is included in the Annual Meeting Information Statement sent to shareholders and is available to the public at the Association's offices upon request.




BEHLEN
BEHLEN

YOUNG, BEGINNING, AND SMALL
FARMER & RANCHER PROGRAM

American AgCredit offers Young, Beginning, and Small (YBS) farmers and ranchers opportunities to invest in, build, and support their agribusiness. Through specific, tailored programs designed to meet the credit and related needs of YBS customers and potential customers in our chartered territory, we provide various layers of support throughout this market.

Per FCA regulations, qualified YBS programs serve farmers and ranchers by one or more of the following categories:

Young: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger.

Beginning: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience.

Small: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than $250,000 in annual gross sales of agricultural or aquatic products.

Our YBS Mission

Our mission is to provide credit and related services tailored to the specific needs of the YBS market via the following:

- Support of AgYouth Programs: Interest-free financing to young people for 4-H and FFA projects.
- Host the Young Farmer & Rancher Institute: Legacy and business continuity planning for generations of farmers and ranchers. Training provided free of charge for customers in good standing.
- Support of youth programs in the community: Outreach and sponsorship of ag-related educational activities, such as ag training, exhibits, and other outreach.
- Promote YBS program information, including webpages, brochures, and ad slicks: Awareness of programs to support new businesses and encourage young people to get involved in agriculture.
- Provide scholarships to college students interested in working in or studying agriculture.
- Offer paid internships: Professional training and paid work experience provided to young professionals interested in learning about agriculture and ag financing.

To facilitate credit offerings to this specialized customer base, we support financing programs and use government-guaranteed loan programs. We are actively involved in developing and sponsoring educational opportunities, leadership training, business financial training, and insurance services for YBS farmers and ranchers.

Demographics

To ensure that these groups are adequately serviced, demographic research known as AgCensus is completed by the U.S. Department of Agriculture every five years, and those demographics are compared to our borrower base. Part of adequately servicing these segments is understanding how farming is changing within the Association's lending territory.

The latest data available is from the 2012 AgCensus, which was released in May 2014. Compared to the 2007 AgCensus, the 2012 research showed the number of farms overall has decreased. The continuing shift in farm demographics in the Young farmer category has stabilized in the last five years to about 10% within our total territory. Beginning farm operators comprise 28% of the market in our territory, while the Small farm operator makes up 87% of the farms in the market. The most significant changes over the last five years include the following:

- Significant drop in Beginning farmers in California (13%), Oklahoma (10%), Kansas (7%), and Colorado (13%);
- Slight increase in Small farmers in Oklahoma and California; and
- Stabilized marketplace for Young farmers – with slight increases in Nevada, Oklahoma, Kansas, New Mexico, and California.

The 2017 AgCensus was conducted and results will be released in the first quarter of 2019.

Exception Program

The Association's YBS Exception Program is tailored for those ag businesses that do not meet all underwriting criteria and exhibit higher-than-normal risk factors. The Exception Program offers unique financing criteria and additional benefits. This includes additional business support, education, training, and other incentives – allowing them to strengthen and prosper and, in the process, to develop avenues for the Association to fulfill its mission and serve all fields and levels of agriculture.

The following table outlines the percentage of Young and Beginning loans in the loan portfolio (by number) as of December 31, 2018, compared to the total number of loans in the portfolio.

Category (Dollars in thousands)	Number of Loans	Percent of Total Loans	Volume Outstanding	Percent of Total Volume
Total loans and commitments outstanding at year-end	15,617	100.00%	$13,218,113	100.00%
Young farmers and ranchers	1,627	10.42%	$568,006	4.18%
Beginning farmers and ranchers	2,861	18.32%	$1,115,606	8.44%

The following table provides a breakdown of Small farmer and rancher loans by size as of December 31, 2018.

Number/Volume Outstanding (Dollars in thousands)	$0 – $50.0	$50.1 – $100.0	$100.1 – $250.0	$250.1 & Greater
Total number of loans and commitments outstanding at year-end	3,056	2,362	3,664	6,535
Total number of loans to Small farmers and ranchers	1,670	1,289	1,450	961
Percent of loans to Small farmers and ranchers	54.65%	54.57%	39.57%	14.71%
Total loan volume outstanding at year-end	$79,775	$178,315	$623,628	$12,336,395
Total loan volume to Small farmers and ranchers	$45,378	$97,248	$234,868	$553,995
Percent of loan volume to Small farmers and ranchers	56.88%	54.54%	37.66%	4.49%

Funding Outreach

We believe that by supporting the full spectrum of agricultural efforts, all agriculture benefits. American AgCredit, on its own and through alliance partnership with other Farm Credit associations, sponsors many events and activities to promote Farm Credit and the services offered by the System and to inform and educate Young, Beginning, and Small farmers. They include the following:

Kitchen Table Advisors Project: The Association launched a strategic partnership with Kitchen Table Advisors, a project that empowers farmers and ranchers throughout Northern California with the business tools, knowledge, and resources they need to flourish. With a $10,000 sponsorship in 2018, American AgCredit committed to support the economic viability of sustainable Small farmers and ranchers.

Colorado FFA: Through a comprehensive agricultural education program, the Colorado FFA Association teaches FFA members premier leadership skills, personal growth, and career success. American AgCredit is a star partner with Colorado FFA, giving over $25,000 in 2018 to the Colorado FFA Foundation. We are proud to have continued our support in 2018 with Colorado FFA.

Nevada Junior Livestock Show: The Nevada Junior Livestock Show provides an opportunity for Nevada youth to exhibit their livestock projects before the public. NJLS encourages the growth of sportsmanship, leadership, citizenship, and responsibility in each of the youth exhibitors competing. In 2018, American AgCredit sponsored the Show and the Champion Banners, gave a $2,000 scholarship, and purchased animals at the livestock sale. Total investment for NJLS in 2018 was just over $9,500.

Kansas Farm Bureau YF&R Leaders Conference: American AgCredit, as a part of the Farm Credit Associations of Kansas, sponsors the Kansas Farm Bureau YF&R Leaders Conference. The event, held annually in January in Manhattan, Kansas, provides a pivotal opportunity to network with approximately 500 Young farmers and ranchers from across the state. This important partnership gives our Alliance the opportunity to present a keynote speaker at the conference.

California Ag in the Classroom: American AgCredit partnered with CoBank, Farm Credit West, and Fresno Madera Farm Credit to sponsor this not-for-profit organization dedicated to educating youth throughout California about the importance of agriculture in their daily lives. Contributions in the total amount of $12,500 were made in 2018, and the program is reviewed annually for future contributions.

California Small Farm Conference: The California Small Farm Conference is for farmers who are committed to sustaining California's long history of small-scale and family farms and ranches that produce great food and sustain our state's rural communities. American AgCredit, along with CoBank, Farm Credit West, Fresno Madera Farm Credit, and Yosemite Farm Credit, sponsored this conference in the amount of $10,000 and the program is reviewed annually for future support.

Young Farmer & Rancher Conference: American AgCredit partnered with CoBank, Farm Credit West, Fresno Madera Farm Credit, and Golden State Farm Credit to sponsor this two-day leadership conference in the amount of $10,000; it is attended by over 200 Young farmers and ranchers from across California and neighboring states. The conference is an opportunity for Young farmers and ranchers to network, gain insight and ideas for building a better local Young farmers and ranchers program and receive updates on key issues and topics affecting the agriculture industry and young agriculturalists in California.

UC Davis Small and Ethnic Farm Market Tour Project: American AgCredit teamed up with CoBank, Farm Credit West, Fresno-Madera Farm Credit, and Farm Credit Services of Colusa Glenn to contribute $70,000 to the UC Davis Small and Ethnic Farm Market Tour Project. The project is run by the UC Sustainable Agriculture Research and Education Program (SAREP) and introduces Small farmers to conventional distributors interested in offering a line of locally grown food. Contributions started in 2013 and the program is reviewed annually for future contributions.

YBS Program Safety and Soundness

American AgCredit offers diverse and accessible financing options for qualified farmers and ranchers within our territory. The YBS Program provides alternate financing and guarantee options for farmers and ranchers who are just getting started, as well as small or part-time operations. To better serve YBS customers, special lending qualifications and requirements allow Young, Beginning, and Small farmers and ranchers access to financing, leasing, and other services for which they might not otherwise qualify.

Procedures have been established to streamline the delivery of these unique and other small loans utilizing credit scoring through the new Express Loan Program. Loans will continue to be made on a sound basis, with proper emphasis on the fundamentals of sound credit. Loans made under this program meet all our requirements for eligibility and scope of financing, interest rates, and length of term. Co-makers and guarantors (financially responsible family members or other individuals) and secondary collateral are utilized when available and appropriate to minimize risk. Excessively ambitious growth plans are restricted and loans are closely monitored on a regular basis.

OFFICE LOCATIONS

ADMINISTRATIVE OFFICE 400 Aviation Boulevard, Suite 100 · Santa Rosa, CA 95403 · (800) 800-4865 · AgLoan.com

CALIFORNIA

Alturas
403 E. Highway 395
Alturas, CA 96101
(530) 233-4304

Eureka
5560 S. Broadway Street
Eureka, CA 95503
(707) 445-8871

Merced
711 W. 19th Street
Merced, CA 95340
(209) 384-1050

Oakdale
700 N. Yosemite Avenue
Oakdale, CA 95361
(209) 847-0353

Ontario
3633 E. Inland Empire Blvd.
Suite 530
Ontario, CA 91764
(909) 947-2371

Palm Desert
74199 El Paseo Drive
Suite 101
Palm Desert, CA 92260
(760) 340-5671

Petaluma
1345 Redwood Way
Petaluma, CA 94954
(707) 793-9023

Roseville
2140 Professional Drive
Suite 110
Roseville, CA 95661
(916) 784-1060

St. Helena
1101 Vintage Avenue
St. Helena, CA 94574
(707) 963-9437

Salinas
924 E. Blanco Road
Salinas, CA 93901
(831) 424-1756

Santa Rosa
400 Aviation Blvd.
Suite 100
Santa Rosa, CA 95403
(800) 800-4865

Stockton
2345 E. Earhart Avenue
Stockton, CA 95206
(209) 944-7478

Temecula
42429 Winchester Road
Temecula, CA 92590
(951) 296-0175

Turlock
3201 W. Monte Vista Avenue
Turlock, CA 95380
(209) 667-5101

Ukiah
455 E. Gobbi Street
Ukiah, CA 95482
(707) 462-6531

Yreka
809 4th Street
Yreka, CA 96097
(530) 842-1304

COLORADO

Denver
6312 S. Fiddlers Green Circle
Suite 420E
Greenwood Village, CO 80111
(303) 723-8040

Durango
850 E. 2nd Avenue
Durango, CO 81301
(970) 259-1540

Grand Junction
2452 Patterson Road
Suite 101
Grand Junction, CO 81505
(970) 243-1784

Greeley
4505 W. 29th Street
Greeley, CO 80634
(970) 330-4071

Montrose
1404 Hawk Parkway
Suite 101
Montrose, CO 81401
(970) 249-5274

KANSAS

Concordia
102 E. 9th Street
Concordia, KS 66901
(785) 243-4689

Dodge City
1501 Soule Street
Dodge City, KS 67801
(620) 227-8211

Garden City
1606 E. Kansas Avenue
Garden City, KS 67846
(620) 275-4281

Great Bend
5634 10th Street
Great Bend, KS 67530
(620) 792-2211

Hutchinson
1902 E. 23rd Street
Hutchinson, KS 67502
(620) 663-3305

Liberal
2451 N. Kansas Avenue
Liberal, KS 67901
(620) 624-0171

Pratt
706 S. Main Street
Pratt, KS 67124
(620) 672-7406

Salina
925 W. Magnolia Road
Salina, KS 67401
(785) 825-4641

Scott City
1422 S. Main Street
Scott City, KS 67871
(620) 872-5391

Wichita
4105 N. Ridge Road
Wichita, KS 67205
(316) 721-1100

NEVADA

Elko
978 Commercial Street
Elko, NV 89801
(775) 738-8496

Fallon
1440 W. Williams Avenue
Fallon, NV 89406
(775) 423-3136

Reno
255 W. Peckham Lane
Suite 1
Reno, NV 89509
(775) 825-7282

OKLAHOMA

Ponca City
1909 Lake Road
Ponca City, OK 74604
(580) 765-5690

OREGON

Lake Oswego
5000 Meadows Road
Suite 320
Lake Oswego, OR 97035
(503) 639-7563

All owned office buildings and land are pledged to CoBank as collateral for the note payable.


American AgCredit
MONEY FOR AGRICULTURE