COMPEER FINANCIAL

Together: PARTNERS IN RURAL AMERICA

2018 Annual Report

CONTENTS

Together: PARTNERS IN RURAL AMERICA

When you think of rural America, several things may come to mind: farms and barns, bountiful crops and healthy livestock.

But what makes it real?

The people.

As Compeer Financial recaps the financial progress of the cooperative in 2018, the numbers tell just part of the story. The real story is the people who played a part in shaping the year – Partnerships between member-owners and team members, agriculture industry leaders and Compeer Financial leaders, as well as rural communities and the people who live and work there.

From client success, to supporting rural America, to team members who are passionate about what they do, Compeer Financial is about people. Out of 43,000 clients, 1,200 team members and 17 directors at Compeer Financial, we're telling just four stories.

Together: Partners in Rural America.

Executive LEADERSHIP TEAM

Compeer Financial is led by a 10-member Executive Leadership Team. They oversee the day-to-day operations of the cooperative. Together, they have more than 230 years of service to the Farm Credit System.

ROD HEBRINK
President & CEO

MATT GINDER
Chief Core Markets Officer

MARK GREENWOOD
Chief Diversified Markets Officer

JOHN HEMSTOCK
Chief Talent & Technology Officer

TERRY HINDS
Chief Risk Officer

PAUL KOHLS
Chief Lending Operations Officer & Legal Counsel

JOHN MONSON
Chief Mission & Marketing Officer

TIM TRACY
Chief Credit Officer

JASE WAGNER
Chief Financial Officer

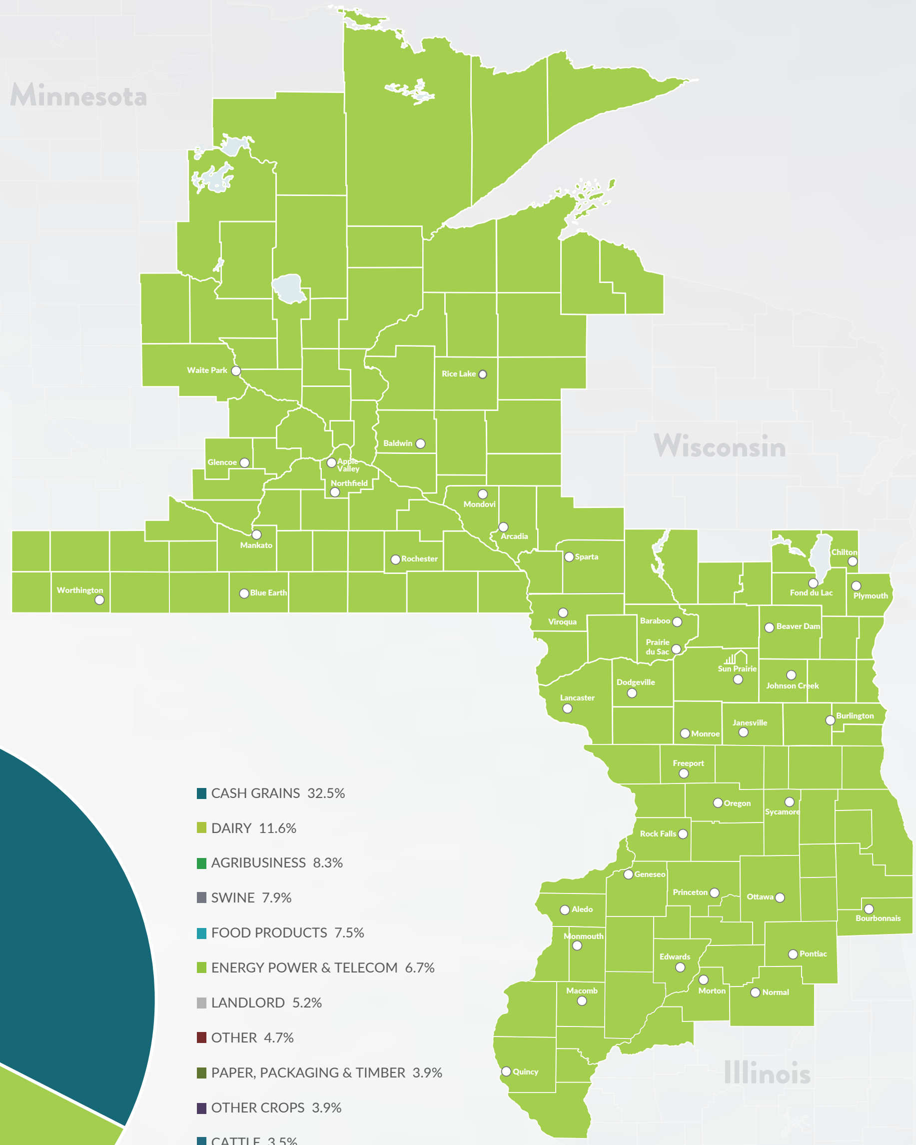
JERRY WIESE
Chief Information Officer

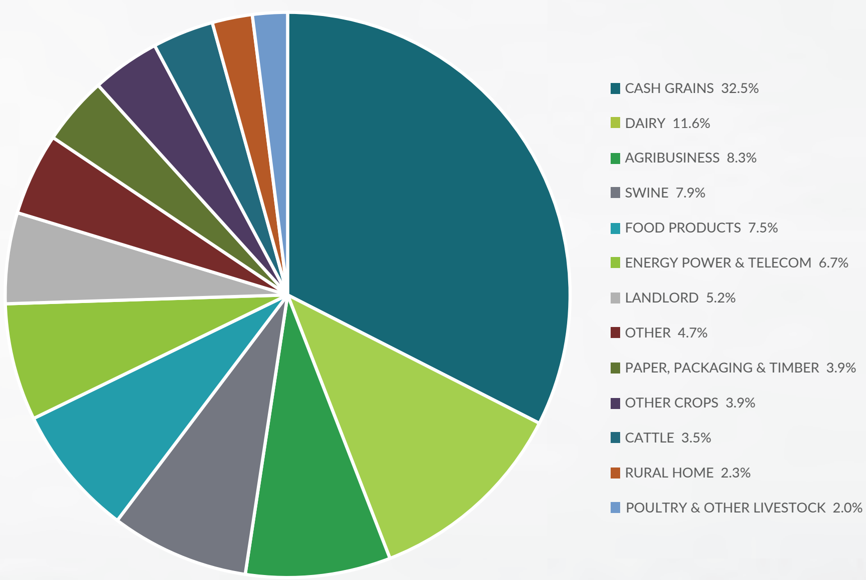
Board of DIRECTORS

The member-owners of Compeer Financial are represented by 17 directors, 14 of which are elected and three are appointed. The Board of Directors bring a diverse viewpoint, representing different farming and agriculture industries and geographic locations. Collectively, they have more than 200 years of experience serving Farm Credit cooperatives.

Sitting, left to right: Stephanie Wise, Dan Erickson, Ann Broome, Greg Pollesch, Mark Cade: Chairperson, Dale Holmgren: Vice Chairperson, and Tim Evert; Standing, left to right: David Peters, Kathleen Hainline, Lori Meinholz, Terry Ebeling, Roger Newell, Kaye Compart, Kevin Aves, Greg Nelson, Dan Zimmerman, and Larry Fischer

COM – PEER // NOUN:
A person of equal rank, status or ability.





Our Mission: Enriching Agriculture and Rural America

Proud to be a Cooperative

SERVING RURAL AMERICA

Compeer Financial is committed to the cooperative model and the value it brings to our member-owners, building on the legacy created by our prior organizations.

$166.3M

Patronage

In 2018, Compeer Financial returned a total of $166.3 million in Patronage. Clients received $118.6 million in allocated equity payments early in the year. In the summer, member-owners of Compeer Financial received cash patronage payments of $47.7 million.

$20.8B

Financial Assets & Equity

Compeer Financial grew total assets to $20.8 billion and increased total equity to $3.6 billion, in 2018.

1%

Giving Back to Rural America

In 2018, the Compeer Financial Fund For Rural America allocated one percent of net income to give back and support agriculture and rural America, including scholarships; grants; FFA and 4-H; and agriculture advocacy, education and leadership.

SERVICE IS AT THE HEART *of everything we do.*

Products and Services

Compeer Financial is dedicated to helping farmers and rural America by offering products and services including:

- Agriculture and Rural Financing
- Appraisals
- Crop Insurance
- Home Loans
- Leasing
- Agribusiness
- and More

Contact Center: (844) 426-6733

One phone number provides access to the Compeer Financial team, helping to quickly answer client questions or connecting clients with the team members they work with face-to-face. Open five days a week, the center helps clients with:

- Money Movement
- Loan Servicing
- Billing and Statement Questions
- Client Access Support
- Online Banking Support
- Fraud Reporting
- Client Event Registration
- Reaching Team Members

Online Banking

Compeer Financial strives to provide our clients with tools and resources to help clients manage their operations. Online banking is one of the tools offering many great features for clients, including:

- Ability to move money both internally and externally, including make loan payments
- Access images of credit line drafts
- Initiate domestic wire transfers
- Set-up electronic payroll payments
- Remote deposit capture capabilities
- Access electronic statements
- Export transaction history to Excel or Quickbooks

PARTNERSHIP:
Teamwork Plays a Starring Role

BLUE STAR DAIRY FARMS

Started in 1946 by William & Dorothy Meinholz

Grown to 2,600 cows in three locations and operates on 4,500 acres, with another 1,500 acres of feed purchased from neighbors

Middleton farm is managed by Art & Lori Meinholz, 2nd generation

DeForest and Arlington farms are managed by brothers Craig & Sherri and Brian & Rhonda Meinholz, 3rd generation

Brian and Craig Meinholz, Blue Star Dairy Farms

DEFOREST, WIS. – Partnerships are at the core of Blue Star Dairy Farms.

From working with their 60 member team, to bringing local kindergarten students on the farm, to working with Compeer Financial, Office Manager Sherri Meinholz says partnerships are key to their longevity and commitment to agriculture.

"With everyone we work with – our team, the cooperatives, industry peers and our lending partner – taking advantage of those partnerships has allowed us to challenge ourselves to ensure we are running as efficiently as possible," she said.

William and Dorothy Meinholz started Blue Star Dairy Farms in 1946. The farm is now run in part by the second and third generation in three different locations in southern Wisconsin.

The family works alongside their team, milking 2,600 cows three times a day utilizing various sizes of Germania Herringbone parlors at each site.

When she was 15, Meinholz, who grew up on a small dairy farm, got asked on a date by Craig at a local county fair. A few years later, they were married. In 2004, Meinholz took on an office role with the family farm, which has expanded from bookkeeping to helping manage the workforce and handling community relations.

The dairy was featured as a virtual farm tour at the 2018 World Dairy Expo, showcasing how they incorporate team members into the operation. With policies and procedures in place for nearly every task on the farm, team members become more specialized in key areas.

Moreover, Meinholz said this approach has created long-term careers.

"Over the years, we have seen the returns of treating our team members as part of the family, offering housing, having monthly team meetings and offering a benefits package," Meinholz said. "We have been able to retain a strong base of team members."

Meinholz said one of her favorite parts of the job is being able to host community events at the different farm locations. Each year, they have kindergarten and fourth-grade students visit the farms, and host Day on the Farm events for local FFA chapters.

"Being able to tell our story and allow hands-on experiences to teach people about where their food comes from is extremely rewarding," she said. "We view our communities as invaluable partners and a terrific support system."

As a member-owner of Compeer Financial, Blue Star Dairy Farms has built a valuable relationship with the cooperative and its team member, which has lasted more than 40 years.

Mary Elvekrog, a senior dairy lending specialist with Compeer, said the multigenerational partnership has been built on trust and open communication.

"When I started in 1981, they were one of my first clients I got to work with. Over the years I've worked with four generations of Meinholz family members." Elvekrog said. "Building that partnership and being a part of their team are extremely rewarding."

Looking down the road to the future, Blue Star Dairy Farms is bringing on the fourth generation of farmers, including Craig and Sherri's son Austin, who remains on the farm while working towards his business management degree.

Meinholz said the key is to bring passion to the farm daily.

"It fuels my dedication for my family, our animals, and our team – I have tremendous faith in the team around us, both on and off the farm, that they will continue to push us to endure and leave a legacy to pass on to the next generation," she said.

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SHERRI MEINHOLZ, WISCONSIN

EDUCATION:

Learning Starts with a Community

HIGHLAND COMMUNITY COLLEGE
Freeport, Ill.

70 students enrolled in agriculture classes

Justin Ebert and Monica Pierce serve as agriculture instructors

Compeer Financial supports with service by team members and scholarships and grants from the Fund for Rural America

Justin Ebert, agriculture instructor

FREEPORT, Ill. – Across the country, agriculture education continues to face challenges.

From teacher shortages to funding cuts, farmers and rural communities continue to rally around programs working to keep agriculture education in their schools.

For Highland Community College in Freeport, Ill., their agriculture community sent a clear message: agriculture education is going to thrive here.

"In the past five years, we have been able to double our agriculture enrollment," said Justin Ebert, who joined the faculty at Highland about six years ago. "Our agriculture community rallied around us to raise funds for new projects and equipment."

Along with growing enrollment in the agriculture program to about 70 students and holding steady, several new courses focusing on technology and science aspects of agriculture were added.

College administration seized the momentum, adding a second teacher and repurposing a building to become the center for agriculture on campus.

"About eight years ago, the program was in jeopardy, and there was just no good reason for it to be that way," said Tim Hood, president of the college. "We are a rural community. We had very strong board support for agriculture. Agriculture businesses and leaders really helped rejuvenate the program and get it where it should be."

Compeer Financial is one of the community businesses that turned to help Highland. The support from local team members has included serving on the agriculture advisory council, volunteering for event committees and speaking to students in classes.

Kurt Zuck, who leads Compeer Financial teams serving northwestern Illinois and southwest Wisconsin, said the leadership at Highland made supporting the program an easy decision.

"As a local cooperative doing business in Freeport and the surrounding counties, Compeer Financial has felt the impacts of Highland in many ways," said Zuck, a vice president of core markets. "We have graduates of the program who work for us or who are now farming and doing business with us. Maybe most importantly, the agriculture program is teaching those who don't come from a farm, about agriculture and all the opportunities that exist in the industry."

The Compeer Financial Fund for Rural America, the corporate giving program of Compeer, has also supported Highland with a general use grant to add a new drone for precision agriculture classes and scholarships for students.

"Receiving a Compeer Financial scholarship has helped me focus on my classes, and not worry about working long hours at a job to pay for tuition," said Gwen Heimerdinger, an agriculture business major from Pearl City. "I also wanted to be close to home, so I could still help on my family's farm while I was in college."

Ebert and his fellow instructor, Monica Pierce, both served as high school agriculture teachers and FFA advisors before joining the faculty at Highland. They both knew the support from the community made the program even stronger.

"The community support is outstanding," Pierce said. "They are fired up about the program and our future. It's an exciting place to be: helping others discover their future in our agriculture community."

Gwen Heimerdinger, agriculture student

DEDICATION:

Appraising Decades of Rural Opportunities

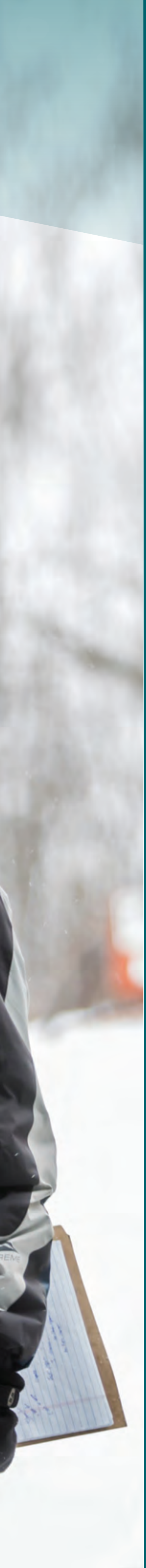
DAVID JOOS
Janesville, Wis.

Senior Certified Appraiser

Celebrating 46 years with the Farm Credit System

Has completed appraisal work in more than 20 Wisconsin counties

Family: Married to Sue, with two grown sons and eight grandchildren



JANESVILLE, Wis. – Focusing on taking care of clients has always been a top priority for David Joos.

Beginning his career with the Farm Credit System in October 1972, Joos has seen his fair share of changes through the years with how the day-to-day operations function.

"Obviously technology has been a huge factor in accelerating the process to do our work more efficiently, and we are better serving our clients because of it," Joos said.

After growing up on a small dairy farm in Jackson County, Wis., Joos earned a degree in agricultural business from the University of Wisconsin – River Falls. He began his training with the Federal Land Bank in October 1972, and after six months of training, he accepted a full-time position in Janesville.

Joos worked for 13 years as a loan officer with the Federal Land Bank Association until it merged with Federal Credit Bank to create Farm Credit. For five years post-merger, Joos worked as an internal review officer. In the fall of 1990 he was awarded the designation, ARA, Accredited Rural Appraiser, from the American Society of Farm Managers and Rural Appraiser. In January of 1992 he became a Wisconsin Certified General Appraiser.

"David is a very dedicated employee and an exceptional appraiser," said Ed Thornton, a principal certified appraiser who has worked alongside Joos for years. "He is very detailed and thorough yet gets a lot of work done. David is a great team member."

Joos currently serves as one of Compeer's appraisers, working on a variety of assignments from land to buildings, and other specialized properties. He focuses on unique property types including cranberry farms; conducting appraisals to serve the Wisconsin cranberry industry, the largest cranberry producing state in the United States.

"The appraisal role has definitely thrown challenges at me," Joos said. "Thankfully – due to the technologies we now have in place – what used to be an extremely tedious process has become much more streamlined, and, thanks to electronic files, it's cut down on travel time to track down all the proper documents."

One of the highlights for Joos is the time he gets to spend out in the rural communities he serves, building relationships with clients that have lasted for generations.

When Joos takes the time to reflect on a career spanning more than four decades, he is proud of his personal milestones and the impact he has had within the organization and his team – training and sharing his own experiences with new team members.

He credits several mergers, which eventually created Compeer Financial, with bringing the best of each organization forward, providing even more reliable service to clients.

"With the different teams coming together to form Compeer Financial – we have been able to become an even stronger asset and resource to the agriculture and rural communities we serve," Joos said. "Building those key partnerships has allowed us to do the job better."

As he watches Compeer Financial continue to change and evolve, the advice he would share with new and seasoned team members: Embrace the changes ahead.

"Nothing continues to be more rewarding in my career than the ability to provide Compeer Financial's services to operations that trust our tools and resources to help them succeed," he said.

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DAVID JOOS, WISCONSIN

COMMITMENT:

Embracing Her Agricultural Roots

ELLEN DAHL

Worthington, Minn.

Crop Insurance Officer

Started in May 2018

Interned at Compeer Financial for two summers

Loves the Minnesota State Fair and attends every year

WORTHINGTON, Minn. – At age 18, Ellen Dahl found herself in the beautiful city of Duluth, Minn., situated on the shores of Lake Superior.

She was a college freshman at the University of Minnesota – Duluth, involved in a serious relationship with her boyfriend, and playing club volleyball, which is one of her passions.

But, something was missing.

Dahl, who is typically optimistic and happy, was feeling unsatisfied and disconnected.

When she went home to the southwestern Minnesota community of Luverne, Dahl discovered the problem. She missed being part of a farming community. She missed the mindset, work ethic, traditions, lifestyle and — most of all —the people associated with agriculture.

The next fall, she transferred to South Dakota State University in Brookings, and it immediately felt right.

"The change in my attitude was tangible," Dahl said. "Early in the semester, I went to talk to my professor about missing a few days of class for the Minnesota State Fair, and there was a line of students waiting to tell him the same thing. I knew I'd found my place."

The state fair, known as the Great Minnesota Get-Together, is an important ritual in Dahl's life. She has never missed attending and showed cattle and sheep as a member of the local 4-H Club, "The Blue Mound Climbers" throughout school.

According to Dahl, everything clicked into place the day she met with her professor.

"Knowing that the fair, and farming in general, were important for my classmates and professors made all the difference," she said. "It was obvious that their priorities aligned with my own. Everything about it felt like 'home.'"

Now 23, Dahl is a college graduate and engaged to that serious boyfriend, Skyler.

But most importantly, she's found another place that gives her the same feeling of contentment and community: Compeer Financial.

As a crop insurance officer, Dahl works with clients on their risk management programs, something she is very passionate about.

"I've known farmers all my life. There are no better people," Dahl said. "Now, being a position to help them and provide professional guidance and comfort in a specific area is such a privilege.

"The fact that I'm allowed to do this so close to home in the Worthington office is the icing on the cake. I'm spoiled being a part of the best team. We always help each other and work to do what's best for our clients."

To Dahl, it's precisely as it should be for an organization that works to be "Partners in Rural America."

"This is exactly where I'm meant to be," she said. "I envision farming as a team approach with the farmer as the lead partnering with people in finance, insurance, and the community. We're here to provide opportunities, economically and socially, for rural communities and residents."

Together: PARTNERS IN RURAL AMERICA

Dear Member-Owners,

As we close our 2018, we're sure many of you are reflecting on a year of volatility. There's a lot of uncertainty in the markets and, as a result, in your business outcomes as well. One thing we want you to remember is Together: We're Partners in Rural America. Compeer Financial is here for you – for your operations, families, communities and industries.

Whether it be to navigate the challenges of a down cycle, make additional commitments to ensure rural America thrives, return patronage dollars to you or provide support to 4-H, FFA or local fire departments; Together, We're Partners.

We're pleased to share the 2018 financial results of Compeer Financial are strong. Since the merger that created Compeer Financial, we've made significant strides on our business objectives and are continuing to see the benefits of a more diverse portfolio. The results are improved earnings and solid financial performance, allowing us to return more to those we serve.

Compeer Financial posted earnings of nearly $404 million for 2018. While you may remember last year's earnings being lower, that was a result of merging and forming a new cooperative halfway through the year. We're pleased with the momentum we are seeing and the benefits from Compeer's diverse portfolio, enabling us to return a greater share of earnings in patronage. The business is performing to the expectations we set and shared with all of our member-owners through the merger process.

Volatile Markets

Today's markets are tough, and we're prepared to face the challenges with you. Compeer Financial's philosophy is to work with producers in all the industries we serve, under all economic conditions. We have invested in a team of experts to guide you through your current circumstances, so you can achieve optimal outcomes and see promise for the future. We have perspective that can widen the lens of opportunity, looking at situations in different ways to attain goals that may have previously seemed out of reach. Evolving your plans, considering a new approach, being open to alternate financial strategies are all critical responses to a shifting economy. As is the case with production decisions, there is no single prescription when it comes to financial management on the farm. Each client is different and each solution is unique. Compeer Financial is here as your partner to find the solutions that work for you and your operation.

Patronage

Around the holidays, Compeer Financial announced we will be paying out nearly $152 million in patronage in 2019.

At Compeer Financial, we're most fulfilled when we see our member-owners benefit from the partnership we have together. Sharing the success of our organization is the foundation of all we do. During these challenging times, we hope this makes a difference in your operation.

Investing in Rural America

Compeer Financial has committed to giving back one percent of our earnings annually, which equated to about $3.2 million in 2018. Through feedback from you and our team members, we've been able to make substantial impacts to organizations, causes and efforts that matter to you, agriculture and rural America.

From supporting rural development and community enrichment with 64 county fair facility upgrade grants and 163 emergency response equipment grants, to education by awarding 105 high school senior scholarships and 67 agriculture education and classroom equipment grants, to supporting 4-H and FFA with nearly $130,000 – we're here to partner with you, your families and our communities.

Additionally, as your neighbor and resource, when parts of Wisconsin suffered substantial home, farmstead and building damage as a result of the devastating rain and flooding in late August and early September, Compeer Financial stepped in and donated $50,000 to farmers, clients and team members to help.

We are proud to be here for you as a trusted financial services partner advancing agriculture and rural America.

This year, we saw the benefits of a more diverse portfolio, making strides in our business objectives and showing strong financial performance. It has allowed us to better serve our clients and #ChampionRural.

We hope you continue to choose Compeer Financial as your partner in rural America for years to come.

Rod Hebrink, President and CEO

Mark Cade, Chairperson of the Board

Together: PARTNERS IN RURAL AMERICA

2018 Annual Report

COMPEER FINANCIAL®

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Compeer Financial, ACA

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Compeer Financial, ACA

(dollars in thousands)

As of December 31	2018	2017	2016	2015	2014
Statement of Condition Data					
Loans held to maturity	**$ 18,753,659**	$ 17,749,021	$ 8,152,435	$ 7,572,042	$ 6,899,646
Allowance for loan losses	**59,928**	48,849	36,018	27,071	23,655
Net loans held to maturity	**18,693,731**	17,700,172	8,116,417	7,544,971	6,875,991
Loans held for sale	**18,496**	30,062	27,370	35,380	7,899
Net loans	**18,712,227**	17,730,234	8,143,787	7,580,351	6,883,890
Unrestricted cash	**2,300**	2,200	2,200	1,900	--
Investment securities	**995,140**	879,258	473,248	442,972	481,936
Investment in AgriBank, FCB	**567,596**	514,712	180,812	171,395	142,098
Other property owned	**167**	954	840	1,060	3,140
Other assets	**476,807**	417,993	179,780	164,032	161,176
Total assets	**$ 20,754,237**	$ 19,545,351	$ 8,980,667	$ 8,361,710	$ 7,672,240
Obligations with maturities of one year or less	**$ 413,132**	$ 16,133,714	$ 7,665,199	$ 7,035,085	$ 6,434,693
Obligations with maturities greater than one year	**16,739,126**	--	--	99,491	99,369
Total liabilities	**17,152,258**	16,133,714	7,665,199	7,134,576	6,534,062
Preferred stock	**100,000**	100,000	100,000	100,000	100,000
Capital stock and participation certificates	**33,062**	34,213	15,934	16,085	16,177
Additional paid-in capital	**1,780,603**	1,780,603	--	--	--
Allocated surplus	**426,776**	523,252	441,122	406,758	371,004
Unallocated surplus	**1,272,556**	980,818	758,412	704,291	650,915
Accumulated other comprehensive (loss) income	**(11,018)**	(7,249)	--	--	82
Total equity	**3,601,979**	3,411,637	1,315,468	1,227,134	1,138,178
Total liabilities and equity	**$ 20,754,237**	$ 19,545,351	$ 8,980,667	$ 8,361,710	$ 7,672,240

For the year ended December 31	2018	2017	2016	2015	2014
Statement of Income Data					
Net interest income	**$ 474,567**	$ 347,964	$ 206,793	$ 197,568	$ 187,480
Provision for loan losses	**15,249**	13,806	10,082	5,939	1,084
Other expenses, net	**55,472**	69,300	67,474	67,727	69,007
Net income	**$ 403,846**	$ 264,858	$ 129,237	$ 123,902	$ 117,389
Key Financial Ratios					
For the Year					
Return on average assets	**2.0%**	1.9%	1.5%	1.6%	1.6%
Return on average equity	**11.5%**	11.1%	10.1%	10.4%	10.7%
Net interest income as a percentage of average earning assets	**2.5%**	2.6%	2.5%	2.7%	2.7%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%	0.0%	0.0%
At Year End					
Equity as a percentage of total assets	**17.4%**	17.5%	14.6%	14.7%	14.8%
Allowance for loan losses as a percentage of loans	**0.3%**	0.3%	0.4%	0.4%	0.3%
Capital ratios effective beginning January 1, 2017:					
Common equity tier 1 ratio	**14.7%**	14.2%	N/A	N/A	N/A
Tier 1 capital ratio	**15.2%**	14.7%	N/A	N/A	N/A
Total capital ratio	**15.6%**	15.1%	N/A	N/A	N/A
Permanent capital ratio	**15.7%**	15.7%	N/A	N/A	N/A
Tier 1 leverage ratio	**15.3%**	15.0%	N/A	N/A	N/A
Capital ratios effective prior to 2017:					
Permanent capital ratio	**N/A**	N/A	14.1%	14.8%	15.7%
Total surplus ratio	**N/A**	N/A	14.0%	14.5%	15.4%
Core surplus ratio	**N/A**	N/A	12.1%	12.3%	12.9%
Net Income Distributed					
For the Year					
Patronage distributions:[1]					
Cash	**$ 47,728**	$ --	$ --	$ --	$ --
Redemption of allocated surplus	**118,561**	25,847	32,168	26,655	27,758
Allocated surplus	**--**	28,570	67,070	62,908	60,004
Other distributions	**1,562**	1,296	868	609	88
Preferred stock dividends	**6,750**	6,750	6,750	6,750	6,749
Other					
Pool program loans serviced for AgriBank, FCB	**2,088,888**	1,807,402	221,582	256,550	74,040

[1]Additional information regarding the patronage programs is included in Note 11 to the accompanying Consolidated Financial Statements.

The effect of the merger is reflected beginning in the 2017 balances in the chart above. Additional merger information is included in Note 1.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Compeer Financial, ACA

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

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of January 1, 2019, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 69 customer-owned cooperative lending institutions (associations). The System serves all 50 states, Washington D.C., and Puerto Rico. This network of financial cooperatives is owned and governed by the rural customers the System serves.

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

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

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

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

AgriBank, FCB
30 East 7th Street, Suite 1600
St. Paul, MN 55101
(651) 282-8800
www.agribank.com
financialreporting@agribank.com

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

MERGER ACTIVITY

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

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

FORWARD-LOOKING INFORMATION

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

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

AGRICULTURAL AND ECONOMIC CONDITIONS

The credit portfolio includes several large, yet diverse sectors in production agriculture with a large portion of income generated from the primary industries of grain, dairy, and swine. Production agriculture profitability varied widely in 2018 due to a number of competing economic and agricultural conditions. Throughout the year, markets continuously adjusted to the volatility of international trade developments, while production remained robust. Depending upon the commodity produced, the impact of geopolitical factors, and overall production costs, profitability prospects remained challenging in many segments. However, solid domestic macroeconomic conditions helped the rural housing, energy, as well as food processing and distribution segments, which also comprise a significant portion of the portfolio. Overall, our credit quality remained stable.

The United States Department of Agriculture (USDA) projects net farm income for 2018 at $66.3 billion, a $9.1 billion, or 12.1% decrease from 2017. If realized, the forecasted decrease for 2018 would be below the widely publicized 10-year average net farm income of $86.2 billion. However, the 10-year average includes a notably robust period from 2011 to 2014, when prices for many major commodities attained record or near-record highs. Therefore, while below the levels of 2017, the 2018 forecast does remain above the 2016 level in inflation adjusted dollars. Additionally, net cash income, a measure of cash flow rather than accrual income, is also projected down for 2018 ($8.5 billion), to $93.4 billion.

Trade issues dominated the headlines for much of 2018 with effects that continue to weigh on many agriculture sectors. Since 2008, U.S. agricultural exports have accounted for approximately a 20% share of U.S. farm production, and as such, foreign trade can have a significant impact on farmer profitability. Trade disputes, abundant international supplies, and strong competition from major foreign competitors softened demand for many U.S. agricultural goods. Additionally, the ongoing U.S.-China trade quarrel could shift certain global trade patterns. Nevertheless, the aggregate value of U.S. exports is expected to hold steady for 2018. Agricultural exports are forecast to be flat at $143.4 billion for the year. The full year impact, any potential resolution, and/or global production levels will likely drive results for 2019.

Yield in grain production remained strong and cash prices were driven in large part due to geopolitical factors, particularly among soybeans. Within the December 11, 2018, World Agricultural Supply and Demand Estimates (WASDE), the USDA projects 2018/19 U.S. corn production at 14.6 billion bushels, similar to the estimated 2017/18 production. Projected average yield is above trend-line, at 178.9 bushels per acre, with projected ending stocks at 1.8 billion bushels. The estimate for 2018/19 season-average corn price received by producers is between $3.25 and $3.95 per bushel, compared to an estimated $3.36 for the previous crop year. The USDA projection for 2018/19 soybean production is 4.6 billion bushels, 4.3% above the estimated 2017/18 production, with yield per harvested acre above trend-line at 52.1 bushels. The 2018/19 season-average soybean price projection is between $7.85 and $9.35 per bushel, compared to an estimated $9.33 per bushel for the previous crop year. The retaliatory pattern of U.S.-China tariffs significantly impacted soybean market prices as the year progressed. Recognizing the impact on U.S. farmers, USDA's Market Facilitation Program payments of $1.65 per bushel were announced to counter the soybean price impact of this disruption.

Profitability in the dairy industry remains elusive, as milk supplies continue to outpace demand, leading to low milk prices for most of 2018. Production growth slowed through the year and is forecast to be 1.1% above 2017 production. Domestic demand was good, but trade issues slowed exports, particularly in the second half of the year. Increased productivity per cow continues to lead to production growth, as milk cow numbers have declined 38,000 head from a year ago. Excess milk supplies, particularly in the Mideast region, have pressured basis across the Midwest and eastern U.S. as milk is trucked longer distances to be processed. The USDA forecasts an average price received by farmers for all milk of $16.15 to $16.25 per hundred weight in 2018, significantly below the $17.65 received during 2017. We expect many dairy producers will be at or below breakeven for the year as producers are challenged to lower production cost to adjust to lower milk prices. Smaller to mid-sized producers are particularly challenged with higher labor costs impacting overall cost. Outlook for 2019 is for milk prices to continue at low levels through the first part of the year and then increase with expected slower production growth in the U.S. and Europe and potential resolution to trade issues with Mexico and Canada through passage of the U.S.-Mexico-Canada (USMCA) trade agreement. The new farm bill contains provisions that could provide enhanced margin coverage for smaller producers and price risk protection options for all producers.

Hog margins generally remained below breakeven through year end, in large part due to expanded production and geopolitical influence of the above-mentioned Chinese tariffs and the renegotiation of the North American Free Trade Agreement (NAFTA). As of December 2018, there were 74.6 million hogs and pigs on U.S. farms, up 2% from a year ago, according to the Quarterly Hogs and Pigs report published by USDA's National Agricultural Statistics Service. Hog producers intended to farrow 3.1 million sows during the December to February 2019 quarter, up 2% from the same period a year ago. Exports play a noteworthy role in the marginal contribution to producers, and as an industry relies considerably on a growing U.S. export market. The replacement of NAFTA with the new USMCA trade agreement is a positive step and expected in early 2019. If enacted, this will ease tariffs and is expected to lead to margin improvement for hogs.

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

A portion of our portfolio is comprised of industries not directly affected by agricultural conditions, but rather by factors influencing the general economy. In particular, economic and secular conditions remain favorable to the housing market. According to the CoreLogic Home Price Index, home prices nationwide increased 5.1% year over year (November 2018). CoreLogic expects appreciation to slow over the coming year to 4.8% as headwinds of interest rates and affordability affect new and existing home sales. However, U.S. home ownership remains low at 64.4%, slightly above the 50-year low, and the millennial generation is approaching home-formation age, which may indicate a pent-up demand for homes. Food processing and distribution is benefiting from trends in personal spending and consumption, as well as the strong levels of employment. The national unemployment rate remains near historic lows at 3.9% per the U.S. Bureau of Labor Statistics. While still significantly underserved, rural power and telecommunication segments have benefitted from strong national economic growth. The U.S. Congressional Budget Office forecasts real gross domestic product growth of 3.1% in 2018 and 2.4% in 2019.

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

LOANS HELD TO MATURITY

Loan Portfolio

Total loans held to maturity and finance and conditional sales leases (hereinafter collectively referred to as loans) were $18.8 billion at December 31, 2018, an increase of $1.0 billion from December 31, 2017.

Components of Loans

(in thousands)

As of December 31	2018	2017	2016
Accrual loans:			
Real estate mortgage	**$ 9,139,140**	$ 8,628,075	$ 4,027,084
Production and intermediate-term	**3,949,669**	4,354,632	1,993,049
Agribusiness	**3,624,403**	2,942,806	1,198,963
Other	**1,925,553**	1,733,044	872,478
Nonaccrual loans	**114,894**	90,464	60,861
Total loans	**$ 18,753,659**	$ 17,749,021	$ 8,152,435

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

The increase in total loans from December 31, 2017, was primarily driven by growth in real estate mortgage and agribusiness loans, particularly within the food and agribusiness, capital markets, and Agri-Access sectors. This growth was partially offset by the sale of loans into pool programs. On December 1, 2018, we sold AgriBank a 100% participation interest in production and intermediate-term loans associated with the ProPartners Financial (ProPartners) alliance totaling $452.8 million. On December 1, 2018, we also sold AgriBank a participation interest in consumer real estate loans under the Consumer Mortgage Asset Pool program totaling $90.4 million.

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

We have sold AgriBank participation interests in certain loans as part of pool programs to optimally manage Association and Bank capital. The total outstanding participation interests in these programs were $2.1 billion, $1.8 billion, and $221.6 million at December 31, 2018, 2017, and 2016, respectively.

Portfolio Distribution

We are chartered to serve certain counties in Illinois, Minnesota, and Wisconsin. At December 31, 2018, approximately 22.7% of our loan portfolio was within our territory in Illinois, 21.1% was within our territory in Minnesota, 19.0% was within our territory in Wisconsin, 0.6% was in Illinois outside our territory, 1.3% was in Minnesota outside our territory, and 1.3% was in Wisconsin outside our territory. The remainder of our portfolio is purchased outside of Illinois, Minnesota, and Wisconsin to support rural America and to diversify our portfolio risk.

Agricultural Concentrations

As of December 31	2018	2017	2016
Cash grains	**32.5%**	35.2%	33.1%
Dairy	**11.6%**	11.5%	9.2%
Agribusiness	**8.3%**	7.9%	6.2%
Swine	**7.9%**	8.0%	11.1%
Food products	**7.5%**	5.4%	5.5%
Energy power and telecom	**6.7%**	6.2%	7.6%
Landlords	**5.2%**	5.5%	3.2%
Other crops	**3.9%**	3.0%	2.5%
Paper, packaging, and timber	**3.9%**	4.3%	5.5%
Cattle	**3.5%**	3.0%	4.6%
Rural home	**2.3%**	2.6%	5.5%
Poultry and other livestock	**2.0%**	2.7%	1.8%
Other	**4.7%**	4.7%	4.2%
Total	**100.0%**	100.0%	100.0%

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

Our production and intermediate-term loan portfolio exhibits some seasonality relating to patterns of operating loans made to livestock, crop, and agribusiness operations.

Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2017. Adversely classified loans increased to 3.0% of the portfolio at December 31, 2018, from 2.4% of the portfolio at December 31, 2017. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

Most dairy producers experienced reduced margins during 2018, compared to already tight margins in 2017, due to elevated milk production and trade disruption driving lower milk prices. For the year, most operations will be at or below break-even depending upon marketing and production. Dairy margins remain depressed, and the outlook for 2019 is to be break-even or below levels for most producers.

Pork profitability was less favorable than 2017 levels as trade disruption drove prices lower for many producers. Strong risk management within the industry likely led most producers to break-even or slight profits in 2018, though 2019 opportunities appear more limited. Volatility will continue to be the norm, and margin management is key to ongoing viability.

Crop producers continue to experience years of strong production that outstrips demand. Credit quality in the segment is less favorable than in 2017 as non-adverse assets declined to 96% in 2018. With generally favorable conditions for U.S. corn and soybean production again in 2018, prices remained low. As such, we expect grain producer incomes to be around break-even to moderate losses. Strong equity positions should be maintained, but we continue to expect to see tight margins pose challenges for some producers during the next 12 to 24 months. Trade disruption, particularly for soybeans, coupled with high domestic stocks of corn and soybeans maintained elevated ending stocks. Grain producers in Minnesota, Illinois, and Wisconsin generally experienced a strong production year in 2018.

Conditions the past two to three years have been stable overall, resulting in generally positive performance for agribusinesses. Ethanol assets are part of the energy, power, and telecom segment, and credit quality in this segment remained at sound levels even as margins declined in 2018. Ethanol margins were around break-even throughout much of 2018.

In addition, significant steps to manage risk in the portfolio have been taken through enhancement of risk management among clients and continuing efforts on Compeer Financial ACA's part to promote financial counseling.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. To some level, $889.2 million, $870.2 million, and $203.5 million of our loans were guaranteed under these government programs at December 31, 2018, 2017, and 2016, respectively. In addition, $485.5 million, $490.1 million, and $474.4 million of our loans were to some level guaranteed through the Federal Agricultural Mortgage Corporation (Farmer Mac) Standby Commitment Program at December 31, 2018, 2017, and 2016, respectively.

Risk Assets

Components of Risk Assets

(dollars in thousands)

As of December 31	**2018**	2017	2016
Loans:			
Nonaccrual	**$ 114,894**	$ 90,464	$ 60,861
Accruing restructured	**11,278**	12,121	24,417
Accruing loans 90 days or more past due	**7,427**	133	738
Total risk loans	**133,599**	102,718	86,016
Other property owned	**167**	954	840
Total risk assets	**$ 133,766**	$ 103,672	$ 86,856
Total risk loans as a percentage of total loans	**0.7%**	0.6%	1.0%
Nonaccrual loans as a percentage of total loans	**0.6%**	0.5%	0.7%
Current nonaccrual loans as a percentage of total nonaccrual loans	**36.4%**	38.0%	54.4%
Total delinquencies as a percentage of total loans	**0.8%**	0.7%	0.6%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2017, but have remained at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans were well within our established risk management guidelines.

Overall, nonaccrual loans remained at an acceptable level at December 31, 2018, 2017, and 2016, even with slight nonaccrual increases within the grain, dairy, and real estate sectors.

The increase in accruing loans 90 days or more past due was primarily driven by activity within the real estate portfolio, along with production agriculture loans. Our accounting policy requires loans past due 90 days or more to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, accruing loans 90 days or more past due were eligible to remain in accruing status.

Allowance for Loan Losses

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

Allowance Coverage Ratios

As of December 31	**2018**	2017	2016
Allowance as a percentage of:			
Loans	**0.3%**	0.3%	0.4%
Nonaccrual loans	**52.2%**	54.0%	59.2%
Total risk loans	**44.9%**	47.6%	41.9%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%
Adverse assets to risk funds	**18.2%**	14.6%	20.6%

Note: Risk funds includes permanent capital and allowance for loan losses.

The increase in our allowance for loan losses from December 31, 2017, was due to provision expense recorded primarily to reflect overall growth in the portfolio, and the increased risks noted above in the Portfolio Credit Quality and Risk Assets sections. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2018.

Additional loans held to maturity information is included in Notes 3, 14, 15, and 17 to the accompanying Consolidated Financial Statements.

LOANS HELD FOR SALE

We originate loans held for sale under our secondary market program, a rural residential mortgage program designed to provide qualified borrowers with options for competitive rate financing of rural homes in small towns or that are part of a hobby farm, pastureland, or tillable acreage. Loans closed under this program will be sold to and securitized by third party investors, Farmer Mac and Freddie Mac. The volume in this program was $18.5 million, $30.1 million, and $27.4 million at December 31, 2018, 2017, and 2016, respectively. We typically purchase the resulting securities, a portion of which we actively market and sell within 30 days of purchase. Refer to the Investment Securities section for additional information regarding these transactions. Additional loans held for sale information is included in Notes 4 and 17 to the accompanying Consolidated Financial Statements.

INVESTMENT SECURITIES

In addition to loans and leases, we held investment securities. We had held-to-maturity investment securities of $995.1 million, $879.3 million, and $473.2 million at December 31, 2018, 2017, and 2016, respectively. Our investment securities primarily include Mortgage-backed securities (MBS) issued by Farmer Mac or guaranteed by Small Business Administration (SBA) or USDA, Asset-backed securities issued and guaranteed by SBA and USDA, and bonds.

We purchase MBS investments, which may be held-to-maturity or available-for-sale and are included in “Investment securities” on the Consolidated Statements of Condition. Included within our held-to-maturity investment securities portfolio are Farmer Mac MBS of $877.9 million, $707.0 million, and $329.8 million as of December 31, 2018, 2017, and 2016, respectively. Our available-for-sale investments are the resulting securities from our RuraLiving® program. We sold available-for-sale investment securities with total sales proceeds of $86.7 million, $105.2 million, and $102.8 million during 2018, 2017, and 2016, respectively. These sales resulted in a loss of $511 thousand and $198 thousand during 2018 and 2017, respectively and gains of $659 thousand during 2016, which were recognized in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income. We had no outstanding available-for-sale investment securities at December 31, 2018, 2017, and 2016.

The investment portfolio is evaluated for other-than-temporary impairment. For the years ended December 31, 2018, 2017, and 2016, we have not recognized any impairment on our investment portfolio.

Additional investment securities information is included in Notes 5 and 17 to the accompanying Consolidated Financial Statements.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands)

For the year ended December 31	2018	2017	2016
Net income	**$ 403,846**	$ 264,858	$ 129,237
Return on average assets	**2.0%**	1.9%	1.5%
Return on average equity	**11.5%**	11.1%	10.1%

Changes in the chart above relate directly to:

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

Changes in Significant Components of Net Income

	For the year ended December 31			Increase (decrease) in net income	
(in thousands)	**2018**	2017	2016	**2018 vs 2017**	2017 vs 2016
Net interest income	**$ 474,567**	$ 347,964	$ 206,793	**$ 126,603**	$ 141,171
Provision for loan losses	**15,249**	13,806	10,082	**(1,443)**	(3,724)
Patronage income	**131,827**	90,137	27,519	**41,690**	62,618
Other income, net	**80,663**	58,764	45,448	**21,899**	13,316
Operating expenses	**263,978**	203,507	135,336	**(60,471)**	(68,171)
Provision for income taxes	**3,984**	14,694	5,105	**10,710**	(9,589)
Net income	**$ 403,846**	$ 264,858	$ 129,237	**$ 138,988**	$ 135,621

Net Interest Income

Changes in Net Interest Income

(in thousands)

For the year ended December 31	2018 vs 2017	2017 vs 2016
Changes in volume	**$ 147,453**	$ 131,484
Changes in interest rates	**(17,708)**	(1,141)
Changes in asset securitization	**133**	189
Changes in nonaccrual income and other	**(3,275)**	10,639
Net change	**$ 126,603**	$ 141,171

Net interest income included income on nonaccrual loans that totaled $7.3 million, $9.2 million, and $7.1 million in 2018, 2017, and 2016, respectively. Nonaccrual income is recognized when received in cash, collection of the recorded investment is fully expected, and prior charge-offs have been recovered.

Net interest margin (net interest income as a percentage of average earning assets) was 2.5%, 2.6%, and 2.5% in 2018, 2017, and 2016, respectively. Our net interest margin is sensitive to interest rate changes and competition.

Provision for Loan Losses

The increase in the provision for loan losses was related to our estimate of losses in our portfolio for the applicable years. Additional provisions booked during 2018 and 2017 also reflect the overall growth in loan volume, along with deterioration in the grain and dairy sectors of the portfolio. Additional discussion is included in the Portfolio Credit Quality section and in Note 3 to the accompanying Consolidated Financial Statements.

Patronage Income

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

Patronage Income

(in thousands)

For the year ended December 31		**2018**		2017		2016
Wholesale patronage	**$**	**87,820**	$	67,249	$	21,778
Asset pool patronage		**41,462**		21,973		5,705
AgDirect partnership distribution		**2,414**		845		--
Other Farm Credit Institutions		**131**		70		36
Total patronage income	**$**	**131,827**	$	90,137	$	27,519

Wholesale patronage income is based on the average balance of our note payable to AgriBank. The patronage rates were 54.1 basis points, 52.1 basis points, and 25.6 basis points in 2018, 2017, and 2016, respectively. The increase in the patronage rate in 2017 was primarily due to a change in AgriBank's capital plan effective July 1, 2017. The capital plan was modified to pay out 100% of net earnings beginning in 2017. Previously, 50% of net earnings was paid. Increases in patronage income were attributable to a full year of the merger being reflected in 2018 amounts, as compared to 2017 amounts reflecting only six months of the merged association. See the Relationship with AgriBank section for further discussion on patronage income.

We have participated in pool programs in which we sell participation interests in certain loans to AgriBank. As part of these programs, we received patronage income in an amount that approximated the net earnings of the loans. Net earnings represents the net interest income associated with these loans adjusted for certain fees and costs specific to the related loans as well as adjustments deemed appropriate by AgriBank related to the credit performance of the loans, as applicable. The patronage recorded in 2018 included $979 thousand of our share of distributions from the Allocated Insurance Reserve Accounts (AIRA) related to the participations sold to AgriBank. The AIRA was established by the FCSIC when premiums collected increased the level of the Farm Credit Insurance Fund beyond the required secured base amount of 2.0% of insured debt. There were no AIRA distributions in 2017 or 2016.

We also received a partnership distribution resulting from our participation in the AgDirect trade credit financing program. The AgDirect trade credit financing program is facilitated by another AgriBank District association through a limited liability partnership (AgDirect, LLP), in which we are a partial owner. AgriBank purchases a 100% participation interest in the program loans from AgDirect, LLP. Patronage distributions are paid to AgDirect, LLP, which in turn pays partnership distributions to the participating associations. We received a partnership distribution in an amount that approximated our share of the net earnings of the loans in the program, adjusted for required return on capital and servicing and origination fees. No partnership distribution was received in 2016.

Other Income, Net

The change in other income, net was primarily due to the increase in financially related services income, income related to an Allocated Insurance Reserve Accounts distribution, and changes in fee and miscellaneous income, net, with more specific changes noted below:

Financially related services income increased primarily due to increases in loan origination fees and appraisal fees.

We received distributions from AIRA of $10.9 million in 2018. The AIRA was established by the FCSIC when premiums collected increased the level of the Farm Credit Insurance Fund beyond the required secured base amount of 2.0% of insured debt. There were no AIRA distributions in 2017 or 2016.

Fee and miscellaneous income, net fluctuated due to the following:

We originated rural home loans for resale in the secondary market. We sold these rural home loans in the secondary market totaling $44.0 million, $48.5 million, and $58.0 million in 2018, 2017, and 2016, respectively. The fee income from this activity totaled $588 thousand, $919 thousand, and $1.4 million in 2018, 2017, and 2016, respectively. In addition, we sold loans in the secondary market through our RuraLiving® program totaling $85.9 million, $102.2 million, and $104.2 million in 2018, 2017, and 2016, respectively. The fee income from RuraLiving program sales totaled $367 thousand, $484 thousand, and $629 thousand in 2018, 2017, and 2016, respectively. All fee income amounts noted here are included in "Fee and miscellaneous income, net" in the accompanying Consolidated Statements of Comprehensive Income.

Fee and miscellaneous income, net also decreased during 2018 due to the write-down of $9.1 million related to our other investments, which included impairment losses of $7.5 million on our non-controlling investments in junior capital funds. Additional information on this investment is included in Note 6 to the accompanying Consolidated Financial Statements.

Operating Expenses

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

Components of Operating Expenses

(dollars in thousands)

For the year ended December 31	**2018**	2017	2016
Salaries and employee benefits	**$ 173,530**	$ 128,043	$ 87,367
Purchased and vendor services	**11,402**	8,031	5,822
Communications	**3,973**	2,260	1,271
Occupancy and equipment	**25,656**	17,359	13,173
Advertising and promotion	**13,049**	9,349	6,318
Examination	**3,866**	3,124	1,911
Farm Credit System insurance	**14,218**	16,938	12,241
Other	**18,284**	18,403	7,233
Total operating expenses	**$ 263,978**	$ 203,507	$ 135,336
Net pre-tax operating rate	**0.9%**	1.0%	0.9%

The increases in operating expenses were generally due to the impacts of the merger. The most significant increases noted, due to the merger, were salaries and employee benefits expense (due to increased staff sizes), occupancy and equipment (due to increased numbers of branches and volume of equipment), and advertising and promotion (due to a full year of spending on advertising activities).

The Farm Credit System insurance expense also decreased in 2018 primarily due to a lower premium rate charged by FCSIC on accrual loans from 15 basis points in 2017 to 9 basis points in 2018. The FCSIC has announced premiums will remain unchanged at 9 basis points for 2019. The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time.

Provision for Income Taxes

The variance in provision for income taxes was related to our estimate of taxes based on taxable income. The decrease in provision for income taxes during 2018 was related to multiple factors; while we did have more overall taxable income due to the merger, we recognized a refund from 2017 and were able to offset the income with benefits from the Tax Cuts and Jobs Act and deductions from our patronage program.

Additional discussion is included in Note 12 to the accompanying Consolidated Financial Statements.

FUNDING AND LIQUIDITY

We borrow from AgriBank, under a note payable, in the form of a line of credit, as described in Note 9 to the accompanying Consolidated Financial Statements. This line of credit is our primary source of liquidity and is used to fund operations and meet current obligations. At December 31, 2018, we had $5.2 billion available under our line of credit. We generally apply excess cash to this line of credit.

Note Payable Information

(dollars in thousands)

For the year ended December 31	**2018**	2017	2016
Average balance	**$ 16,134,234**	$ 11,404,000	$ 7,114,270
Average interest rate	**2.5%**	2.0%	1.7%

The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from unallocated surplus.

On May 30, 2013, we issued $100.0 million of Series A-1 non-cumulative perpetual preferred stock. We used the net proceeds from the Series A-1 preferred stock issuance to increase our regulatory capital pursuant to FCA Regulations in effect at the time of issuance, for the continued development of our business, and for general corporate purposes. For regulatory capital purposes, our Series A-1 preferred stock is included in permanent capital, tier 1 capital, and total capital, subject to certain limitations. Dividends on Series A-1 preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly. This issuance of Series A-1 preferred stock is discussed further in Note 11 to the accompanying Consolidated Financial Statements.

In March 2010, we issued $100.0 million of aggregate principal amount of Series A Subordinated Notes (Notes) due in 2025. The Notes bear a fixed interest rate of 9.0% per annum, payable semi-annually. Our Board of Directors has authorized up to a maximum of $200.0 million for subordinated debt issuance. The Notes are unsecured and subordinate to all other categories of creditors, including general creditors, and senior to all classes of shareholders. At our option, we may redeem all or some of the Notes on any interest payment date on or after a date 10 years from the closing date. On December 15, 2016, we redeemed all $100.0 million of outstanding subordinated notes at par value, which were redeemable on any interest payment date at any time following FCA notification of certain changes to our regulatory capital requirements.

We have entered into a Standby Commitment to Purchase Agreement with Farmer Mac, a System institution, to help manage credit risk. If a loan covered by the agreement goes into default, subject to certain conditions, we have the right to sell the loan to Farmer Mac. This agreement remains in place until the loan is paid in full. We had $485.5 million, $490.1 million, and $474.4 million of our loans in this program at December 31, 2018, 2017, and 2016, respectively. We paid Farmer Mac commitment fees totaling $2.2 million, $2.1 million, and $2.1 million in 2018, 2017, and 2016, respectively. These amounts are included in "Other operating expenses" in the Consolidated Statements of Comprehensive Income. Sales of loans to Farmer Mac under this agreement were $1.1 million in 2018. There were no sales of loans to Farmer Mac under this agreement in 2017 or 2016.

CAPITAL ADEQUACY

Total equity was $3.6 billion, $3.4 billion, and $1.3 billion at December 31, 2018, 2017, and 2016, respectively. Total equity increased $190.3 million from December 31, 2017, primarily due to net income for the year partially offset by patronage distribution accruals, redemption of allocated patronage, and preferred stock dividends. Accumulated other comprehensive loss is the impact of prior service cost and unamortized actuarial gain/loss related to the Pension Restoration Plan. Additional Pension Restoration Plan information is included in Note 13 to the accompanying Consolidated Financial Statements.

Effective January 1, 2017, the FCA Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage.

Regulatory Capital Requirements and Ratios

As of December 31	**2018**	2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**14.7%**	14.2%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**15.2%**	14.7%	6.0%	2.5%*	8.5%
Total capital ratio	**15.6%**	15.1%	8.0%	2.5%*	10.5%
Permanent capital ratio	**15.7%**	15.7%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**15.3%**	15.0%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**14.2%**	13.8%	1.5%	N/A	1.5%

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

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

Refer to the Funding and Liquidity section for further discussion related to our non-cumulative perpetual preferred stock and subordinated notes. Additional information is included in Notes 10 and 11 to the accompanying Consolidated Financial Statements.

Additional discussion of these regulatory ratios is included in Note 11 to the accompanying Consolidated Financial Statements.

In addition to these regulatory requirements, we establish an optimum total capital target. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. Our optimum total capital target is 14.0%, as defined in our 2019 capital plan.

Upon the merger, all allocated surplus issued by 1st FCS and Badgerland became allocated surplus in the merged Association. The allocated surplus held by AgStar patrons remains outstanding as allocated surplus of the merged Association. With the exception of allocated surplus designated as permanent allocations, all allocated surplus is eligible to be redeemed in the future, if approved by the Board of Directors subject to compliance with our bylaws. Redemptions of permanent allocations shall not be eligible to be redeemed. In 2017, we made net nonqualified patronage allocations of $28.6 million in accordance with the merger capital equalization plan. The Board of Directors authorized the redemption of nonqualified patronage allocations of $96.0 million, $100.8 million, and $35.0 million in 2018, 2017, and 2016, respectively. The 2017 redemption was for $25.8 million of nonqualified equities issued to AgStar patrons and $75.0 million of nonqualified equities issued to former members of 1st FCS and Badgerland. The 2018 redemption was done pro rata, based on percentages in Compeer Financial's Bylaws. In addition, the Board of Directors authorized the payment of $5.4 million, $1.6 million, and $1.3 million of distributions on approved transactions in 2018, 2017, and 2016, respectively. The timing and amounts of all future patronage redemptions and distribution payments remains at the discretion of the Board of Directors based on a combination of factors including the risk in our portfolio, earnings, and our current capital position. Further information regarding our patronage distributions is included in Note 11 to the accompanying Consolidated Financial Statements.

Capital ratios are directly impacted by changes in capital, assets, and off-balance sheet commitments. Refer to the Loan Portfolio and the Investment Securities sections for further discussion of the changes in assets. Additional equity information is included in Note 11 to the accompanying Consolidated Financial Statements. Refer to Note 11 in our Annual Report for the year ended December 31, 2016, for a more complete description of the ratios effective as of December 31, 2016. We were in compliance with the minimum required capital ratios as of December 31, 2016.

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. We do not foresee any events that would result in this prohibition in 2019.

RELATIONSHIP WITH AGRIBANK

Borrowing

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement (GFA), as discussed in Note 9 to the accompanying Consolidated Financial Statements, governs this lending relationship.

The components of cost of funds under the GFA include:

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

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

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

Investment

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing distributed AgriBank surplus. As of December 31, 2018, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable, with an additional amount required on association growth in excess of a targeted growth rate, if the District is also growing above a targeted growth rate. As of December 31, 2018, the additional amount was not required.

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

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

Patronage

AgriBank's 2018 capital plan is intended to provide for adequate capital at AgriBank under capital regulations as well as to create a path to long-term capital optimization within the AgriBank District. The plan optimizes capital at AgriBank; distributing available AgriBank earnings in the form of patronage, either cash or stock. The plan is designed to maintain capital adequacy such that sufficient earnings will be retained in the form of unallocated retained earnings and allocated stock to meet the leverage ratio target and other regulatory or policy constraints prior to any cash patronage distributions.

We receive the following types of discretionary patronage from AgriBank:

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

Beginning in 2017, wholesale patronage income earned may be paid in cash and AgriBank stock. Wholesale patronage income for 2018, 2017, and 2016 was paid in cash. All pool program patronage and AgDirect distributions were paid in cash.

Purchased Services

We purchase various services from AgriBank, including SunStream Business Services, a division of AgriBank. The services include certain financial and retail systems, financial reporting services, tax reporting services, technology services, and insurance services.

The total cost of services we purchased from AgriBank was $3.4 million, $3.2 million, and $2.2 million in 2018, 2017, and 2016, respectively.

Impact on Stockholders' Investment

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

OTHER RELATIONSHIPS AND PROGRAMS

Relationships with Other Farm Credit Institutions

ProPartners Financial: We participate in ProPartners with certain other associations in the Farm Credit System to provide producer financing through agribusinesses that sell crop inputs. ProPartners is directed by representatives from participating associations. Through November 30, 2018, the income, expense, and credit risks were allocated based on each association's participation interest of the ProPartners volume. Each association's allocation was established based on mutual agreement of the owners. We had $361.6 million and $158.2 million of ProPartners volume at December 31, 2017, and 2016, respectively. On December 1, 2018, we sold to AgriBank our entire interest in the loans associated with ProPartners. As part of this program we receive discretionary patronage income from AgriBank that approximates the net earnings of the loans. AgriBank immediately purchases a 100% participation interest in all new ProPartners loans.

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

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

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

As of December 31, 2017 we are no longer servicing loans for Farmer Mac. Prior to December 31, 2017, we were an approved mortgage loan central servicer for Farmer Mac. Total loan volume being serviced was $234.7 million and $381.2 million as of December 31, 2017, and 2016, respectively. Income from this servicing was $467 thousand and $436 thousand for the years ended December 31, 2017, and 2016, respectively.

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

CoBank, ACB: We have a relationship with CoBank, ACB (CoBank), a System bank, which involves purchasing and selling participation interests in loans. CoBank provides direct loan funds to associations in its chartered territory and makes loans to cooperatives and other eligible borrowers. CoBank also provides certain cash management services to some of our clients. To support these cash management services, we have a cash management agreement with CoBank that includes a $9.25 million back-up cash management settlement facility. As part of this relationship, our equity investment in CoBank was $1.2 million, $1.1 million, and $985 thousand at December 31, 2018, 2017, and 2016, respectively.

Farm Credit Foundations: We have a relationship with Farm Credit Foundations (Foundations), a System service corporation, which involves purchasing human resource information systems, and benefit, payroll, and workforce management services. As of December 31, 2018, 2017, and 2016, our investment in Foundations was $154 thousand, $154 thousand, and $83 thousand, respectively. The total cost of services we purchased from Foundations was $996 thousand, $816 thousand, and $486 thousand in 2018, 2017, and 2016, respectively.

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

Unincorporated Business Entities (UBEs)

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

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

AgDirect, LLP: We participate in the AgDirect trade credit financing program, which includes origination and refinancing of agriculture equipment loans through independent equipment dealers. The program is facilitated by another AgriBank District association through a limited liability partnership in which we are a partial owner. Our investment in AgDirect, LLP, was $17.6 million, $18.1 million, and $3.8 million at December 31, 2018, 2017, and 2016, respectively.

Programs

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

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

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

FCC Services: We have an agreement with FCC Services to provide various risk and insurance management, vehicle purchases, and training services. Additionally, we have a strategic support agreement with FCC Services to enable FCC Services to provide reinsurance to crop insurance companies that includes a loss/gain sharing agreement. Included in "Other assets" in the Consolidated Statements of Condition is $7.7 million, net, to help support our total relationship. In net, we paid $2.2 million, $1.3 million, and $1.3 million in 2018, 2017, and 2016, respectively to FCC Services for insurances, memberships, training, and gains under the loss/gain sharing agreement.

Mission Related Investments: The public mission of the System has always been to provide financing to agriculture and rural areas. Our primary focus has always been and will remain financing production agriculture. Because of the changing needs of rural America, we have placed additional emphasis on investing in rural communities and businesses by creating Mission Financing. We had outstanding bonds of $120.7 million, $128.1 million, and $122.3 million at December 31, 2018, 2017, and 2016, respectively. This business unit makes investments in rural America through the purchase of bonds, focusing on rural businesses, health care, and housing facilities. We continue to have minority investments in a few small-scale local economic development corporations and have outstanding investments of $5 thousand, $28 thousand, and $44 thousand in local economic development corporations at December 31, 2018, 2017, and 2016, respectively.

Fleet Management: We offer fleet management services to small and mid-sized agribusinesses. Depending on the program selected, services range from customized vehicle ordering, combined with lease financing, to full service program options of providing fuel cards, maintenance management, 24/7 emergency roadside assistance, license renewal services, fleet reporting, and vehicle disposal service. Additionally, we make available customized vehicle ordering and leasing options to Farm Credit Institutions. At the end of 2018, we have ordered vehicles for 20 System entities. We have manufacturer's fleet codes for the following brands: Ford, General Motors, Chrysler, Toyota, Nissan, Mazda, and Subaru.

Business Units

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

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

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

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

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

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

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

REGULATORY MATTERS

Investment Securities Eligibility

In May 2018, the FCA Board approved a final rule to revise the requirements governing the eligibility of investment securities for System banks and associations. The new regulation revises the eligibility purpose, type, and amount of investments that a System association may hold. The regulation was effective January 1, 2019. We have updated our policies, procedures, and other documentation to ensure compliance with the new regulation. The impact of the regulation has not been material to our financial statements.

REPORT OF MANAGEMENT

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

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

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

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

Mark W. Cade

Mark W. Cade
Chairperson of the Board
Compeer Financial, ACA

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

Jase L. Wagner
Chief Financial Officer
Compeer Financial, ACA

March 4, 2019

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Compeer Financial, ACA (the Association) principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining 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 2013 framework in Internal Control — Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 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.

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

Jase L. Wagner
Chief Financial Officer
Compeer Financial, ACA

March 4, 2019

REPORT OF AUDIT COMMITTEE

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

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

In this context, the Audit Committee reviewed and discussed the audited Consolidated Financial Statements for the year ended December 31, 2018, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards AU-C 260, *The Auditor's Communication with Those Charged with Governance*, and both PwC and the internal auditors directly provided reports on any significant matters to the Audit Committee.

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

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended that the Board of Directors include the audited Consolidated Financial Statements in the Annual Report for the year ended December 31, 2018.

Kathleen Hainline

Kathleen Hainline
Chairperson of the Audit Committee
Compeer Financial, ACA

Mark Cade
Terry Ebeling
Larry Fischer
Roger Newell

March 4, 2019

pwc

Report of Independent Auditors

To the Board of Directors of Compeer Financial, ACA,

We have audited the accompanying Consolidated Financial Statements of Compeer Financial, ACA and its subsidiaries (the Association), which comprise the consolidated statements of condition as of December 31, 2018, 2017, and 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP

March 4, 2019

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

CONSOLIDATED STATEMENTS OF CONDITION

Compeer Financial, ACA

(in thousands)

As of December 31	**2018**	2017	2016
ASSETS			
Loans held to maturity	**$ 18,753,659**	$ 17,749,021	$ 8,152,435
Allowance for loan losses	**59,928**	48,849	36,018
Net loans held to maturity	**18,693,731**	17,700,172	8,116,417
Loans held for sale	**18,496**	30,062	27,370
Net loans	**18,712,227**	17,730,234	8,143,787
Unrestricted cash	**2,300**	2,200	2,200
Investment securities	**995,140**	879,258	473,248
Assets held for lease, net	**46,974**	41,368	36,598
Accrued interest receivable	**171,220**	151,801	64,904
Investment in AgriBank, FCB	**567,596**	514,712	180,812
Premises and equipment, net	**70,697**	65,148	17,633
Other property owned	**167**	954	840
Deferred tax assets, net	**--**	1,139	--
Other assets	**187,916**	158,537	60,645
Total assets	**$ 20,754,237**	$ 19,545,351	$ 8,980,667
LIABILITIES			
Note payable to AgriBank, FCB	**$ 16,739,126**	$ 15,847,060	$ 7,590,254
Accrued interest payable	**110,302**	78,959	31,954
Deferred tax liabilities, net	**4,839**	--	125
Patronage distribution payable	**151,710**	122,000	--
Other liabilities	**146,281**	85,695	42,866
Total liabilities	**17,152,258**	16,133,714	7,665,199
Contingencies and commitments (Note 15)			
EQUITY			
Preferred stock	**100,000**	100,000	100,000
Capital stock and participation certificates	**33,062**	34,213	15,934
Additional paid-in capital	**1,780,603**	1,780,603	--
Allocated surplus	**426,776**	523,252	441,122
Unallocated surplus	**1,272,556**	980,818	758,412
Accumulated other comprehensive loss	**(11,018)**	(7,249)	--
Total equity	**3,601,979**	3,411,637	1,315,468
Total liabilities and equity	**$ 20,754,237**	$ 19,545,351	$ 8,980,667

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Compeer Financial, ACA

(in thousands)

For the year ended December 31		2018		2017		2016
Interest income	**$**	**871,137**	$	578,166	$	338,266
Interest expense		**396,570**		230,202		131,473
Net interest income		**474,567**		347,964		206,793
Provision for loan losses		**15,249**		13,806		10,082
Net interest income after provision for loan losses		**459,318**		334,158		196,711
Other income						
Patronage income		**131,827**		90,137		27,519
Net operating lease income		**2,278**		1,768		1,352
Financially related services income		**42,190**		28,208		18,742
Allocated Insurance Reserve Accounts distribution		**10,938**		--		--
Fee and miscellaneous income, net		**25,257**		28,788		25,354
Total other income		**212,490**		148,901		72,967
Operating expenses						
Salaries and employee benefits		**173,530**		128,043		87,367
Farm Credit System insurance		**14,218**		16,938		12,241
Other operating expenses		**76,230**		58,526		35,728
Total operating expenses		**263,978**		203,507		135,336
Income before income taxes		**407,830**		279,552		134,342
Provision for income taxes		**3,984**		14,694		5,105
Net income	**$**	**403,846**	$	264,858	$	129,237
Other comprehensive loss						
Employee benefit plans activity	**$**	**(3,769)**	$	--	$	--
Total other comprehensive loss		**(3,769)**		--		--
Comprehensive income	**$**	**400,077**	$	264,858	$	129,237

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Compeer Financial, ACA

(in thousands)

	Preferred Stock	Capital Stock and Participation Certificates	Additional Paid-in Capital	Allocated Surplus	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Equity
Balance as of December 31, 2015	$ 100,000	$ 16,085	$ --	$ 406,758	$ 704,291	$ --	$ 1,227,134
Net income	--	--	--	--	129,237	--	129,237
Other comprehensive loss	--	--	--	--	--	--	--
Transfer of allocated surplus to unallocated surplus	--	--	--	--	--	--	--
Net surplus allocated under nonqualified patronage program	--	--	--	67,070	(67,070)	--	--
Redemption of prior year allocated patronage	--	--	--	(32,706)	--	--	(32,706)
Preferred stock dividend	--	--	--	--	(6,750)	--	(6,750)
Other distribution	--	--	--	--	(1,296)	--	(1,296)
Unallocated surplus designated for patronage distributions	--	--	--	--	--	--	--
Allocated surplus acquired in connection with merger	--	--	--	--	--	--	--
Equity issued in connection with merger	--	--	--	--	--	--	--
Capital stock and participation certificates issued	--	1,357	--	--	--	--	1,357
Capital stock and participation certificates retired	--	(1,508)	--	--	--	--	(1,508)
Balance as of December 31, 2016	100,000	15,934	--	441,122	758,412	--	1,315,468
Net income	--	--	--	--	264,858	--	264,858
Other comprehensive loss and other	--	--	--	--	--	(7,249)	(7,249)
Transfer of allocated surplus to unallocated surplus	--	--	--	(41,286)	41,286	--	--
Net surplus allocated under nonqualified patronage program - merger capital equalization plan	--	--	--	28,570	(28,570)	--	--
Redemption of allocated patronage	--	--	--	(101,584)	144	--	(101,440)
Preferred stock dividend	--	--	--	--	(6,750)	--	(6,750)
Other distribution	--	--	--	--	(1,562)	--	(1,562)
Unallocated surplus designated for patronage distributions	--	--	--	--	(47,000)	--	(47,000)
Allocated surplus acquired in connection with merger	--	--	--	196,430	--	--	196,430
Equity issued in connection with merger	--	18,555	1,780,603	--	--	--	1,799,158
Capital stock and participation certificates issued	--	1,846	--	--	--	--	1,846
Capital stock and participation certificates retired	--	(2,122)	--	--	--	--	(2,122)
Balance as of December 31, 2017	100,000	34,213	1,780,603	523,252	980,818	(7,249)	3,411,637
Net income	**--**	**--**	**--**	**--**	**403,846**	**--**	**403,846**
Other comprehensive loss	**--**	**--**	**--**	**--**	**--**	**(3,769)**	**(3,769)**
Transfer of allocated surplus to unallocated surplus	**--**	**--**	**--**	**--**	**--**	**--**	**--**
Net surplus allocated under nonqualified patronage program	**--**	**--**	**--**	**--**	**--**	**--**	**--**
Redemption of prior year allocated patronage	**--**	**--**	**--**	**(96,476)**	**96**	**--**	**(96,380)**
Preferred stock dividend	**--**	**--**	**--**	**--**	**(6,750)**	**--**	**(6,750)**
Other distribution	**--**	**--**	**--**	**--**	**(5,447)**	**--**	**(5,447)**
Unallocated surplus designated for patronage distributions	**--**	**--**	**--**	**--**	**(100,007)**	**--**	**(100,007)**
Allocated surplus acquired in connection with merger	**--**	**--**	**--**	**--**	**--**	**--**	**--**
Equity issued in connection with merger	**--**	**--**	**--**	**--**	**--**	**--**	**--**
Capital stock and participation certificates issued	**--**	**2,349**	**--**	**--**	**--**	**--**	**2,349**
Capital stock and participation certificates retired	**--**	**(3,500)**	**--**	**--**	**--**	**--**	**(3,500)**
Balance as of December 31, 2018	**$ 100,000**	**$ 33,062**	**$ 1,780,603**	**$ 426,776**	**$ 1,272,556**	**$ (11,018)**	**$ 3,601,979**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Compeer Financial, ACA

(in thousands)

For the year ended December 31	**2018**	2017	2016
Cash flows from operating activities			
Net income	**$ 403,846**	$ 264,858	$ 129,237
Depreciation on premises and equipment	**8,206**	6,187	4,377
Gain on sale of premises and equipment, net	**(393)**	(309)	(391)
Depreciation on assets held for lease	**8,769**	8,195	8,983
(Gain) loss on disposal of assets held for lease, net	**(51)**	(81)	28
Decrease (increase) in loans held for sale	**11,566**	(2,692)	8,010
Amortization of premiums on loans and investment securities, net	**2,726**	1,867	2,217
Amortization of debt issuance cost	**--**	--	509
Net amortization of yield related to loans and notes payable acquired in merger	**(6,558)**	(9,921)	--
Net amortization of yield related to investments acquired in merger	**72**	(35)	--
Provision for loan losses	**15,249**	13,806	10,082
Stock patronage received from Farm Credit Institutions	**(32)**	(164)	(66)
Gain on other property owned, net	**(133)**	(82)	(255)
(Gain) loss on derivative activities	**(583)**	680	226
Loss (gain) on sale of investments	**511**	198	(659)
Changes in operating assets and liabilities:			
Increase in accrued interest receivable	**(21,651)**	(20,695)	(6,626)
Increase in other assets	**(28,696)**	(32,425)	(9,846)
Increase in accrued interest payable	**31,343**	7,999	5,149
Increase (decrease) in other liabilities	**56,978**	(14,684)	(16,517)
Net cash provided by operating activities	**481,169**	222,702	134,458
Cash flows from investing activities			
Increase in loans, net	**(1,001,544)**	(473,711)	(581,765)
Purchases of investment in AgriBank, FCB, net	**(52,884)**	(58,835)	(9,417)
Redemptions (purchases) of investment in other Farm Credit Institutions, net	**488**	(1,621)	(1,866)
Increase in investment securities, net	**(322,989)**	(276,780)	(312,343)
Proceeds from maturing investment securities	**118,165**	106,242	177,480
Proceeds from the sale of available for sale investment securities	**86,727**	105,204	102,822
Sales (purchases) of derivatives, net	**606**	(550)	(406)
Purchases of assets held for lease, net	**(14,324)**	(12,884)	(7,213)
Proceeds from sales of other property owned	**1,319**	1,188	1,697
Purchases of premises and equipment, net	**(13,362)**	(7,646)	(3,547)
Net cash used in investing activities	**(1,197,798)**	(619,393)	(634,558)
Cash flows from financing activities			
Increase in note payable to AgriBank, FCB, net	**892,282**	444,326	640,490
Subordinated notes retired	**--**	--	(100,000)
Patronage distributions paid	**(166,677)**	(45,348)	(34,002)
Preferred stock dividend paid	**(6,750)**	(6,750)	(6,750)
Capital stock and participation certificates retired, net	**(1,371)**	(691)	(375)
Net cash provided by financing activities	**717,484**	391,537	499,363
Net change in cash and restricted cash	**855**	(5,154)	(737)
Cash and restricted cash at beginning of year	**4,522**	9,676	10,413
Cash and restricted cash at end of year	**$ 5,377**	$ 4,522	$ 9,676

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Compeer Financial, ACA

(in thousands)

For the year ended December 31		2018		2017		2016
Supplemental schedule of non-cash activities						
Stock financed by loan activities	**$**	**1,281**	$	1,032	$	646
Stock applied against loan principal		**1,049**		606		412
Stock applied against interest		**12**		11		10
Interest transferred to loans		**2,220**		1,753		446
Loans transferred to other property owned		**399**		653		1,580
Patronage and other distributions payable		**157,157**		122,000		--
Financed sales of other property owned		**--**		--		358
Decrease in members' equity from employee benefits		**(3,769)**		--		--
(Increase) decrease in payable to Farmer Mac not yet settled		**(755)**		5,154		1,037
Impact of merger transactions:						
Assets acquired		**--**		9,909,432		--
Liabilities assumed		**--**		7,913,844		--
Equity issued		**--**		1,995,588		--
Supplemental information						
Interest paid	**$**	**365,443**	$	183,197	$	126,324
Taxes paid, net		**671**		14,786		6,020

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Compeer Financial, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

Association

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

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

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

Farm Credit System and District

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of January 1, 2019, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 69 customer-owned cooperative lending institutions (associations). AgriBank, FCB (AgriBank), a System Farm Credit Bank, and its District associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). At January 1, 2019, the District consisted of 14 Agricultural Credit Associations (ACA) that each have wholly-owned Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries.

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

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

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

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

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

Merger Activity

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

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

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

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

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

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

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

Condensed Statement of Net Assets Acquired

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

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

The Association recorded merger expenses of $1.4 million and $241 thousand during 2017 and 2016, respectively. No merger expenses were recorded during 2018. These amounts are included in "Other operating expenses" in the Consolidated Statements of Comprehensive Income.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Reporting Policies

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

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

Revision of Previously Issued Financial Statements: In connection with the year-end 2018 financial reporting process, management identified an error in the Consolidated Statement of Cash Flows for the year ended December 31, 2017. Specifically, the Association incorrectly reflected within the "Net amortization of yield related to loans and notes payable acquired in merger" an increase in operating cash flows of $9,800, rather than a decrease with the corresponding offset to "Increase in loans, net" within investing cash flows. The Association has concluded that these errors are not material to the previously issued financial statements; however, in order to properly present the 2017 financial statements presented herein, management elected to revise the 2017 financial statements to correct for the error. Accordingly, the Association has decreased "Net amortization of yield related to loans and notes payable acquired in merger" by $19,600 and increased "Increase in loans, net" by $19,600 to correct the error. Amounts previously presented were $9,679 and $(493,311) for "Net amortization of yield related to loans and notes payable acquired in merger" and "Increase in loans, net", respectively.

Principles of Consolidation

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

Significant Accounting Policies

Loans Held to Maturity: Loans are carried at their principal amount outstanding net of any unearned income, cumulative charge-offs, unamortized deferred fees and costs on originated loans, unamortized premiums or discounts on purchased loans, and unamortized adjustments to fair value on loans acquired through merger. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Origination fees, net of related costs, are deferred and recognized over the life of the loan as an adjustment to net interest income. The net amount of loan fees and related origination costs are not material to the Consolidated Financial Statements taken as a whole.

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment Securities: We are authorized to purchase and hold certain types of investments. Those investments for which we have the positive intent and ability to hold to maturity have been classified as held-to-maturity and are carried at cost adjusted for the amortization of premiums and accretion of discounts. If an investment is determined to be other-than-temporarily impaired, the carrying value of the security is written down to fair value. The impairment loss is separated into credit related and non-credit related components. The credit related component is expensed through “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income in the period of impairment. The non-credit related component is recognized in other comprehensive income and amortized over the remaining life of the security as an increase in the security’s carrying amount.

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

Purchased premiums and discounts are amortized over the terms of the respective securities. Realized gains and losses are determined using specific identification method and are recognized in current operations.

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

The carrying amount of the investments in the Rural Business Investment Companies, in which we are a limited partner and hold non-controlling interests, are accounted for under the equity method. The investments are included in “Other assets” in the Consolidated Statements of Condition. The investments are assessed for impairment. If impairment exists, losses are included in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income in the year of impairment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Off-Balance Sheet Credit Exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. Any reserve for unfunded lending commitments and unexercised letters of credit is based on management’s best estimate of losses inherent in these instruments, but the commitments have not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement are utilized in determining a reserve, if needed. Based on our assessment, any reserve would be recorded in “Other liabilities” in the Consolidated Statements of Condition and a corresponding loss would be recorded in “Provision for credit losses” in the Consolidated Statements of Comprehensive Income. However, no such reserve was considered necessary as of December 31, 2018, 2017, or 2016.

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

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

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

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

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

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

Recently Issued or Adopted Accounting Pronouncements

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

Standard and effective date	Description	Adoption status and financial statement impact
In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09 “Revenue from Contracts with Customers." This guidance was effective for public business entities on January 1, 2018.	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 guidance. The guidance sets forth the requirement for new and enhanced disclosures.	We adopted this guidance on January 1, 2018, using the modified retrospective approach, as the majority of our revenues are not subject to the new guidance. The adoption of the guidance did not have a material impact on the financial condition, results of operations, cash flows, or financial statement disclosures.
In March 2017, the FASB issued ASU 2017-07 “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost.” This guidance was effective for public business entities on January 1, 2018.	This guidance requires that an employer disaggregate the service cost component from the other components of net benefit cost. Specifically, the guidance requires non-service cost components of net benefit cost to be recognized in a non-operating income line item of the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization.	We adopted this guidance on January 1, 2018. Non-service cost components of net benefit cost were reclassified from “Salaries and employee benefits” to “Other operating expenses” on the Consolidated Statements of Comprehensive Income. The change in classification was not material. There were no changes to the Association’s financial condition, cash flows, or financial statement disclosures.
In January 2016, the FASB issued ASU 2016-01 “Recognition and Measurement of Financial Assets and Financial Liabilities.” This guidance was effective for public business entities on January 1, 2018.	The guidance is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments address certain aspects of recognition, measurement, presentation, and disclosure of financial statements.	We adopted this guidance on January 1, 2018. The adoption of this guidance did not impact our financial condition, results of operations, or cash flows. Financial statement disclosures related to the methods and significant assumptions used to estimate fair value for financial instruments measured at amortized cost on the Consolidated Statement of Condition are no longer required and are excluded from this Annual Report.
In November 2016, the FASB issued ASU 2016-18 “Statement of Cash Flows.” This guidance was effective for public business entities on January 1, 2018.	The guidance modifies how restricted cash is presented in the statement of cash flows by requiring amounts generally described as restricted cash to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.	We adopted this guidance on January 1, 2018, which has been retrospectively applied to all periods presented. There were no material changes to the Association’s financial condition, results of operations, or financial statement disclosures. The impact to the cash flows was to include restricted cash balances in the beginning and end of period balances of cash and restricted cash. Restricted cash was previously disclosed in investing activities in the cash flows.

Standard and effective date	Description	Adoption status and financial statement impact
In February 2016, the FASB issued ASU 2016-02 “Leases.” In July 2018, the FASB issued ASU 2018-11 “Leases (Topic 842): Targeted Improvements.” The guidance is effective for public business entities in its first quarter of 2019 and early adoption is permitted.	The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases. When this guidance is adopted, a liability for lease obligations and a corresponding right-of-use asset will be recognized on the Consolidated Statements of Condition for all lease arrangements spanning more than 12 months. The guidance includes an optional transition method where an entity is permitted to apply the guidance as of the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings.	We adopted this guidance on January 1, 2019, by recognizing the cumulative effect of initially applying the new standard to the opening balance of retained earnings. The adoption of this guidance impacted the financial condition, results of operations, and financial statement disclosures, and had no impact on cash flows. We recorded a right of use asset of $6.2 million and a lease liability of $6.3 million at implementation.
In August 2018, the FASB issued ASU 2018-15 “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract.” The guidance is effective for our first quarter of 2020 and early adoption is permitted.	The guidance clarifies that implementation costs incurred in a hosting arrangement that is a service contract should be accounted for in the same manner as implementation costs incurred to develop or obtain internal-use software.	We are in the process of reviewing the accounting standard. Based on our preliminary review and analysis, this new guidance is not expected to have a material impact on our financial condition, results of operations, cash flows, or financial statement disclosures.
In August 2018, the FASB issued ASU 2018-13 “Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement." The guidance is effective for our first quarter of 2020 and early adoption is permitted.	The guidance removes, adds, and modifies certain disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement.	We are in the process of reviewing the accounting standard. Based on our preliminary review and analysis, this new guidance is not expected to have an impact on our financial condition, results of operations, or cash flows, but may impact the fair value measurements disclosures.
In June 2016, the FASB issued ASU 2016-13 “Financial Instruments – Credit Losses.” This guidance is effective for public business entities for non-U.S. Securities Exchange Commission filers for the first quarter of 2021 and early adoption is permitted.	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	We have no plans to early adopt this guidance. We are in the process of reviewing the standard. Significant implementation matters yet to be addressed include system selection, drafting of accounting policies and disclosures, and designing processes and controls. We are currently unable to estimate the impact on the financial statements.

NOTE 3: LOANS HELD TO MATURITY AND ALLOWANCE FOR LOAN LOSSES

As a result of the merger on July 1, 2017, we acquired $9.1 billion in loans, of which 94.9% were categorized as having acceptable credit quality and 99.3% were current in payment status. A portion of the acquired loans were considered to be credit-impaired. The contractual principal and estimated fair value of these loans as of the date of the merger was $14.4 million and $9.9 million respectively. No accretable yield was recognized in conjunction with the acquisition of these loans. As of December 31, 2018, the contractual principal of purchased credit-impaired loans totaled $9.6 million and the recorded investment was $4.7 million.

Loans by Type

(dollars in thousands)	**2018**		2017		2016	
As of December 31	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 9,199,249**	**49.1%**	$ 8,668,049	48.9%	$ 4,054,633	49.7%
Production and intermediate-term	**3,984,347**	**21.2%**	4,389,478	24.7%	2,019,030	24.8%
Agribusiness	**3,632,104**	**19.4%**	2,953,661	16.6%	1,200,684	14.7%
Other	**1,937,959**	**10.3%**	1,737,833	9.8%	878,088	10.8%
Total	**$ 18,753,659**	**100.0%**	$ 17,749,021	100.0%	$ 8,152,435	100.0%

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

Portfolio Concentrations

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

As of December 31, 2018, volume plus commitments to our ten largest borrowers totaled an amount equal to 4.3% of total loans and commitments.

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

government agencies. Accordingly, the credit risk associated with lending activities is less than the recorded loan principal. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock. Long-term real estate loans are secured by the first liens on the underlying real property.

Participations

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

Participations Purchased and Sold

(in thousands)	AgriBank Participations		Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations		Total Participations	
As of December 31, 2018	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	**$ --**	**$ (1,751,825)**	**$ 392,946**	**$ (180,673)**	**$ 1,792,465**	**$ (30,001)**	**$ 2,185,411**	**$ (1,962,499)**
Production and intermediate-term	**--**	**(446,016)**	**289,072**	**(942,941)**	**1,216,304**	**(9,956)**	**1,505,376**	**(1,398,913)**
Agribusiness	**--**	**(60,090)**	**1,582,239**	**(1,630,738)**	**1,048,380**	**(12,189)**	**2,630,619**	**(1,703,017)**
Other	**--**	**(21,766)**	**1,571,325**	**(452,562)**	**1,929**	**--**	**1,573,254**	**(474,328)**
Total	**$ --**	**$ (2,279,697)**	**$ 3,835,582**	**$ (3,206,914)**	**$ 4,059,078**	**$ (52,146)**	**$ 7,894,660**	**$ (5,538,757)**

	AgriBank Participations		Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations		Total Participations	
As of December 31, 2017	Purchased	Sold	Purchased[1]	Sold	Purchased[1]	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (1,880,870)	$ 432,908	$ (205,439)	$ 1,522,044	$ (21,051)	$ 1,954,952	$ (2,107,360)
Production and intermediate-term	--	(74,892)	206,924	(770,614)	1,080,712	(9,129)	1,287,636	(854,635)
Agribusiness	--	(77,405)	1,570,191	(1,494,068)	539,824	(16,228)	2,110,015	(1,587,701)
Other	--	(17,550)	1,171,536	(355,680)	12,185	--	1,183,721	(373,230)
Total	$ --	$ (2,050,717)	$ 3,381,559	$ (2,825,801)	$ 3,154,765	$ (46,408)	$ 6,536,324	$ (4,922,926)

[1]The Association reclassified real estate mortgage participations purchased in the amount of $72.0 million from "Other Farm Credit Institutions" to "Non-Farm Credit Institutions" for the year ended December 31, 2017, to correct an error in the disclosure as originally presented in the prior year footnote.

	AgriBank Participations		Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations		Total Participations	
As of December 31, 2016	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (288,589)	$ 261,029	$ (87,784)	$ 1,193,258	$ (17,110)	$ 1,454,287	$ (393,483)
Production and intermediate-term	--	(86,216)	10,169	(881,077)	1,113,255	(118)	1,123,424	(967,411)
Agribusiness	--	(44,162)	477,587	(38,441)	364,507	(6,878)	842,094	(89,481)
Other	--	(917)	540,000	--	14,207	--	554,207	(917)
Total	$ --	$ (419,884)	$ 1,288,785	$ (1,007,302)	$ 2,685,227	$ (24,106)	$ 3,974,012	$ (1,451,292)

Information in the preceding chart excludes loans entered into under our leasing authority.

Credit Quality and Delinquency

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

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

We had no loans categorized as loss at December 31, 2018, 2017, or 2016.

Credit Quality of Loans

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

	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2017	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 8,200,416	93.8%	$ 307,700	3.5%	$ 234,407	2.7%	$ 8,742,523	100.0%
Production and intermediate-term	4,065,241	91.6%	224,080	5.0%	149,225	3.4%	4,438,546	100.0%
Agribusiness	2,910,257	98.2%	27,844	0.9%	26,263	0.9%	2,964,364	100.0%
Other	1,709,360	98.0%	6,249	0.4%	27,680	1.6%	1,743,289	100.0%
Total	$ 16,885,274	94.4%	$ 565,873	3.2%	$ 437,575	2.4%	$ 17,888,722	100.0%

	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2016	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 3,844,164	94.0%	$ 116,011	2.8%	$ 131,021	3.2%	$ 4,091,196	100.0%
Production and intermediate-term	1,867,608	91.7%	88,035	4.3%	81,030	4.0%	2,036,673	100.0%
Agribusiness	1,189,413	98.8%	4,621	0.4%	9,598	0.8%	1,203,632	100.0%
Other	828,007	94.1%	36,453	4.1%	15,898	1.8%	880,358	100.0%
Total	$ 7,729,192	94.1%	$ 245,120	3.0%	$ 237,547	2.9%	$ 8,211,859	100.0%

Note: Accruing loans include accrued interest receivable.

Aging Analysis of Loans

(in thousands) **As of December 31, 2018**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$ 38,799**	**$ 37,346**	**$ 76,145**	**$ 9,206,118**	**$ 9,282,263**	**$ 194**
Production and intermediate-term	**28,911**	**28,440**	**57,351**	**3,977,088**	**4,034,439**	**646**
Agribusiness	**202**	**901**	**1,103**	**3,645,856**	**3,646,959**	**--**
Other	**7,560**	**7,933**	**15,493**	**1,928,560**	**1,944,053**	**6,587**
Total	**$ 75,472**	**$ 74,620**	**$ 150,092**	**$ 18,757,622**	**$ 18,907,714**	**$ 7,427**

As of December 31, 2017	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 38,159	$ 13,367	$ 51,526	$ 8,690,997	$ 8,742,523	$ --
Production and intermediate-term	30,306	26,566	56,872	4,381,674	4,438,546	133
Agribusiness	56	3,182	3,238	2,961,126	2,964,364	--
Other	4,563	1,538	6,101	1,737,188	1,743,289	--
Total	$ 73,084	$ 44,653	$ 117,737	$ 17,770,985	$ 17,888,722	$ 133

As of 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	Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 11,554	$ 10,614	$ 22,168	$ 4,069,028	$ 4,091,196	$ 97
Production and intermediate-term	8,608	10,844	19,452	2,017,221	2,036,673	577
Agribusiness	1,359	55	1,414	1,202,218	1,203,632	--
Other	2,920	2,117	5,037	875,321	880,358	64
Total	$ 24,441	$ 23,630	$ 48,071	$ 8,163,788	$ 8,211,859	$ 738

Note: Accruing loans include accrued interest receivable.

Risk Loans

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

Risk Loan Information

(in thousands)

As of December 31	**2018**	2017	2016
Nonaccrual loans:			
Current as to principal and interest	**$ 41,836**	$ 34,409	$ 33,128
Past due	**73,058**	56,055	27,733
Total nonaccrual loans	**114,894**	90,464	60,861
Accruing restructured loans	**11,278**	12,121	24,417
Accruing loans 90 days or more past due	**7,427**	133	738
Total risk loans	**$ 133,599**	$ 102,718	$ 86,016
Volume with specific allowance	**$ 37,103**	$ 21,481	$ 8,731
Volume without specific allowance	**96,496**	81,237	77,285
Total risk loans	**$ 133,599**	$ 102,718	$ 86,016
Total specific allowance	**$ 14,031**	$ 8,811	$ 3,218

For the year ended December 31	**2018**	2017	2016
Income on accrual risk loans	**$ 1,148**	$ 1,056	$ 1,278
Income on nonaccrual loans	**7,271**	9,208	7,101
Total income on risk loans	**$ 8,419**	$ 10,264	$ 8,379
Average risk loans	**$ 133,001**	$ 94,513	$ 85,864

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

Nonaccrual Loans by Loan Type

(in thousands)

As of December 31	**2018**	2017	2016
Real estate mortgage	**$ 60,108**	$ 39,973	$ 27,551
Production and intermediate-term	**34,678**	34,846	25,980
Agribusiness	**7,702**	10,855	1,721
Other	**12,406**	4,790	5,609
Total	**$ 114,894**	$ 90,464	$ 60,861

Additional Impaired Loan Information by Loan Type

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

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

	As of 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 loan losses:					
Real estate mortgage	$ 2,676	$ 2,714	$ 260	$ 2,830	$ --
Production and intermediate-term	3,855	4,250	2,036	3,852	--
Agribusiness	76	76	40	31	--
Other	2,124	2,157	882	1,305	--
Total	$ 8,731	$ 9,197	$ 3,218	$ 8,018	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 39,738	$ 63,026	$ --	$ 42,027	$ 5,244
Production and intermediate-term	24,023	45,829	--	24,000	2,024
Agribusiness	1,645	2,039	--	679	12
Other	11,879	14,119	--	11,140	1,099
Total	$ 77,285	$ 125,013	$ --	$ 77,846	$ 8,379
Total impaired loans:					
Real estate mortgage	$ 42,414	$ 65,740	$ 260	$ 44,857	$ 5,244
Production and intermediate-term	27,878	50,079	2,036	27,852	2,024
Agribusiness	1,721	2,115	40	710	12
Other	14,003	16,276	882	12,445	1,099
Total	$ 86,016	$ 134,210	$ 3,218	$ 85,864	$ 8,379

Impaired loans include purchased credit-impaired loans.

The recorded investment in the loan is the unpaid principal amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, acquisition costs, and unamortized adjustments to fair value on loans acquired through the merger and may also reflect a previous direct charge-off of the investment.

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

We did not have any material commitments to lend additional money to borrowers whose loans were classified as risk loans at December 31, 2018.

Troubled Debt Restructurings (TDRs)

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

TDR Activity

(in thousands)

For the year ended December 31	**2018**		2017		2016	
	Pre-modification	Post-modification	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	**$ 309**	**$ 309**	$ 117	$ 201	$ --	$ --
Production and intermediate-term	**1,712**	**1,708**	980	895	806	827
Agribusiness	**6,857**	**6,857**	--	--	69	69
Total	**$ 8,878**	**$ 8,874**	$ 1,097	$ 1,096	$ 875	$ 896

Pre-modification represents the outstanding recorded investment of the loan just prior to restructuring and post-modification represents the outstanding recorded investment of the loan immediately following the restructuring. The recorded investment in the loan is the unpaid principal amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, acquisition costs, and unamortized adjustments to fair value on loans acquired through the merger and may also reflect a previous direct charge-off of the investment.

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

TDRs that Occurred Within the Previous 12 Months that Subsequently Defaulted

(in thousands)	**2018**	2017	2016
Production and intermediate-term	**$ 33**	$ 147	$ 163
Agribusiness	**4,242**	--	--
Total	**$ 4,275**	$ 147	$ 163

TDRs Outstanding

(in thousands) As of December 31		2018		2017		2016
Accrual status:						
Real estate mortgage	$	10,337	$	11,598	$	14,765
Production and intermediate-term		941		523		1,322
Agribusiness		--		--		--
Other		--		--		8,330
Total TDRs in accrual status	$	11,278	$	12,121	$	24,417
Nonaccrual status:						
Real estate mortgage	$	1,114	$	1,335	$	1,399
Production and intermediate-term		525		1,751		3,004
Agribusiness		4,547		91		67
Other		64		69		84
Total TDRs in nonaccrual status	$	6,250	$	3,246	$	4,554
Total TDRs:						
Real estate mortgage	$	11,451	$	12,933	$	16,164
Production and intermediate-term		1,466		2,274		4,326
Agribusiness		4,547		91		67
Other		64		69		8,414
Total TDRs	$	17,528	$	15,367	$	28,971

Additional commitments to lend to borrowers whose loans have been modified in a TDR were $967 thousand at December 31, 2018.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) For the year ended December 31		2018		2017		2016
Balance at beginning of year	$	48,849	$	36,018	$	27,071
Provision for loan losses		15,249		13,806		10,082
Loan recoveries		1,499		1,451		1,355
Loan charge-offs		(5,669)		(2,426)		(2,490)
Balance at end of year	$	59,928	$	48,849	$	36,018

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

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

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

		Real Estate Mortgage		Production and Intermediate-Term		Agribusiness		Other		Total
Allowance for loan losses:										
Balance as of December 31, 2015	$	10,622	$	10,549	$	2,323	$	3,577	$	27,071
Provision for loan losses		4,974		4,406		260		442		10,082
Loan recoveries		370		786		66		133		1,355
Loan charge-offs		(156)		(2,109)		--		(225)		(2,490)
Balance as of December 31, 2016	$	15,810	$	13,632	$	2,649	$	3,927	$	36,018
Ending balance: individually evaluated for impairment	$	260	$	2,036	$	40	$	882	$	3,218
Ending balance: collectively evaluated for impairment	$	15,550	$	11,596	$	2,609	$	3,045	$	32,800
Recorded investment in loans outstanding:										
Ending balance as of December 31, 2016	$	4,091,196	$	2,036,673	$	1,203,632	$	880,358	$	8,211,859
Ending balance: individually evaluated for impairment	$	42,414	$	27,878	$	1,721	$	14,003	$	86,016
Ending balance: collectively evaluated for impairment	$	4,048,782	$	2,008,795	$	1,201,911	$	866,355	$	8,125,843

The recorded investment in the loan is the unpaid principal amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, acquisition costs, and unamortized adjustments to fair value on loans acquired through the merger and may also reflect a previous direct charge-off of the investment.

NOTE 4: LOANS HELD FOR SALE

Loans Held for Sale Activity, at Fair Value

(in thousands)

For the year ended December 31		**2018**		2017		2016
Balance at beginning of year	**$**	**30,062**	$	27,370	$	35,380
Originations		**114,996**		129,154		96,798
Proceeds		**(126,576)**		(127,142)		(104,185)
Fair value adjustments		**14**		680		(623)
Balance at end of year	**$**	**18,496**	$	30,062	$	27,370

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

NOTE 5: INVESTMENT SECURITIES

We have held-to-maturity investment securities of $995.1 million, $879.3 million, and $473.2 million at December 31, 2018, 2017, and 2016, respectively. Our investment securities consisted of:

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

The investment securities have been classified as held-to-maturity. MBS are generally longer-term investments and ABS are generally shorter-term investments. Farmer Mac guaranteed investments are typically MBS while SBA and USDA guaranteed investments may be comprised of either MBS or ABS. All of our held-to-maturity investment securities, except $5.5 million, $12.2 million, and $6.9 million, were fully guaranteed by Farmer Mac, SBA, or USDA at December 31, 2018, 2017, and 2016, respectively.

Additional Held-to-Maturity Investment Securities Information

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

As of December 31, 2017	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
MBS	$ 775,599	$ 695	$ (10,906)	$ 765,388	3.8%
ABS	91,490	17	(1,538)	89,969	2.3%
Bonds	12,169	--	(49)	12,120	5.5%
Total	$ 879,258	$ 712	$ (12,493)	$ 867,477	3.6%

As of December 31, 2016	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
MBS	$ 431,592	$ 951	$ (12,223)	$ 420,320	3.8%
ABS	34,784	--	(2,105)	32,679	1.7%
Bonds	6,872	2	(255)	6,619	6.3%
Total	$ 473,248	$ 953	$ (14,583)	$ 459,618	3.6%

Investment income is recorded in “Interest income” in the Consolidated Statements of Comprehensive Income and totaled $36.3 million, $23.7 million, and $15.7 million in 2018, 2017, and 2016, respectively.

Contractual Maturities of Held-to-Maturity Investment Securities

(in thousands) **As of December 31, 2018**	Amortized Cost
Less than one year	**$ 3,090**
One to five years	**24,558**
Five to ten years	**35,218**
More than ten years	**932,274**
Total	**$ 995,140**

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

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

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

	Less than 12 months		Greater than 12 months	
		Unrealized		Unrealized
As of December 31, 2017	Fair Value	Losses	Fair Value	Losses
MBS	$ 438,480	$ (3,416)	$ 256,692	$ (7,490)
ABS	61,565	(515)	15,493	(1,023)
Bonds	7,233	(33)	4,887	(16)
Total	$ 507,278	$ (3,964)	$ 277,072	$ (8,529)

	Less than 12 months		Greater than 12 months	
		Unrealized		Unrealized
As of December 31, 2016	Fair Value	Losses	Fair Value	Losses
MBS	$ 121,060	$ (3,912)	$ 206,792	$ (8,311)
ABS	4,492	(342)	27,650	(1,763)
Bonds	--	--	4,661	(255)
Total	$ 125,552	$ (4,254)	$ 239,103	$ (10,329)

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

We had no outstanding available-for-sale investment securities at December 31, 2018, 2017, or 2016.

Additional Available-for-Sale Investment Securities Information

(in thousands) For the year ended December 31	**2018**	2017	2016
Proceeds from sales	**$ 86,727**	$ 105,204	$ 102,822
Realized (losses) gains on sales, net	**(511)**	(198)	659

The investment portfolio is evaluated for other-than-temporary impairment. For the years ended December 31, 2018, 2017, and 2016, we have not recognized any impairment on our investment portfolio.

NOTE 6: OTHER INVESTMENTS

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

We and other Farm Credit Institutions are among the limited partners for Rural Business Investment Companies (RBICs). Our total commitment is $39.5 million, with varying commitment end dates through November 2023. Certain commitments may have an option to extend under certain circumstances. Our investment in the RBICs totaled $13.4 million, $11.8 million, and $7.5 million at December 31, 2018, 2017, and 2016, respectively. This investment was evaluated for impairment. For the years ended December 31, 2018, 2017, and 2016, we have not recognized any impairment on this investment.

NOTE 7: INVESTMENT IN AGRIBANK

As of December 31, 2018, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable, with an additional amount required on association growth in excess of a targeted growth rate, if the District is also growing above a targeted growth rate.

We are also required to hold AgriBank stock related to our participation in pool programs. Generally, these programs require us to hold 8.0% to 14.0% of the balance of loans in these programs.

Investment in AgriBank

(in thousands) As of December 31	**2018**	2017	2016
Required stock investment	**$ 549,029**	$ 489,688	$ 180,812
Purchased excess stock investment	**18,567**	25,024	--
Total investment	**$ 567,596**	$ 514,712	$ 180,812

Excess stock investment is recorded when the required investment in AgriBank and pool programs is lower than our total investment.

NOTE 8: ASSETS HELD FOR LEASE, NET

We hold property for agricultural leasing, primarily farm equipment and facilities.

Net Operating Lease Income and Property Held for Lease by Major Category

(in thousands) For the year ended December 31	**2018**	2017	2016
Net operating lease income	**$ 2,278**	$ 1,768	$ 1,352
As of December 31	**2018**	2017	2016
Farm/vehicle equipment	**$ 42,048**	$ 38,239	$ 33,332
Facilities	**27,214**	25,163	23,702
Subtotal	**69,262**	63,402	57,034
Less: accumulated depreciation	**22,288**	22,034	20,436
Assets held for lease, net	**$ 46,974**	$ 41,368	$ 36,598

Expected Future Minimum Rentals

(in thousands)	Operating Leases
2019	$ 8,140
2020	8,081
2021	6,358
2022	4,954
2023	2,590
Thereafter	2,844
Total minimum future rentals	$ 32,967

NOTE 9: NOTE PAYABLE TO AGRIBANK

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

Note Payable Information

(dollars in thousands) As of December 31	**2018**	2017	2016
Line of credit	**$ 22,000,000**	$ 18,000,000	$ 8,500,000
Outstanding principal under the line of credit	**16,751,484**	15,859,202	7,590,254
Interest rate	**2.7%**	2.1%	1.8%

Our note payable matures September 30, 2021, at which time the note will be renegotiated.

The GFA provides for limitations on our ability to borrow funds based on specified factors or formulas relating primarily to outstanding balances, credit quality, and financial condition. Additionally, we have requirements to maintain an effective program of internal controls over financial reporting. At December 31, 2018, and throughout the year, we were not declared in default under any GFA covenants or provisions.

NOTE 10: SUBORDINATED DEBT

In March 2010, we issued $100.0 million of aggregate principal amount of Series A Subordinated Notes (Notes), due in 2025. The Notes bear a fixed interest rate of 9.0% per annum, payable semi-annually. Our Board of Directors has authorized up to a maximum of $200.0 million for subordinated debt issuance. At our option, we may redeem all or some of the Notes, on any interest payment date on or after a date 10 years from the closing date (March 2010). This debt is subordinate to all other creditor debt, including general creditors, and senior to all classes of stock. Our subordinated debt is not considered System debt and is not an obligation of, nor guaranteed by any System entity. Further, payments on the subordinated Notes are not insured by the FCSIC. On December 15, 2016, we redeemed all $100.0 million of outstanding subordinated notes at par value, which were redeemable on any interest payment date at any time following FCA notification of certain changes to our regulatory capital requirements.

NOTE 11: EQUITY

Capitalization Requirements

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

Regulatory Capitalization Requirements

Regulatory Capital Requirements and Ratios

As of December 31	**2018**	2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**14.7%**	14.2%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**15.2%**	14.7%	6.0%	2.5%*	8.5%
Total capital ratio	**15.6%**	15.1%	8.0%	2.5%*	10.5%
Permanent capital ratio	**15.7%**	15.7%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**15.3%**	15.0%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**14.2%**	13.8%	1.5%	N/A	1.5%

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

Effective January 1, 2017, the regulatory capital requirements for Farm Credit System banks and associations were modified. These regulations replaced existing core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. These regulations also added a tier 1 leverage ratio and an unallocated retained earnings and equivalents (UREE) leverage ratio. The permanent capital ratio continues to remain in effect, with some modifications, to align with these regulations.

Risk-adjusted assets have been defined by the FCA Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes effective January 1, 2017, which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments with terms at origination of less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

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

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

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

- UREE leverage ratio is unallocated retained earnings as regulatorily prescribed, paid-in capital, allocated surplus not subject to retirement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

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

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

Refer to Note 11 in our 2016 Annual Report for a more complete description of the ratios effective as of December 31, 2016. We were in compliance with the minimum required capital ratios as of December 31, 2016.

Description of Equities

The following represents information regarding classes and number of shares of stock and participation certificates outstanding. All shares and participation certificates are stated at a $5.00 par value, except for Series A-1 preferred stock, which is $1,000 par value.

	Number of Shares		
As of December 31	**2018**	2017	2016
Class B common stock (at-risk)	**6,356,673**	6,565,626	2,954,404
Class E participation certificates (at-risk)	**255,711**	276,963	232,327
Series A-1 preferred stock	**100,000**	100,000	100,000

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

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

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

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

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

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

Our bylaws generally permit stock and participation certificates to be retired at the discretion of our Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2018, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

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

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

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

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

Patronage Distributions

In 2016, our Board of Directors passed a resolution, which modified the form of patronage that can be allocated and/or distributed. Patronage can be allocated and/or distributed in the form of cash, qualified written notices of allocations, and/or nonqualified written notices of allocation. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements.

We accrued patronage distributions of $151.7 million at December 31, 2018, for our cash patronage and nonqualified patronage programs. The cash patronage distributions of $99.3 million are expected to be paid in cash during 2019. The redemptions of $52.4 million of the nonqualified equities issued to former members of AgStar, 1st FCS, and Badgerland are expected to be paid in the first quarter of 2019. We accrued patronage distributions of $122.0 million at December 31, 2017, for our cash patronage and nonqualified patronage programs. The cash patronage distributions of $47.0 million, plus an additional $728 thousand, were paid in cash during 2018. The redemptions of $75.0 million of the nonqualified equities issued to former members of 1st FCS and Badgerland were paid in the first quarter of 2018. No patronage distributions were accrued at December 31, 2016.

Upon the merger, all allocated surplus issued by 1st FCS and Badgerland became allocated surplus in the merged Association. The allocated surplus held by AgStar patrons remains outstanding as allocated surplus of the merged Association. With the exception of allocated surplus designated as permanent allocations, all allocated surplus is eligible to be redeemed in the future, if approved by the Board subject to compliance with Compeer Financial, ACA's bylaws. Redemptions of permanent allocations shall not be eligible to be redeemed. In 2017, we made net nonqualified patronage allocations of $28.6 million in accordance with the merger capital equalization plan. We made net nonqualified patronage allocations of $67.1 million at December 31, 2016. We made no net nonqualified patronage allocations at December 31, 2018. Patronage equities have no voting rights, are redeemed at the sole discretion of the Board of Directors and are transferable only if specifically authorized by the Board of Directors.

The Board of Directors authorized the redemption of nonqualified patronage allocations of $96.0 million in 2018. The Board of Directors authorized the redemption of nonqualified patronage allocations of $100.8 million in 2017, which included $25.8 million of nonqualified equities issued to AgStar patrons and $75.0 million of nonqualified equities issued to former members of 1st FCS and Badgerland. The Board of Directors authorized the redemption of nonqualified patronage allocations of $35.0 million in 2016.

The Board of Directors authorized the payment of $5.4 million, $1.6 million, and $1.3 million of distributions on approved transactions in 2018, 2017, and 2016, respectively.

The timing and amounts of all future patronage redemptions and distribution payments remains at the discretion of the Board of Directors based on a combination of factors including the risk in our portfolio, earnings, and our current capital position. Further information regarding the tax impact of our patronage distributions is included in Note 12.

The FCA Regulations prohibit patronage distributions to the extent they would reduce our permanent capital ratio below the minimum permanent capital adequacy standards. Additionally, effective January 1, 2017, patronage distributions may be restricted or prohibited without prior FCA approval if capital ratios fall below the total requirements, including the buffer amounts.

NOTE 12: INCOME TAXES

The Tax Cuts and Jobs Act (the Act) was enacted in December of 2017. This Act contained various tax law changes, including a federal statutory tax rate change to 21% from 35%, effective January 1, 2018. Because deferred tax assets and liabilities are expected to be recognized in the Association's tax return in a future year, when the new statutory tax rate would be applicable, the deferred tax assets and liabilities as of December 31, 2017, were valued using a blended federal/state effective tax rate based on the new federal statutory tax rate. The effect of this revaluation was recognized in our provision for income taxes for the year ended December 31, 2017.

Provision for Income Taxes

Provision for Income Taxes

(dollars in thousands)

For the year ended December 31		2018		2017		2016
Current:						
Federal	**$**	**(2,768)**	$	10,981	$	8,273
State		**774**		782		322
Total current	**$**	**(1,994)**	$	11,763	$	8,595
Deferred:						
Federal	**$**	**5,853**	$	2,513	$	(3,409)
State		**125**		418		(81)
Total deferred		**5,978**		2,931		(3,490)
Provision for income taxes	**$**	**3,984**	$	14,694	$	5,105
Effective tax rate		**1.0%**		5.3%		3.8%

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

(in thousands)

For the year ended December 31		2018		2017		2016
Federal tax at statutory rates	**$**	**85,644**	$	97,843	$	47,020
State tax, net		**906**		643		95
Patronage distributions		**(15,825)**		(12,314)		(8,525)
Effect of non-taxable entity		**(63,073)**		(71,540)		(34,387)
Change in statutory tax rates due to the Tax Cuts and Jobs Act		**--**		727		--
Other		**(3,668)**		(665)		902
Provision for income taxes	**$**	**3,984**	$	14,694	$	5,105

Deferred Income Taxes

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

Deferred Tax Assets and Liabilities

(in thousands)

As of December 31		2018		2017		2016
Allowance for loan losses	**$**	**7,522**	$	6,153	$	7,239
Postretirement benefit accrual		**965**		974		536
Merger fair value adjustment		**1,242**		3,501		--
Deferred fee income, net		**403**		581		1,168
Accrued incentive		**1,396**		1,064		1,366
Leasing related, net		**(12,366)**		(5,276)		(8,400)
Accrued patronage income not received		**--**		(2,429)		(906)
Accrued pension asset		**(3,845)**		(2,884)		(779)
Depreciation		**86**		(110)		(177)
Other assets		**398**		204		81
Other liabilities		**(640)**		(639)		(253)
Deferred tax (liabilities) assets, net	**$**	**(4,839)**	$	1,139	$	(125)
Gross deferred tax assets	**$**	**12,012**	$	12,477	$	10,390
Gross deferred tax liabilities	**$**	**(16,851)**	$	(11,338)	$	(10,515)

A valuation allowance for the deferred tax assets was not necessary at December 31, 2018, 2017, or 2016.

We have not provided for deferred income taxes on approximately $115.9 million of patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. Also, we have not provided deferred income taxes on $8.8 million of patronage allocations in the form of AgriBank stock distributed in 2002 to the ACA and PCA. The Board of Directors has passed a resolution that, should this stock ever be converted to cash, creating a tax liability, an equal amount will be distributed to patrons at that time under our patronage program. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $1.2 billion as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to stockholders in a manner that results in no additional tax liability to us.

Our income tax returns are subject to review by various United States taxing authorities. We record accruals for items that we believe may be challenged by these taxing authorities. However, we had no uncertain income tax positions at December 31, 2018. In addition, we believe we are no longer subject to income tax examinations for years prior to 2015.

NOTE 13: EMPLOYEE BENEFIT PLANS

Pension and Post-Employment Benefit Plans

Complete financial information for the pension and post-employment benefit plans may be found in the AgriBank 2018 Annual Report.

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

Pension Plan: Certain employees participate in the AgriBank District Retirement Plan, a District-wide multi-employer defined benefit retirement plan. The plan is comprised of two benefit formulas. At their option, employees hired prior to October 1, 2001, are on the cash balance formula or the final average pay formula. New benefits-eligible employees hired between October 1, 2001, and December 31, 2006, are on the cash balance formula. Effective January 1, 2007, the defined benefit retirement plan was closed to new employees. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan's termination is contingent on the sufficiency of the plan's net assets to provide benefits at that time. This plan is noncontributory and covers certain eligible District employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if we choose to stop participating in the plan, we may be required to pay an amount based on the underfunded status of the plan. Because of the nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee transfers to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

AgriBank District Retirement Plan Information

(in thousands)

As of December 31	2018	2017	2016
Unfunded liability	**$ 274,450**	$ 352,516	$ 374,305
Projected benefit obligation	**1,272,063**	1,371,013	1,269,625
Fair value of plan assets	**997,613**	1,018,497	895,320
Accumulated benefit obligation	**1,125,682**	1,184,550	1,096,913

For the year ended December 31	2018	2017	2016
Total plan expense	**$ 51,900**	$ 44,730	$ 53,139
Our allocated share of plan expenses	**14,578**	9,063	7,056
Contributions by participating employers	**90,000**	90,000	90,000
Our allocated share of contributions	**24,588**	22,907	11,808

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

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

Benefits paid to participants in the District were $68.6 million in 2018. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total District employer contributions expected to be paid into the pension plan during 2019 is $90.0 million. Our allocated share of these pension contributions is expected to be $24.5 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 the amounts reflected in the District financial statements.

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

Pension Restoration Plan Information

(in thousands)

As of December 31		2018		2017		2016
Our unfunded liability	$	**17,103**	$	13,376	$	2,858

For the year ended December 31		2018		2017		2016
Our allocated share of plan expenses	$	**1,650**	$	4,627	$	3,004
Our cash contributions		**1,691**		2,508		5,200

The nonqualified plan is funded as the benefits are paid; therefore, there are no assets in the plan and the unfunded liability is equal to the projected benefit obligation. Beginning in 2017, the recognition of the unfunded liability includes the impact of prior service cost and unamortized gain/loss. The increase in the liability was offset against accumulated other comprehensive loss and had no impact to net income. The amount of the pension benefits funding status is subject to many variables including interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

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

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

Retiree Medical Plan Information

(in thousands)

For the year ended December 31		2018		2017		2016
Postretirement benefit (income) expense	$	**(113)**	$	231	$	157
Our cash contributions		**399**		365		144

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

Defined Contribution Plans

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

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

Employer contribution expenses for the defined contribution plan, included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income, were $8.1 million, $5.5 million, and $3.8 million in 2018, 2017, and 2016, respectively. These expenses were equal to our cash contributions for each year.

Additionally, we participate in a District-wide Pre-409A Frozen Nonqualified Deferred Compensation Plan. This plan serves the same purpose as the Nonqualified Deferred Compensation Plan. However, the plan was frozen effective January 1, 2007. As such, no additional participants are eligible to enter the plan and no additional employer contributions will be made to the plan.

NOTE 14: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members, and other organizations with which such persons may be associated. Such transactions may be subject to special approval requirements contained in the FCA Regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with other persons. In our opinion, none of these loans outstanding at December 31, 2018, involved more than a normal risk of collectability.

Related Party Loans Information

(in thousands) As of December 31		**2018**		2017		2016
Total related party loans	**$**	**49,504**	$	37,959	$	13,194
For the year ended December 31		**2018**		2017		2016
Advances to related parties	**$**	**20,947**	$	20,081	$	8,804
Repayments by related parties		**21,841**		18,207		8,605

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

As discussed in Note 9, we borrow from AgriBank, in the form of a line of credit, to fund our loan portfolio. All interest expense as shown on the Consolidated Statements of Comprehensive Income was paid to AgriBank. Total patronage received from AgriBank was $131.7 million, $90.1 million, and $27.5 million in 2018, 2017, and 2016, respectively. Refer to Note 3 for information on participations sold to AgriBank and Note 7 for stock investment in AgriBank information.

We purchase various services from AgriBank, including SunStream Business Services, a division of AgriBank FCB. The services include certain financial and retail systems, financial reporting services, tax reporting services, technology services, and insurance services. The total cost of services we purchased from AgriBank was $3.4 million, $3.2 million, and $2.2 million in 2018, 2017, and 2016, respectively.

We also purchase human resource information systems, and benefit, payroll, and workforce management services from Farm Credit Foundations (Foundations). Our investment was $154 thousand, $154 thousand, and $83 thousand at December 31, 2018, 2017, and 2016, respectively. The total cost of services purchased from Foundations was $996 thousand, $816 thousand, and $486 thousand in 2018, 2017, and 2016, respectively.

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

NOTE 15: CONTINGENCIES AND COMMITMENTS

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

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

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk that may be recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2018, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $4.6 billion. Additionally, we had $59.1 million of issued standby letters of credit and $10.2 million of other commitments as of December 31, 2018.

Commitments to extend credit and letters of credit generally have fixed expiration dates or other termination clauses and we may require payment of a fee. If commitments to extend credit and letters of credit remain unfulfilled or have not expired, they may have credit risk not recognized in the financial statements. Many of the commitments to extend credit and letters of credit will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Certain letters of credit may have recourse provisions that would enable us to recover from third parties amounts paid under guarantees, thereby limiting our maximum potential exposure. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers and we apply the same credit policies. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on management's credit evaluation of the borrower.

We hold non-controlling investments in junior capital funds and we are a limited partner in RBICs. Refer to Note 6 for additional discussion regarding these commitments.

NOTE 16: DERIVATIVES

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

As of December 31, 2018, we had $28.0 million of forward commitments to sell, hedging $18.5 million of mortgage loans held for sale and $11.6 million of unfunded mortgage loan commitments. We also hedge available-for-sale investments. However there were no available-for-sale investments outstanding at December 31, 2018, 2017, or 2016. As of December 31, 2017, we had $44.8 million of forward commitments to sell, hedging $30.1 million of mortgage loans held for sale and $12.9 million of unfunded mortgage loan commitments. As of December 31, 2016, we had $34.5 million of forward commitments to sell, hedging $27.4 million of mortgage loans held for sale and $13.0 million of unfunded mortgage loan commitments. The forward commitments to sell and the unfunded mortgage loan commitments on loans intended to be sold are considered derivatives and are recognized at fair value. On the TBAs, we had gains of $1.8 million, $1.2 million, and $1.3 million and losses of $1.2 million, $1.9 million, and $1.5 million relating to net fair value adjustments and sales in 2018, 2017, and 2016, respectively. These amounts were included in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income.

NOTE 17: FAIR VALUE MEASUREMENTS

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

Recurring

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

Loans held for sale: The loans held for sale portfolio is held at fair value. Fair value is based on quoted market prices, where available, or the prices for other similar mortgage loans with similar characteristics. As necessary, these prices are adjusted for typical securitization activities, including servicing value, portfolio composition, market conditions, and liquidity. We had loans held for sale of $18.5 million, $30.1 million, and $27.4 million as of December 31, 2018, 2017, and 2016, respectively, which were valued using Level 3 inputs. Total fair value gains related to these loans of $226 thousand and $212 thousand in 2018 and 2017, respectively and fair value losses of $468 thousand in 2016 were recognized in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income.

Investment securities available-for-sale: Investment securities available-for-sale are held at fair value. Fair value is based on quoted market prices, where available, or the prices for other similar securities with similar characteristics. As necessary, these prices are adjusted for typical securitization activities, including servicing value, portfolio composition, market conditions, and liquidity. We had no outstanding available-for-sale investment securities at December 31, 2018, 2017, and 2016. During the year ended December 31, 2018, 2017, and 2016 we sold available-for-sale investment securities with total sales proceeds of $86.7 million, $105.2 million, and $102.8 million, resulting in a loss of $511 thousand and $198 thousand in 2018 and 2017, respectively and a gain of $659 thousand in 2016, which was recognized in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income.

Derivatives: If an active market exists, the fair value of our derivative financial instruments called TBAs is based on currently quoted market prices. We had TBAs with a notional value of $28.0 million, $44.8 million, and $34.5 million as of December 31, 2018, 2017, and 2016, respectively, which were used to manage exposure to interest rate risk and changes in the fair value of loans held for sale and the interest rate lock commitments that are determined prior to funding. We also used these instruments to hedge the changes in fair value related to investment securities available-for-sale. These derivatives were recorded on a net basis using Level 1 fair value inputs. Net losses related to TBAs sold, combined with fair value gains on the TBAs, resulted in a net gain of $583 thousand in 2018 compared to a net loss of $680 thousand and $225 thousand in 2017 and 2016, respectively. These were included in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income.

Non-Recurring

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

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

Other property owned: Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset’s fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management’s knowledge of and judgment about current market conditions, specific issues relating to the property and other matters, they are classified as Level 3.

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)

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

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

As of December 31, 2016	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ 821	$ 4,969	$ 5,790
Other property owned	--	--	1,022	1,022

Other Financial Instrument Measurements

Estimating the fair value of our investment in AgriBank is not practical because the stock is not traded. As discussed in Note 7, the investment is a requirement of borrowing from AgriBank.

A description of the methods and assumptions used to estimate the fair value of each class of our financial instruments, measured at carrying amounts and not measured at fair value on the Consolidated Statements of Condition, for which it is practical to estimate that value, follows:

Net non-impaired loans held to maturity: Because no active market exists for our loans, the fair value of loans that are not individually specifically impaired is estimated by discounting the expected future cash flows using current interest rates at which similar loans would be made or repriced to borrowers with similar credit risk. In addition, loans are valued using the Farm Credit interest rate yield curve, prepayment rates, contractual loan information, credit classification, and collateral values. As the discount rates are based upon internal pricing mechanisms and other management estimates, management has no basis to determine whether the fair values presented would be indicative of the exit price negotiated in an actual sale. Furthermore, certain statutory or regulatory factors not considered in the valuation, such as the unique statutory rights of System borrowers, could render our portfolio less marketable outside the System.

Investment securities held to maturity: If an active market exists, the fair value is based on currently quoted market prices. For those securities for which an active market does not exist, we estimate the fair value of these investments by discounting the expected future cash flows using current interest rates adjusted for credit risk.

Other investments: Given the limited information available related to the expected return of our non-controlling interest in junior capital funds (and that impairment losses have been recognized on these investments), the current carrying amount is estimated to be the current fair value. In addition, given the limited information available related to the expected return on the RBICs (and their current earnings do not indicate impairment or projected losses), the current carrying amount on these investments is also estimated to their fair value. Both are included in “Other assets” in the Consolidated Statements of Conditions.

Note payable to AgriBank, FCB: Estimating the fair value of the note payable to AgriBank is determined by segregating the note into pricing pools according to the types and terms of the underlying loans funded. We discount the estimated cash flows from these pools using the current rate charged by AgriBank for additional borrowings with similar characteristics.

Commitments to extend credit and letters of credit: Estimating the fair value of commitments and letters of credit is determined by the inherent credit loss in such instruments.

Financial Instruments Not Measured at Fair Value on the Consolidated Statements of Condition

(in thousands)

As of December 31	2018		2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Net non-impaired loans held to maturity	**$ 18,670,659**	**$ 18,522,774**	$ 17,687,502	$ 17,595,685	$ 8,110,904	$ 8,090,387
Investment securities held to maturity	**995,140**	**981,838**	879,258	867,477	473,248	459,618
Other investments	**15,845**	**15,845**	21,798	21,798	7,455	7,455
Financial liabilities:						
Note payable to AgriBank, FCB	**$ 16,739,126**	**$ 16,635,943**	$ 15,847,060	$ 15,783,400	$ 7,590,254	$ 7,567,186
Unrecognized financial instruments:						
Commitments to extend credit and letters of credit		**$ (2,263)**		$ (6,541)		$ (3,086)

NOTE 18: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 4, 2019, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our 2018 Consolidated Financial Statements or disclosure in the Notes to Consolidated Financial Statements.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

Compeer Financial, ACA

(Unaudited)

Description of Business

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

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

Description of Property

Property Information

Location	Description	Usage	Location	Description	Usage
Illinois			**Wisconsin**		
Aledo	Owned	Branch	Arcadia	Owned	Branch
Bloomington	Leased	Commercial Unit	Baldwin	Owned	Branch
Bourbonnais	Leased	Branch	Baraboo	Owned	Branch
Carthage	Leased	Contact Office	Beaver Dam	Owned	Branch
Edwards	Owned	Branch	Burlington	Owned	Branch
Freeport	Owned	Branch	Chilton	Owned	Branch
Geneseo	Owned	Branch	Dodgeville	Owned	Branch
Lewiston	Leased	Contact Office	Fond du Lac	Owned	Branch
Macomb	Owned	Branch	Janesville	Owned	Branch
Monmouth	Owned	Branch	Johnson Creek	Owned	Branch
Morton	Owned	Branch	Lancaster	Owned	Branch
Mt. Sterling	Leased	Contact Office	Mondovi	Owned	Branch
Naperville	Leased	Branch	Monroe	Leased	Branch
Normal	Owned	Corporate Facility	Mt. Horeb	Leased	Contact Office
Normal	Leased	Branch	Plymouth	Owned	Branch
Oregon	Owned	Branch	Prairie du Sac	Owned	Branch
Ottawa	Owned	Branch	Rice Lake	Owned	Branch
Pontiac	Leased	Branch	Sparta	Owned	Branch
Princeton	Owned	Branch	Sun Prairie	Owned	Corporate Headquarters
Quincy	Owned	Branch	Viroqua	Leased	Branch
Rock Falls	Leased	Branch			
Rushville	Leased	Contact Office			
Stronghurst	Leased	Contact Office			
Sycamore	Leased	Branch			
Woodstock	Leased	Contact Office			
Minnesota			**Other**		
Apple Valley	Leased	Branch	Boise, ID	Leased	Contact Office
Blue Earth	Leased	Branch	Des Moines, IA	Leased	Contact Office
Duluth	Leased	Contact Office	Spokane, WA	Leased	Commercial Unit
Glencoe	Owned	Branch			
Mankato	Owned	Branch			
Mankato	Leased	Corporate Facility			
Northfield	Leased	Branch			
Rochester	Leased	Branch			
St. Paul	Leased	Commercial Unit			
Waite Park	Owned	Branch			
Worthington	Leased	Branch/Contact Office			

Legal Proceedings

Information regarding legal proceedings is discussed in Note 15 to the Consolidated Financial Statements in this Annual Report. We were not subject to any enforcement actions as of December 31, 2018.

Additional Regulatory Capital Disclosure

Regulatory Capital Ratios Pursuant to FCA Regulation 620.5

As of December 31	2013	2012
Permanent capital ratio	15.4%	13.9%
Total surplus ratio	15.2%	13.7%
Core surplus ratio	12.5%	10.9%

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

Description of Capital Structure

Information regarding our capital structure is discussed in Note 11 to the Consolidated Financial Statements in this Annual Report.

Description of Liabilities

Information regarding liabilities is discussed in Notes 9, 10, 11, 12, 13, 15, and 17 to the Consolidated Financial Statements in this Annual Report. All debt and other liabilities in the financial statements are uninsured.

Selected Financial Data

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

Management's Discussion and Analysis

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

Board of Directors

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

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

Board of Directors as of December 31, 2018, including business experience during the last five years

Name	Term[1]	Principal occupation and other business affiliations
Mark Cade Chairperson	2017 - 2020	**Principal occupation:** Self-employed beef and grain farmer
Dale Holmgren Vice Chairperson	2016 - 2020	**Principal occupation:** Self-employed grain and livestock farmer **Other business affiliations:** President: Svin Hus, Inc., a swine operation Director: AgriBank District Farm Credit Council Board
Kevin Aves	2018 - 2019	**Principal occupation:** Self-employed corn, soybean, and wheat farmer **Other business affiliations:** Trustee and Treasurer: Kirkland Community Fire District
Ann Broome Outside Director	2015 - 2019	**Principal occupation:** Self-employed Human Resources Consultant **Other business affiliations:** President: Sienna Group, HR Consulting

Name	Term	Principal occupation and other business affiliations
Kaye Compart	2018 - 2022	**Principal occupation:** Self-employed swine and seedstock producer **Other business affiliations:** Director: Nicollet Area Community Foundation, Nicollet, MN, a fundraising organization
Terry Ebeling	2016 - 2019	**Principal occupation:** Self-employed grain farmer
Dan Erickson	2018 - 2021	**Principal occupation:** Self-employed grain farmer and custom heifer producer
Tim Evert	2017 - 2019	**Principal occupation:** President: Evert Farms, Inc, a custom heifer raising and crop farm Partner: United Dreams Dairy, LLC, a dairy farm
Larry Fischer	2018 - 2021	**Principal occupation:** President: Fischer Dairy, a grain and beef farm President: Fischer Ridge, LLC, a land partnership
Kathleen Hainline Outside Director	2018 - 2021	**Principal occupation:** Consultant: agriculture risk management
Lori Meinholz	2018 - 2022	**Principal occupation:** Partner: Blue Star Dairy Farms, a dairy operation
Greg Nelson	2018 - 2022	**Principal occupation:** Self-employed grain and livestock farmer **Other business affiliations:** Director: AgriBank District Farm Credit Council Board
Roger Newell	2018 - 2022	**Principal occupation:** Self-employed grain and livestock farmer **Other business affiliations:** Supervisor: Elba Township, government Trustee: Knox County South-Multi Township, government
David Peters	2018 - 2020	**Principal occupation:** Self-employed wheat, soybean, and corn farmer **Other business affiliations:** Director: Manteno Farmers Elevator, grain warehousing and merchandising Treasurer: Kankakee County Soil and Water Conservation District Trustee: Manteno Township Fire Protection District Director: AgriBank District Farm Credit Council Board
Greg Pollesch, CPA Outside Director	2017 - 2019	**Principal occupation:** Director and President: Galloway Company, a sweetened condensed milk and ice cream mix manufacturer (President beginning January 2016) Owner and Manager: 82 West LLC, real estate investment group **Other business affiliations:** Director: Wisconsin Dairy Products Association, an industry trade group
Stephanie Wise	2018 - 2021	**Principal occupation:** Corn, soybean, and popcorn farming operation Owner: Gripp Farm Nutrients, LLC, agribusiness/fertilizer Owner: Bright Prairies, LLC, general merchandise Executive Vice President: First Midwest Bank (prior to April 2013) **Other business affiliations:** Director: Farm Credit Foundations, a pension and benefits service provider
Dan Zimmerman	2018 - 2021	**Principal occupation:** Vice President: Ever Green Growers Inc., a farming and elevator business Partner: Golden Grain, LLC, a farming operation **Other business affiliations:** Director: Farm Credit Foundations, a pension and benefits service provider

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

Pursuant to our bylaws, Directors are paid a reasonable amount for attendance at board meetings, committee meetings, or other special assignments. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or assignments. In 2018, the Board of Directors' per diem rate was $450 per day plus travel time compensation for each meeting attended. The Board of Directors regular monthly meetings are normally two days in length. In addition, they hold two, three-day planning sessions annually. In 2018, each Director received a $1,600 per month retainer fee, with the exception of the Board chairperson who received a $2,000 per month retainer fee and the Board vice chairperson and Board committee chairpersons who received

$1,700 per month retainer fee. Each Director is eligible for a variable retainer fee based on companywide financial and business objectives. The award is calculated as a percentage of the Director's annual per diem compensation. The performance criteria include return on equity, return on assets, operating revenue growth, average daily balance (ADB) growth, adverse assets to risk funds ratio, net operating rate, client satisfaction, and client loyalty. Under the terms of the plan, no payments are made in the event our return on equity or adverse assets to risk funds ratio fall outside specified threshold levels. The percentage used in the award calculation depends on the actual results for each performance criteria.

Information regarding compensation paid to each director who served during 2018 follows:

	Number of Days Served		Compensation Paid for Service on a Board Committee		Total Compensation Paid in 2018[1]
Name	Board Meetings	Other Official Activities		Name of Committee	
Kevin Aves	19	17	$ 2,700	Compensation and Governance	$ 47,194
Ann Broome	21	13	2,700	Compensation and Governance	53,814
Mark Cade	15	29	4,050	Audit and Finance	55,416
Kaye Compart	16	19	450	Compensation and Governance	52,366
Terry Ebeling	20	25	4,500	Audit and Finance	56,793
Spencer Enninga[2]	--	--	--		8,643
Dan Erickson	18	26	1,800	Enterprise Risk	48,557
Tim Evert	15	15	2,700	Compensation and Governance	43,048
Larry Fischer	18	21	4,500	Audit and Finance	45,491
Kathleen Hainline	21	28	4,500	Audit and Finance	53,070
Dale Holmgren	18	35	1,800	Enterprise Risk	61,480
David Kretzschmar[2]	--	--	--		7,540
Lori Meinholz	16	19	450	Enterprise Risk	44,828
Greg Nelson	19	19	1,800	Enterprise Risk	50,582
Roger Newell	3	3	450	Audit and Finance	7,122
David Peters	16	25	1,800	Enterprise Risk	50,061
Greg Pollesch	15	10	2,250	Compensation and Governance	40,726
Michael Pratt[3]	14	16	4,050	Audit and Finance	38,361
Stephanie Wise	18	16	2,700	Compensation and Governance	44,971
Dan Zimmerman	17	19	1,800	Enterprise Risk	46,228
					$ 856,291

[1] Compensation in 2018 includes taxable fringe benefits, if applicable and variable retainer earned during 2017 and paid in 2018.

[2] No longer on the Board at December 31, 2017.

[3] No longer on the Board at December 31, 2018.

Senior Officers

Senior Officers as of December 31, 2018, including business experience during the last five years

Name and Position	Business experience and other business affiliations
Rod Hebrink President and Chief Executive Officer	**Business experience:** President and Chief Executive Officer since July 2017 President and Chief Executive Officer of AgStar Financial Services, ACA from July 2014 to June 2017 Executive Vice President and Chief Financial Officer of AgStar Financial Services, ACA from October 2011 to July 2014 **Other business affiliations:** Board Member of Farm Credit Foundations, a pension and benefits service provider Board Member of Minnesota AgriGrowth Council President of Rural Funding, LLC
Jase Wagner Chief Financial Officer	**Business experience:** Chief Financial Officer since July 2017 Senior Vice President and Chief Financial Officer of AgStar Financial Services, ACA from October 2014 to June 2017 Vice President and Managing Director, Agri-Access from January 2014 to October 2014 Vice President of Capital Management of AgStar Financial Services, ACA from April 2010 to January 2014

Name and Position	Business experience and other business affiliations
Matt Ginder Chief Core Markets Officer	**Business experience:** Chief Core Markets Officer since July 2017 Executive Vice President - Marketplace Delivery of 1st Farm Credit Services, ACA from January 2010 to June 2017 **Other business affiliations:** Elected Trustee on the Village Board of Goodfield, IL, government
Mark Greenwood Chief Diversified Markets Officer	**Business experience:** Chief Diversified Markets Officer since July 2017 Senior Vice President Relationship Management, AgStar Financial Services, ACA from May 2015 to June 2017 President, The Maschhoff's Inc. from November 2014 to April 2015 Vice President Industry Specialist, AgStar Financial Services, ACA from March 1997 to November 2014 **Other business affiliations:** Treasurer and Secretary of Swine Health Information Commission
John Hemstock Chief Talent and Technology Officer	**Business experience:** Chief Talent and Technology Officer since July 2017 Senior Vice President Talent and Business Technology Strategies, AgStar Financial Services, ACA from October 2014 to June 2017 Senior Vice President Brand and Talent Strategies, AgStar Financial Services, ACA from October 2011 to October 2014
Terry Hinds Chief Risk Officer	**Business experience:** Chief Risk Officer since July 2017 Chief Lending Officer - Diversified Markets of 1st Farm Credit Services, ACA from May 2006 to June 2017 **Other business affiliations:** Board Member of FARM Illinois, non-profit
Paul Kohls Chief Lending Operations Officer and General Counsel	**Business experience:** Chief Lending Operations Officer and General Counsel since July 2017 Senior Vice President, General Counsel and Secretary of AgStar Financial Services, ACA from January 2012 to June 2017
John Monson Chief Mission and Marketing Officer	**Business experience:** Chief Mission and Marketing Officer since July 2017 Senior Vice President Marketplace Strategies, AgStar Financial Services, ACA from October 2014 to June 2017 Senior Vice President Investments in Rural America, AgStar Financial Services, ACA from November 2006 to October 2014
Tim Tracy Chief Credit Officer	**Business experience:** Chief Credit Officer since July 2017 Senior Vice President and Chief Risk Officer, AgStar Financial Services, ACA from October 2011 to June 2017
Jerry Wiese Chief Information Officer	**Business experience:** Chief Information Officer since July 2017 Chief Information Officer, Vice President Information Technology of Badgerland Financial, ACA from September 2012 to June 2017

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

Transactions with Senior Officers and Directors

Information regarding related party transactions is discussed in Note 14 to the Consolidated Financial Statements in this Annual Report.

Travel, Subsistence, and Other Related Expenses

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

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

The total directors' travel, subsistence, and other related expenses were $261 thousand, $326 thousand, and $197 thousand in 2018, 2017, and 2016, respectively.

Involvement in Certain Legal Proceedings

No events occurred during the past five years that are material to evaluating the ability or integrity of any person who served as a director or senior officer on January 1, 2019, or at any time during 2018.

Client Privacy

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

Relationship with Qualified Public Accountant

There were no changes in independent auditors since the last Annual Report to stockholders and we are in agreement with the opinion expressed by the independent auditors. The total financial statement audit fees paid during 2018 were $317 thousand. Our engagement letter commits to reimbursing the external auditor for reasonable out-of-pocket expenses as incurred for travel. In addition, we incurred fees of $296 thousand related to internal controls over financial reporting readiness and remediation procedures, $17 thousand for tax compliance services, and $2 thousand for accounting research software, which occurred in the normal course of business and were pre-approved by the Audit Committee. There were no other audit, tax, audit related, or non-audit related services paid in 2018.

Financial Statements

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

Young, Beginning, and Small Farmers and Ranchers

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

Equal Employment Opportunity

We are an equal opportunity employer. It is our policy to provide equal employment opportunity to all persons regardless of race, color, sex, creed, religion, national origin, age, disability, marital status, familial status, sexual orientation, public assistance status, veteran status, genetic information, pregnancy or any other status protected by law. We comply with all federal, state, and local equal opportunity employment regulations. All personnel decisions and processes relating to our employees and job applicants are conducted in an environment free of discrimination and harassment. We are committed to recruiting, hiring, providing standard benefits, training, and promoting without regard to the above listed factors.

YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

Compeer Financial, ACA

(Unaudited)

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

- Young: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.
- Beginning: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the loan transaction date.
- Small: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than $250 thousand in annual gross sales of agricultural or aquatic products.

Young, Beginning, and Small (YBS) Farmer Demographics

Using the 2012 USDA Ag census as the source for demographic data, there are over 130,000 farms in the Compeer Financial, ACA (Compeer) territory. Of those, 11.6% are young farmers, 21.7% are beginning farmers, and 80.1% are small farmers.

Mission Statement

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

2018 YBS Highlights

2018 marked the first full year of Compeer Financial, ACA's (Compeer) YBS program. The lending program consists of discounted rates, flexible underwriting standards, and a "character" loan program for YBS farmers who demonstrate extraordinary potential for success but lack some of the financial strengths necessary to qualify for traditional underwriting. In addition to the lending program, a "Beginning with Compeer" grant program is also made available to beginning farmers within the Compeer territory. The third branch of the YBS program is education and outreach.

A key component of education and outreach is allowing for the direct input of YBS farmers to influence the program. An external advisory group, made up of 12 clients throughout the Compeer territory, met twice in 2018 to discuss the program, changes and challenges facing the industry, and the specific needs of this market segment. The input from this group has helped steer the direction of the program and influenced educational opportunity decisions.

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

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

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

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

Quantitative Goals

2018 Goals

	Total Number of Loans	Total Volume of Loans	Total Number of New Loans	Total Volume of New Loans
Young Farmers	19.0%	12.5%	17.25%	11.0%
Beginning Farmers	22.5%	15.0%	20.0%	14.3%
Small Farmers	41.5%	16.0%	39.0%	10.5%

2018 Results

(dollars in millions)

	Total Number of Loans		Total Volume of Loans		Total Number of New Loans		Total Volume of New Loans	
	#	%	$	%	#	%	$	%
Young Farmers	15,905	20.6%	3,183	15.9%	3,735	18.3%	762	11.9%
Beginning Farmers	20,115	26.0%	4,250	21.3%	4,656	22.8%	1,138	17.7%
Small Farmers	32,848	45.0%	3,857	19.3%	9,141	44.7%	904	14.1%

Safety and Soundness of Program

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

FUNDS HELD PROGRAM

Compeer Financial, ACA

(Unaudited)

Purpose

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

Objective

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

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

Advance Payment Application

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

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

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

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

Interest on Funds Held

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

Withdrawal of Funds

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

Uninsured Account and Liquidation

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

Termination

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

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

(844) 426-6733 | COMPEER.COM

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Cover photo provided by Jessica Lambert.