



**AGFIRST FARM CREDIT BANK
& DISTRICT ASSOCIATIONS**



**FARM
CREDIT**

**2019 SECOND QUARTER
FINANCIAL INFORMATION**

AgFirst Farm Credit Bank and District Associations

June 30, 2019 Financial Information

(unaudited)

INTRODUCTION AND DISTRICT OVERVIEW

The following commentary reviews the Combined Financial Statements of condition and results of operations of AgFirst Farm Credit Bank (AgFirst or the Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the AgFirst District (District), for the three and six month periods ended June 30, 2019. AgFirst and the District Associations are part of the Farm Credit System (the System), a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. Cooperatives are organizations that are owned and controlled by their members who use the cooperatives' products or services. The U.S. Congress authorized the creation of the first System institutions in 1916. The System was created to provide support for the agricultural sector because of its significance to the well-being of the U.S. economy and the U.S. consumer. The mission of the System is to provide sound and dependable credit to American farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, and certain farm-related businesses. The System does this by making appropriately structured loans to qualified individuals and businesses at competitive rates and providing financial services and advice to those persons and businesses. AgFirst and each District Association are individually regulated by the Farm Credit Administration (FCA).

The Associations are structured as cooperatives, and each Association is owned by its borrowers. AgFirst also operates as a cooperative. The District Associations, certain Other Financing Institutions (OFIs), other System institutions, and preferred stockholders jointly own AgFirst. As such, the benefits of ownership flow to the same farmer/rancher borrowers that the System was created to serve.

As of June 30, 2019, the District consisted of the Bank and nineteen District Associations. All nineteen were structured as Agricultural Credit Association (ACA) holding companies, with Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries. PCAs originate and service short- and intermediate-term loans; FLCAs originate and service long-term real estate mortgage loans; and ACAs originate and service both long-term real estate mortgage loans and short- and intermediate-term loans.

Farm Credit's funds are raised by the Federal Farm Credit Banks Funding Corporation (the Funding Corporation) and insured by the Farm Credit System Insurance Corporation (FCSIC). The Funding Corporation issues a variety of Federal Farm Credit Banks Combined Systemwide Debt Securities with broad ranges of maturities and structures on behalf of the System banks. Each System bank has exposure to Systemwide credit risk because each bank is jointly and severally liable for all Systemwide debt issued.

AgFirst provides funding and related services to the District Associations, which, in turn, provide loans and related services to agricultural and rural borrowers. AgFirst has in place with each of the District Associations, a revolving line of credit, referred to as a "Direct Note." Each Association primarily funds its lending and general corporate activities by borrowing through its Direct Note. Virtually all assets of the Associations secure the Direct Notes. Lending terms are specified in a separate General Financing Agreement (GFA) between AgFirst and each Association, including the subsidiaries of the Associations.

AgFirst and the Associations are chartered to serve eligible borrowers in Alabama, Delaware, Florida, Georgia, Maryland, Mississippi, North Carolina, Pennsylvania, South Carolina, Virginia, West Virginia, Puerto Rico, and portions of Kentucky, Louisiana, Ohio, and Tennessee. As of June 30, 2019, two other Farm Credit Banks (FCBs) and an Agricultural Credit Bank (ACB), through a number of associations, provided loans and related services to eligible borrowers in the remaining portion of the United States. While owned by its related associations, each FCB manages and controls its own business activities and operations. The ACB is owned by its related associations as well as other agricultural and rural institutions, including agricultural cooperatives. Associations are not commonly owned or controlled and each manages and controls its own business activities and operations.

While combined District statements reflect the financial and operational interdependence of AgFirst and its Associations, AgFirst does not own or control the Associations. AgFirst publishes Bank-only audited financial statements (electronic version of which is available on AgFirst's website at www.agfirst.com) that may be referred to for a more complete analysis of AgFirst's financial condition and results of operations.

Financial Highlights

(unaudited)

<i>(dollars in thousands)</i>	June 30, 2019	December 31, 2018
Total loans	\$ 30,121,362	\$ 29,592,224
Allowance for loan losses	(208,158)	(209,657)
Net loans	29,913,204	29,382,567
Total assets	39,478,283	38,625,732
Total shareholders' equity	6,818,838	6,473,552
	For the Six Months Ended June 30,	
	2019	2018
Net interest income	\$ 512,829	\$ 508,028
Provision for (reversal of allowance for) loan losses	3,110	4,500
Noninterest income (expense), net	(230,501)	(200,128)
Net income	279,218	303,400
Net interest income as a percentage of average earning assets	2.71%	2.79%
Net (chargeoffs) recoveries to average loans	(0.03)%	(0.03)%
Return on average assets	1.45%	1.64%
Return on average shareholders' equity	8.45%	9.58%
Operating expense as a percentage of net interest income and noninterest income	47.91%	44.88%
Average loans	\$ 29,641,016	\$ 28,291,593
Average earning assets	38,119,486	36,664,671
Average assets	38,751,512	37,386,278

Management's Discussion & Analysis of Financial Condition & Results of Operations

RESULTS OF OPERATIONS

Net income for the three months ended June 30, 2019 was \$139.1 million compared to \$141.3 million for the three months ended June 30, 2018, a decrease of \$2.2 million, or 1.56 percent. Net income for the six months ended June 30, 2019 was \$279.2 million compared to \$303.4 million for the corresponding period in 2018, a decrease of \$24.2 million or 7.97 percent. See below for further discussion of the change in net income by major components.

Key Results of Operations Comparisons

	Annualized for the Six Months Ended June 30, 2019	For the Year Ended December 31, 2018	Annualized for the Six Months Ended June 30, 2018
Return on average assets	1.45%	1.55%	1.64%
Return on average shareholders' equity	8.45%	9.03%	9.58%
Net interest margin	2.71%	2.79%	2.79%
Operating expense as a percentage of net interest income and noninterest income	47.91%	45.47%	44.88%
Net (charge-offs) recoveries to average loans	(0.03)%	(0.02)%	(0.03)%

Compared to both year-end 2018 and the first six months of 2018, the annualized return on average assets and return on average shareholders' equity ratios declined due to lower annualized net income and higher average balances of assets and equity in the 2019 period. The lower net interest margin ratio in 2019 compared to both prior periods was due primarily to higher average interest-earning assets in the 2019 period. For the operating expense as a percentage of net interest income and noninterest income ratio, operating expense consists primarily of noninterest expenses excluding losses (gains) from other property owned. This ratio was negatively impacted by a decrease in noninterest income and an increase in noninterest expenses in the 2019 period compared to both prior periods presented. The net (charge-offs) recoveries ratio remained relatively constant for all periods presented. See *Allowance for Loan Losses*, *Net Interest Income*, *Noninterest Income*, and *Noninterest Expenses* sections for further discussion.

Net Interest Income

Net interest income increased \$4.5 million to \$259.2 million, an increase of 1.78 percent, for the three months ended June 30, 2019 compared to the three months ended June 30, 2018. For the six months ended June 30, 2019, net interest income was \$512.8 million compared to \$508.0 million for the same period of 2018, an increase of \$4.8 million, or 0.95 percent. The net interest margin, which is net interest income as a percentage of average earning assets, was 2.71 percent for both the three and six month periods ended June 30, 2019, a decrease of seven and eight basis points, respectively, compared to the same periods in the prior year. The increase in net interest income for the three and six month periods resulted primarily from both higher yields on interest-earning assets and higher interest-earning asset levels, partially offset by higher rates paid on interest-bearing liabilities.

The Bank called debt totaling \$5.075 billion for the six months ended June 30, 2019. No bonds were called for the same period in the prior year. Although net interest margin is enhanced when bonds are called, over time, as interest rates change and as assets prepay or reprice, the positive impact on the net interest margin from calling debt will diminish.

The effects of changes in volume and interest rates on net interest income for the three and six months ended June 30, 2019, as compared with the corresponding periods in 2018, are presented in the following table. The table distinguishes between the changes in interest income and interest expense related to average outstanding balances and to the levels of average interest rates. Accordingly, the benefit derived from funding earning assets with interest-free funds (principally capital) is reflected solely as a volume increase.

<i>(dollars in thousands)</i>	For the Three Months Ended June 30, 2019 vs. June 30, 2018			For the Six Months Ended June 30, 2019 vs. June 30, 2018		
	Increase (decrease) due to changes in:			Increase (decrease) due to changes in:		
	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Loans	\$ 19,578	\$ 17,744	\$ 37,322	\$ 35,215	\$ 43,852	\$ 79,067
Investments & Cash Equivalents	(250)	8,097	7,847	(1,861)	21,733	19,872
Other	1,243	(51)	1,192	2,509	(9)	2,500
Total Interest Income	20,571	25,790	46,361	35,863	65,576	101,439
Interest Expense:						
Interest-Bearing Liabilities	8,343	33,483	41,826	13,055	83,583	96,638
Changes in Net Interest Income	\$ 12,228	\$ (7,693)	\$ 4,535	\$ 22,808	\$ (18,007)	\$ 4,801

Provision for Loan Losses

AgFirst and the District Associations measure risks inherent in their individual loan portfolios on an ongoing basis and, as necessary, recognize provision for loan loss expense so that appropriate allowances for loan losses are maintained. Provision for loan losses was a net provision reversal of \$696 thousand and a net expense of \$3.1 million for the three and six month periods ended June 30, 2019, respectively, compared to net expense of \$2.7 million and \$4.5 million for the corresponding periods in 2018.

For the three and six month periods ended June 30, 2019, the provision for loan losses included net provision reversals for specific reserves of \$2.2 million and \$2.1 million, respectively, and net provision expense for general reserves of \$1.5 million and \$5.2 million, respectively. Total net provision reversal for the three months ended June 30, 2019 primarily related to borrowers in the forestry (\$4.6 million reversal), other real estate (\$1.2 million reversal), nursery/greenhouse (\$525 thousand reversal), field crops (\$3.0 million expense), and cotton (\$1.3 million expense) segments. For the six month period in 2019, the provision for loan losses primarily related to borrowers in the poultry (\$1.4 million expense), cotton (\$917 thousand expense), processing (\$743 thousand expense), utilities (\$652 thousand expense), cattle (\$619 thousand expense), field crops (\$816 thousand reversal), and fruits/vegetables (\$522 thousand reversal) segments.

For the three months ended June 30, 2018, total net provision expense consisted of \$1.6 million of general reserves and \$1.1 million of specific reserves. Total net provision expense for the second quarter of 2018 primarily related to borrowers in the field crops (\$6.8 million expense), dairy (\$1.8 million expense), cotton (\$916 thousand expense), forestry (\$2.1 million reversal), other (\$1.5 million reversal), nursery/greenhouse (\$978 thousand reversal), poultry (\$651 thousand reversal), and tree fruits and nuts (\$500 thousand reversal) segments. For the six months ended June 30, 2018, total net provision expense included provision expense of \$6.6 million for specific reserves and provision reversals of \$2.1 million for general reserves. Total net provision expense for the six month period of 2018 primarily related to borrowers in the field crops (\$9.4 million expense), dairy (\$2.6 million expense), forestry (\$3.0 million reversal), swine (\$1.1 million reversal), grains (\$932 thousand reversal), corn (\$695 thousand reversal), utilities (\$617 thousand reversal), and fruits/vegetables (\$612 thousand reversal) segments.

See the *Loan Portfolio* section below for further information.

Noninterest Income

The following table illustrates the changes in noninterest income:

Change in Noninterest Income <i>(dollars in thousands)</i>	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2019	2018	Increase/ (Decrease)	2019	2018	Increase/ (Decrease)
Loan fees	\$ 8,385	\$ 8,417	\$ (32)	\$ 16,639	\$ 16,161	\$ 478
Fees for financially related services	2,088	1,734	354	3,589	3,813	(224)
Building lease income	1,487	876	611	2,317	1,743	574
Gains (losses) on debt extinguishment	(5,163)	150	(5,313)	(8,376)	150	(8,526)
Gains (losses) on other transactions	1,516	2,113	(597)	4,633	3,539	1,094
Insurance premium refund	—	—	—	7,051	21,086	(14,035)
Other noninterest income	1,380	1,852	(472)	4,270	4,661	(391)
Total noninterest income	\$ 9,693	\$ 15,142	\$ (5,449)	\$ 30,123	\$ 51,153	\$ (21,030)

Noninterest income decreased \$5.4 million and \$21.0 million for the three and six months ended June 30, 2019, respectively, compared to the corresponding periods in 2018. Significant line item dollar variances are discussed below.

Debt issuance expense is amortized over the life of the underlying debt security. When debt securities are called prior to maturity, any unamortized issuance cost is expensed. Losses on debt extinguishment increased \$5.3 million and \$8.5 million for the three and six months ended June 30, 2019, respectively, compared to the same periods in 2018. Call options were exercised on bonds totaling \$3.340 billion and \$5.075 billion for the three and six month periods in 2019, respectively, compared to no bonds called for the same periods in 2018. During the second quarter of 2018, in order to improve its repricing and maturity gap position, the Bank extinguished discount notes totaling \$450.0 million and recognized a gain of \$150 thousand. Debt is called to take advantage of favorable market interest rate changes. The amount of debt issuance cost expensed is dependent upon both the volume and remaining maturity of the debt when called. Losses on called debt are more than offset by interest expense savings realized as called debt is replaced by new debt issued at a lower rate of interest.

For the six months ended June 30, 2019, net gains on other transactions increased \$1.1 million compared to the same period in the prior year. The gains resulted primarily from increased gains on the sale of assets of \$1.4 million, primarily related to the sale of one Association building, and higher market value gains on certain retirement plan trust assets of \$507 thousand. These increases were partially offset by a \$1.4 million reduction in gains on interest rate lock and forward commitment derivatives that resulted from the sale of rural residential loans in the second quarter of 2018.

The District received \$7.1 million and \$21.1 million for the six months ended June 30, 2019 and 2018, respectively, in insurance premium refunds from the FCSIC, which insures the System's debt obligations. The FCSIC refunds are nonrecurring and resulted from the assets of the FCSIC at the end of 2017 and 2018 exceeding the secure base amount as defined by the Farm Credit Act.

Noninterest Expenses

The following table illustrates the changes in noninterest expenses:

Change in Noninterest Expenses <i>(dollars in thousands)</i>	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2019	2018	Increase/ (Decrease)	2019	2018	Increase/ (Decrease)
Salaries and employee benefits	\$ 76,905	\$ 75,788	\$ 1,117	\$ 154,205	\$ 150,700	\$ 3,505
Occupancy and equipment	11,272	10,545	727	22,667	21,323	1,344
Insurance Fund premiums	5,917	5,411	506	11,674	11,043	631
Other operating expenses	35,822	33,741	2,081	71,568	67,876	3,692
Losses (gains) from other property owned	397	132	265	174	32	142
Total noninterest expenses	\$ 130,313	\$ 125,617	\$ 4,696	\$ 260,288	\$ 250,974	\$ 9,314

Noninterest expenses for the three and six months ended June 30, 2019 increased \$4.7 million and \$9.3 million, respectively, compared to the corresponding periods in 2018. Significant line item dollar variances are discussed below.

Salaries and employee benefits increased \$1.1 million and \$3.5 million for the three and six months ended June 30, 2019, respectively, compared to the corresponding periods in 2018. The increases resulted primarily from normal salary administration increases of \$2.6 million and \$5.3 million for the three and six month periods, respectively. For the three and six month periods, these increases were partially offset by lower benefit costs of \$1.5 million and \$1.8 million, respectively. The reduction in benefit costs primarily resulted from lower postretirement benefit expenses of \$820 thousand and \$1.4 million, mainly due to lower pension service costs.

Occupancy and equipment expense increased \$1.3 million for the six months ended June 30, 2019 compared to the same period in 2018. This increase resulted primarily from higher equipment maintenance and lease costs.

Other operating expenses increased \$2.1 million and \$3.7 million for the three and six month periods ended June 30, 2019, respectively, compared to the corresponding periods in 2018. The increases resulted primarily from \$1.6 million and \$3.2 million, respectively, in higher postretirement benefits plans non-service costs which resulted from lower expected return on plan assets and higher interest costs. The remainder of the variance in other operating expenses was comprised of numerous and varied expenses, none of which individually had a significant change compared to the same period of the prior year.

LOAN PORTFOLIO

The District's aggregate loan portfolio consists primarily of loans made by the Associations to eligible borrowers located within their chartered territories. Diversification of the loan volume by FCA loan type is illustrated in the table below:

Loan Portfolio <i>(dollars in thousands)</i>	June 30, 2019		December 31, 2018		June 30, 2018	
Real Estate Mortgage	\$ 15,151,678	50.30%	\$ 14,832,199	50.12%	\$ 14,333,564	50.17%
Production and Intermediate-Term	6,793,622	22.55	7,081,438	23.93	6,719,263	23.52
Rural Residential Real Estate	3,700,856	12.29	3,592,326	12.14	3,459,855	12.11
Processing and Marketing	1,800,283	5.98	1,658,946	5.60	1,598,602	5.59
Loans to Cooperatives	677,167	2.25	573,169	1.94	644,547	2.26
Power and Water/Waste Disposal	655,578	2.18	601,693	2.03	609,769	2.13
Communication	591,547	1.96	531,590	1.80	485,645	1.70
Farm-Related Business	408,702	1.36	380,606	1.29	373,574	1.31
Loans to Other Financing Institutions (OFIs)	136,266	0.45	134,387	0.45	139,742	0.49
International	122,216	0.41	122,137	0.41	112,894	0.39
Other (including Mission Related)	70,240	0.23	73,090	0.25	73,419	0.26
Lease Receivables	13,207	0.04	10,643	0.04	20,803	0.07
Total	\$ 30,121,362	100.00%	\$ 29,592,224	100.00%	\$ 28,571,677	100.00%

Total loans outstanding were \$30.121 billion at June 30, 2019, an increase of \$529.1 million, or 1.79 percent, compared to total loans outstanding at December 31, 2018 and an increase of \$1.550 billion, or 5.42 percent, since June 30, 2018.

As reflected in the table above, loan volume increased compared to both December 31, 2018 and June 30, 2018. Loan growth since year end was primarily due to growth in the forestry and rural home loans segments. Compared to June 30, 2018, loan growth benefited from increases in the forestry, rural home loans, utilities, swine, and poultry segments.

Credit Quality

Credit quality of the District's loans is shown below:

Classification	Total Loan Portfolio Credit Quality as of:		
	June 30, 2019	December 31, 2018	June 30, 2018
Acceptable	94.90%	95.32%	95.53%
OAEM *	3.06%	2.63%	2.44%
Adverse**	2.04%	2.05%	2.03%

** Other Assets Especially Mentioned.

** Adverse loans include substandard, doubtful, and loss loans.

As reflected in the table above, credit quality declined slightly compared to December 31, 2018 and June 30, 2018 as anticipated, but remains strong due to continued positive general economic performance. Credit quality is expected to slightly deteriorate given expected reduced farm income, higher farm debt, prior years' weather events, and uncertainty surrounding global trade issues.

The District's high-risk assets continue to be a small percentage of the total loan volume and total assets. Nonperforming assets (including related accrued interest as applicable) and related credit quality statistics are summarized as follows:

<i>(dollars in thousands)</i>	June 30, 2019	December 31, 2018
Nonaccrual loans:		
Real estate mortgage	\$ 118,369	\$ 115,131
Production and intermediate-term	123,167	113,667
Loans to cooperatives	7,277	7,492
Processing and marketing	2,971	3,395
Farm-related business	1,639	1,492
Power and water/waste disposal	124	-
Rural residential real estate	19,787	19,691
Lease receivables	272	312
Total	<u>\$ 273,606</u>	<u>\$ 261,180</u>
Accruing restructured loans:		
Real estate mortgage	\$ 62,588	\$ 63,898
Production and intermediate-term	50,396	51,237
Processing and marketing	580	560
Farm-related business	372	389
Rural residential real estate	3,603	3,740
Other (including Mission Related)	8,311	8,582
Total	<u>\$ 125,850</u>	<u>\$ 128,406</u>
Accruing loans 90 days or more past due:		
Real estate mortgage	\$ 1,040	\$ 104
Production and intermediate-term	1,459	603
Rural residential real estate	-	145
Lease receivables	-	188
Other (including Mission Related)	159	-
Total	<u>\$ 2,658</u>	<u>\$ 1,040</u>
Total nonperforming loans	\$ 402,114	\$ 390,626
Other property owned	23,775	22,538
Total nonperforming assets	<u>\$ 425,889</u>	<u>\$ 413,164</u>
Nonaccrual loans as a percentage of total loans	0.91%	0.88%
Nonperforming assets as a percentage of total loans and other property owned	1.41%	1.40%
Nonperforming assets as a percentage of capital	<u>6.25%</u>	<u>6.38%</u>

Nonaccrual Loans

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the combined District at June 30, 2019 were \$273.6 million compared to \$261.2 million at December 31, 2018. The increase of \$12.4 million resulted primarily from loan balances transferred to nonaccrual status of \$82.1 million, advances on nonaccrual loans of \$4.7 million, and recoveries of \$3.5 million. Offsetting these increases were repayments of \$56.4 million, charge-offs of uncollectible balances of \$8.3 million, loan balances reinstated to accrual status of \$7.7 million, and transfers to other property owned of \$5.9 million. At June 30, 2019, total nonaccrual loans were primarily classified in the field crops (28.62 percent of the total), poultry (9.99 percent), grains (9.92 percent), rural home loan (7.72 percent), cattle (7.31 percent), and tree fruits and nuts (5.14 percent) segments.

Troubled Debt Restructurings

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank and District Associations would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms, rates, or amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by the Bank and District Associations. TDRs increased \$8.7 million since December 31, 2018

and totaled \$201.4 million at June 30, 2019. TDRs at June 30, 2019 were comprised of \$125.9 million of accruing restructured loans and \$75.6 million of nonaccrual restructured loans. Restructured loans were primarily in the field crops (19.37 percent of the total), poultry (12.79 percent), cattle (6.90 percent), forestry (6.51 percent), tree fruits and nuts (5.56 percent), dairy (5.60 percent) and cotton (5.13 percent) segments.

Other Property Owned

Other property owned (OPO) consists primarily of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank and District Associations (or a lender group) in satisfaction of secured loans. OPO may be comprised of real estate, equipment, and equity interests in companies or partnerships. OPO increased \$1.2 million since December 31, 2018 and totaled \$23.8 million at June 30, 2019. The increase was due primarily to property received in settlement of loans of \$7.0 million, partially offset by disposals of \$5.1 million and writedowns of OPO of \$695 thousand. The largest OPO holding at June 30, 2019 was in the forestry segment and totaled \$4.5 million (18.96 percent of the total OPO balance).

Allowance for Loan Losses

The following tables provide an aging analysis of the recorded investment in past due loans as of:

June 30, 2019					
<i>(dollars in thousands)</i>	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	\$ 66,984	\$ 51,236	\$ 118,220	\$ 15,181,649	\$ 15,299,869
Production and intermediate-term Loans to cooperatives	59,080	54,475	113,555	6,759,106	6,872,661
Processing and marketing	485	2,916	3,401	1,803,820	1,807,221
Farm-related business	2,923	870	3,793	407,441	411,234
Communication	-	-	-	591,813	591,813
Power and water/waste disposal	-	-	-	658,409	658,409
Rural residential real estate	12,873	7,365	20,238	3,691,401	3,711,639
International	-	-	-	122,998	122,998
Lease receivables	191	-	191	13,063	13,254
Loans to OFIs	-	-	-	136,616	136,616
Other (including Mission Related)	125	403	528	70,493	71,021
Total	\$ 142,661	\$ 117,265	\$ 259,926	\$ 30,115,375	\$ 30,375,301

December 31, 2018					
<i>(dollars in thousands)</i>	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	\$ 72,251	\$ 47,109	\$ 119,360	\$ 14,851,257	\$ 14,970,617
Production and intermediate-term Loans to cooperatives	42,690	50,526	93,216	7,070,380	7,163,596
Processing and marketing	68	-	68	574,160	574,228
Farm-related business	285	3,338	3,623	1,661,911	1,665,534
Communication	2,462	961	3,423	379,386	382,809
Power and water/waste disposal	-	-	-	531,726	531,726
Rural residential real estate	44,708	9,040	53,748	603,938	603,938
International	-	-	-	3,547,720	3,601,468
Lease receivables	-	-	-	122,936	122,936
Loans to OFIs	213	188	401	10,279	10,680
Other (including Mission Related)	-	-	-	134,721	134,721
Total	\$ 162,677	\$ 111,501	\$ 274,178	\$ 29,561,905	\$ 29,836,083

Each District institution maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within its respective loan and finance lease portfolios as of each reported balance sheet date. The District increases the allowance by recording a provision for loan losses in the income statement. Loan losses are recorded against and serve to decrease the allowance when management determines that any portion of a loan or lease receivable is uncollectible. Any subsequent recoveries are added to the allowance. Management's evaluations consider factors which include, among other things, loan loss experience, portfolio quality, loan portfolio composition, current

agricultural production conditions, and general economic conditions. Although aggregated in the District's combined financial statements, the allowance for loan losses of each District entity is particular to that institution and is not available to absorb losses realized by other District entities.

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

(dollars in thousands)	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivables	Other Loans**	Total
Activity related to allowance for credit losses:										
Balance at March 31, 2019	\$ 85,941	\$ 84,744	\$ 23,565	\$ 2,454	\$ 2,436	\$ 7,889	\$ 506	\$ 398	\$ 623	\$ 208,556
Charge-offs	(322)	(1,602)	(8)	—	—	(51)	—	—	—	(1,983)
Recoveries	324	1,485	70	—	—	402	—	—	—	2,281
Provision for loan losses	1,037	4,751	(5,894)	(275)	(19)	(193)	(100)	(9)	6	(696)
Balance at June 30, 2019	\$ 86,980	\$ 89,378	\$ 17,733	\$ 2,179	\$ 2,417	\$ 8,047	\$ 406	\$ 389	\$ 629	\$ 208,158
Balance at December 31, 2018	\$ 86,078	\$ 90,661	\$ 19,387	\$ 2,647	\$ 1,209	\$ 8,055	\$ 504	\$ 433	\$ 683	\$ 209,657
Charge-offs	(1,028)	(7,120)	(87)	—	(1)	(72)	—	—	—	(8,308)
Recoveries	821	2,316	72	—	—	490	—	—	—	3,699
Provision for loan losses	1,109	3,521	(1,639)	(468)	1,209	(426)	(98)	(44)	(54)	3,110
Balance at June 30, 2019	\$ 86,980	\$ 89,378	\$ 17,733	\$ 2,179	\$ 2,417	\$ 8,047	\$ 406	\$ 389	\$ 629	\$ 208,158
Balance at March 31, 2018	\$ 83,356	\$ 80,855	\$ 13,669	\$ 2,416	\$ 1,985	\$ 7,502	\$ 145	\$ 520	\$ 923	\$ 191,371
Charge-offs	(162)	(1,590)	—	—	(315)	(111)	—	—	—	(2,178)
Recoveries	250	857	2	—	—	68	—	—	—	1,177
Provision for loan losses	(3,702)	7,096	(271)	(146)	(232)	(33)	7	(41)	(2)	2,676
Loan type reclassifications	105	—	—	—	—	—	—	64	(169)	—
Balance at June 30, 2018	\$ 79,847	\$ 87,218	\$ 13,400	\$ 2,270	\$ 1,438	\$ 7,426	\$ 152	\$ 543	\$ 752	\$ 193,046
Balance at December 31, 2017	\$ 82,686	\$ 86,037	\$ 10,977	\$ 2,237	\$ 2,935	\$ 7,262	\$ 151	\$ 54	\$ 728	\$ 193,067
Charge-offs	(464)	(5,192)	(597)	—	(315)	(264)	—	—	—	(6,832)
Recoveries	819	1,362	18	—	2	110	—	—	—	2,311
Provision for loan losses	(3,295)	5,007	3,002	33	(1,184)	318	1	425	193	4,500
Loan type reclassifications	101	4	—	—	—	—	—	64	(169)	—
Balance at June 30, 2018	\$ 79,847	\$ 87,218	\$ 13,400	\$ 2,270	\$ 1,438	\$ 7,426	\$ 152	\$ 543	\$ 752	\$ 193,046
Allowance on loans evaluated for impairment:										
Individually	\$ 4,223	\$ 17,257	\$ 3,463	\$ —	\$ —	\$ 674	\$ —	\$ 78	\$ 330	\$ 26,025
Collectively	82,757	72,121	14,270	2,179	2,417	7,373	406	311	299	182,133
PCI***	—	—	—	—	—	—	—	—	—	—
Balance at June 30, 2019	\$ 86,980	\$ 89,378	\$ 17,733	\$ 2,179	\$ 2,417	\$ 8,047	\$ 406	\$ 389	\$ 629	\$ 208,158
Individually	\$ 6,348	\$ 20,838	\$ 3,983	\$ —	\$ —	\$ 1,057	\$ —	\$ 108	\$ 377	\$ 32,711
Collectively	79,730	69,823	15,404	2,647	1,209	6,998	504	325	306	176,946
PCI***	—	—	—	—	—	—	—	—	—	—
Balance at December 31, 2018	\$ 86,078	\$ 90,661	\$ 19,387	\$ 2,647	\$ 1,209	\$ 8,055	\$ 504	\$ 433	\$ 683	\$ 209,657
Recorded investment in loans evaluated for impairment:										
Individually	\$ 331,397	\$ 170,002	\$ 12,454	\$ —	\$ —	\$ 1,111,298	\$ —	\$ 330	\$ 8,404	\$ 1,633,885
Collectively	14,966,502	6,702,659	2,884,567	591,813	658,409	2,600,300	122,998	12,924	199,233	28,739,405
PCI***	1,970	—	—	—	—	41	—	—	—	2,011
Balance at June 30, 2019	\$ 15,299,869	\$ 6,872,661	\$ 2,897,021	\$ 591,813	\$ 658,409	\$ 3,711,639	\$ 122,998	\$ 13,254	\$ 207,637	\$ 30,375,301
Individually	\$ 330,684	\$ 164,389	\$ 10,420	\$ —	\$ —	\$ 1,280,829	\$ —	\$ 567	\$ 8,503	\$ 1,795,392
Collectively	14,637,896	6,999,207	2,612,151	531,726	603,938	2,320,592	122,936	10,113	200,048	28,038,607
PCI***	2,037	—	—	—	—	47	—	—	—	2,084
Balance at December 31, 2018	\$ 14,970,617	\$ 7,163,596	\$ 2,622,571	\$ 531,726	\$ 603,938	\$ 3,601,468	\$ 122,936	\$ 10,680	\$ 208,551	\$ 29,836,083

* Includes the loan types: Loans to cooperatives, Processing and marketing, and Farm-related business.

** Includes the loan types: Mission Related Loans and Loans to OFIs.

*** Purchased credit impaired loans.

The allowance for loan losses was \$208.2 million at June 30, 2019, as compared with \$209.7 million at December 31, 2018, a decrease of \$1.5 million. Charge-offs of \$8.3 million decreased the allowance during the six months ended June 30, 2019, and were partially offset by provision expense of \$3.1 million and loan recoveries of \$3.7 million. Charge-offs during the first six months of 2019 were related primarily to borrowers in the field crops (54.25 percent of the total), poultry (17.64 percent), and cotton (10.43 percent) segments. Recoveries during the six month period were related primarily to borrowers in the nursery/greenhouse (24.56 percent of the total), poultry (15.56 percent), field crops (14.05 percent), and cattle (10.79 percent) segments. See *Provision for Loan Losses* section above for additional details regarding loan loss provision expense and reversals. The allowance at June 30, 2019 included specific reserves of \$26.0 million (12.50 percent of the total) and \$182.1 million (87.50 percent) of general reserves. The largest commodity segments included in the allowance at June 30, 2019 were the field crops (15.91 percent of the total), poultry (14.40 percent), forestry (9.06 percent), cattle (7.94 percent), grains (7.06 percent), and dairy (5.72 percent) segments. The allowance for loan losses was 0.69 percent and 0.71 percent of total loans outstanding at June 30, 2019 and December 31, 2018, respectively.

INVESTMENTS

The Bank is responsible for meeting the District's funding, liquidity and asset/liability management needs. Along with normal cash flows associated with lending operations, the District has two primary sources of liquidity: the capacity to issue Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation; and cash and investments. The Bank also maintains several repurchase agreement facilities. In addition, the System has established lines of credit in the event contingency funding is needed to meet obligations of System banks. The Bank's investments are primarily classified as available-for-sale investments. Refer to the Bank's Second Quarter 2019 Report for additional information related to investments. District Associations have regulatory authority to enter into certain guaranteed investments, generally mortgage-backed or asset-backed securities. The following tables summarize the District's investments:

	June 30, 2019			
<i>(dollars in thousands)</i>	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
District Bank investments	\$ 7,853,098	\$ 96,183	\$ (27,303)	\$ 7,921,978
District Association investments	45,619	2,544	(369)	47,794
Total District investments	<u>\$ 7,898,717</u>	<u>\$ 98,727</u>	<u>\$ (27,672)</u>	<u>\$ 7,969,772</u>

	December 31, 2018			
<i>(dollars in thousands)</i>	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
District Bank investments	\$ 8,030,676	\$ 49,432	\$ (96,018)	\$ 7,984,090
District Association investments	48,267	2,312	(453)	50,126
Total District investments	<u>\$ 8,078,943</u>	<u>\$ 51,744</u>	<u>\$ (96,471)</u>	<u>\$ 8,034,216</u>

CAPITAL

Capital serves to support future asset growth and investment in new products and services. Capital also provides protection against credit, interest rate, and other risks, as well as operating losses. A sound capital position is critical to provide protection to investors in Systemwide Debt Securities and to ensure long-term financial success.

Total shareholders' equity increased \$345.3 million, or 5.33 percent, from December 31, 2018 to \$6.819 billion at June 30, 2019. This increase is primarily attributed to 2019 unallocated retained earnings from net income of \$279.2 million, an increase in unrealized gains on investments of \$115.3 million, and an increase of \$14.8 million in employee benefit plans adjustments, partially offset by decreases of \$41.7 million from retained earnings retired and \$24.9 million in cash patronage distributions.

The following table summarizes accumulated other comprehensive income (AOCI) balances at period end:

<i>(dollars in thousands)</i>	June 30, 2019		December 31, 2018	
Accumulated Other Comprehensive Income (Loss)				
Unrealized gain (loss) on investment securities	\$	66,134	\$	(49,129)
Derivatives and hedging activity		735		886
Employee benefit plans activity		(308,120)		(322,942)
Total accumulated other comprehensive income (loss)	<u>\$</u>	<u>(241,251)</u>	<u>\$</u>	<u>(371,185)</u>

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

Regulatory Capital Requirements and Ratios					
As of June 30, 2019	Primary Components of Numerator	Regulatory Minimums	Minimum with Buffer*	Bank	District Associations
Risk adjusted:					
Common equity tier 1 capital ratio	Unallocated retained earnings (URE), common cooperative equities (qualifying capital stock and allocated equity) ¹	4.5%	7.0%	18.92%	14.60% - 38.88%
Tier 1 capital ratio	CET1 Capital, non-cumulative perpetual preferred stock	6.0%	8.5%	19.33%	14.60% - 38.88%
Total capital ratio	Tier 1 Capital, allowance for loan losses ² , common cooperative equities ³ and term preferred stock and subordinated debt ⁴	8.0%	10.5%	19.48%	15.44% - 40.13%
Permanent capital ratio	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	7.0%	7.0%	19.36%	14.73% - 39.32%
Non-risk adjusted:					
Tier 1 leverage ratio	Tier 1 Capital	4.0%	5.0%	6.96%	13.93% - 35.34%
UREE leverage ratio	URE and URE Equivalents	1.5%	1.5%	6.00%	8.40% - 36.03%

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

¹ Equities outstanding 7 or more years

² Capped at 1.25% of risk-adjusted assets

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

⁴ Outstanding 5 or more years

REGULATORY MATTERS

On April 3, 2019, the Farm Credit Administration issued a proposed rule that would clarify the factors that System institutions should consider when categorizing high-risk loans and placing them in nonaccrual status. The rule would also revise the criteria by which loans are reinstated to accrual status, and would revise the application of the criteria to certain loans in nonaccrual status to distinguish between the types of risk that cause loans to be placed in nonaccrual status. The public comment period ended on June 3, 2019.

OTHER MATTERS

See the *Direct Notes* section of *Management's Discussion & Analysis of Financial Condition & Results of Operations* in the AgFirst Farm Credit Bank Second Quarter 2019 Report for a discussion of the Bank's funding to District Associations.

Combined Balance Sheets

(unaudited)

<i>(dollars in thousands)</i>	June 30, 2019	December 31, 2018
Assets		
Cash	\$ 405,883	\$ 471,436
Cash equivalents	525,000	100,000
Investments in debt securities:		
Available-for-sale (amortized cost of \$7,813,184 and \$7,988,624, respectively)	7,879,028	7,939,196
Held-to-maturity (fair value of \$90,744 and \$95,020, respectively)	85,533	90,319
Total investments in debt securities	7,964,561	8,029,515
Loans	30,121,362	29,592,224
Allowance for loan losses	(208,158)	(209,657)
Net loans	29,913,204	29,382,567
Loans held for sale	10,220	4,175
Accrued interest receivable	274,677	261,660
Accounts receivable	48,572	47,846
Equity investments in other Farm Credit institutions	44,493	44,089
Other investments	785	—
Premises and equipment, net	211,198	208,196
Other property owned	23,775	22,538
Other assets	55,915	53,710
Total assets	\$ 39,478,283	\$ 38,625,732
Liabilities		
Systemwide bonds payable	\$ 26,348,450	\$ 25,807,367
Systemwide and other notes payable	5,876,991	5,619,167
Accrued interest payable	104,555	112,345
Accounts payable	46,687	321,166
Advanced conditional payments	4,668	4,360
Other liabilities	278,094	287,775
Total liabilities	32,659,445	32,152,180
Shareholders' Equity		
Perpetual preferred stock	49,250	49,250
Protected borrower equity	501	502
Capital stock and participation certificates	164,546	158,734
Additional paid-in-capital	82,573	82,573
Retained earnings		
Allocated	2,118,254	2,154,332
Unallocated	4,644,965	4,399,346
Accumulated other comprehensive income (loss)	(241,251)	(371,185)
Total shareholders' equity	6,818,838	6,473,552
Total liabilities and equity	\$ 39,478,283	\$ 38,625,732

Combined Statements of Income

(unaudited)

(dollars in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
Interest Income				
Investments	\$ 56,878	\$ 49,031	\$ 113,679	\$ 93,807
Loans	394,070	356,748	777,811	698,744
Other	1,359	167	2,674	174
Total interest income	452,307	405,946	894,164	792,725
Interest Expense	193,070	151,244	381,335	284,697
Net interest income	259,237	254,702	512,829	508,028
Provision for loan losses	(696)	2,676	3,110	4,500
Net interest income after provision for loan losses	259,933	252,026	509,719	503,528
Noninterest Income				
Loan fees	8,385	8,417	16,639	16,161
Fees for financially related services	2,088	1,734	3,589	3,813
Building lease income	1,487	876	2,317	1,743
Gains (losses) on debt extinguishment	(5,163)	150	(8,376)	150
Gains (losses) on other transactions	1,516	2,113	4,633	3,539
Insurance premium refund	—	—	7,051	21,086
Other noninterest income	1,380	1,852	4,270	4,661
Total noninterest income	9,693	15,142	30,123	51,153
Noninterest Expenses				
Salaries and employee benefits	76,905	75,788	154,205	150,700
Occupancy and equipment	11,272	10,545	22,667	21,323
Insurance Fund premiums	5,917	5,411	11,674	11,043
Other operating expenses	35,822	33,741	71,568	67,876
Losses (gains) from other property owned	397	132	174	32
Total noninterest expenses	130,313	125,617	260,288	250,974
Income before income taxes	139,313	141,551	279,554	303,707
Provision for income taxes	199	229	336	307
Net income	\$ 139,114	\$ 141,322	\$ 279,218	\$ 303,400

DISTRICT ASSOCIATIONS

As of June 30, 2019

Associations	Direct Notes	% of Direct Note Total	Total Assets	Total Allowance and Capital	Total Regulatory Capital Ratio	Nonperforming Loans as a % of Total Loans	ROA
<i>(dollars in thousands)</i>							
AgCarolina	\$ 907,396	5.14%	\$ 1,196,410	\$ 294,479	21.38%	3.08%	1.60%
AgChoice	1,645,207	9.33	2,080,035	436,205	18.47	0.55	2.13
AgCredit	1,610,052	9.13	1,991,866	379,765	21.04	0.82	2.46
AgGeorgia	710,103	4.03	967,436	241,757	24.86	4.44	1.91
AgSouth	1,476,155	8.37	1,886,981	405,949	21.63	1.17	2.23
ArborOne	443,342	2.51	540,105	102,771	18.61	3.93	1.35
Cape Fear	732,231	4.15	958,179	228,024	22.20	2.31	3.10
Carolina	1,253,248	7.10	1,619,235	352,173	21.36	1.56	2.24
Central Florida	421,610	2.39	542,946	117,357	20.72	2.72	2.08
Central Kentucky	438,639	2.49	535,019	96,877	19.04	1.19	1.88
Colonial	481,835	2.73	680,838	195,631	26.57	0.56	2.13
First South	1,842,715	10.45	2,326,071	451,615	18.31	0.23	1.42
Florida	909,013	5.15	1,196,209	285,111	20.31	0.58	1.96
MidAtlantic	2,204,413	12.50	2,889,964	684,537	21.71	2.60	1.77
Northwest Florida	192,671	1.09	281,912	91,021	29.81	1.27	1.87
Puerto Rico	95,265	0.54	152,585	57,349	40.13	7.26	1.53
River Valley	424,552	2.41	535,639	106,577	19.30	3.02	2.03
Southwest Georgia	440,403	2.50	532,544	92,425	15.44	1.02	1.77
Virginias	1,411,638	8.00	1,877,460	465,584	23.09	1.44	2.15

AgFirst Farm Credit Bank

AgFirst Farm Credit Bank
1901 Main Street
Columbia, SC 29201
800-845-1745
www.agfirst.com

AgFirst District Associations

AgCarolina Farm Credit, ACA
4000 Poole Road
Raleigh, NC 27610
919-250-9500
<http://www.agcarolina.com>

Farm Credit of Central Florida, ACA
115 S. Missouri Ste. 400
Lakeland, FL 33815
863-682-4117
<http://www.farmcreditefl.com>

AgChoice Farm Credit, ACA
300 Winding Creek Blvd.
Mechanicsburg, PA 17050
717-796-9372
<http://www.agchoice.com>

Farm Credit of Florida, ACA
11903 Southern Boulevard Ste. 200
Royal Palm Beach, FL 33411
561-965-9001
<http://farmcreditfl.com>

AgCredit Agricultural Credit Association
610 W. Lytle Street
Fostoria, OH 44830-3422
419-435-7758
<http://www.agcredit.net>

Farm Credit of Northwest Florida, ACA
5052 Highway 90 East
Marianna, FL 32446
850-526-4910
<http://www.farmcredit-fl.com>

AgGeorgia Farm Credit, ACA
468 Perry Parkway
Perry, GA 31069
478-987-8300
<http://www.aggeorgia.com>

Farm Credit of the Virginias, ACA
106 Sangers Lane
Staunton, VA 24401
540-886-3435
<http://www.farmcreditev Virginias.com>

AgSouth Farm Credit, ACA
26 South Main Street
Statesboro, GA 30458
912-764-9091
<http://www.agsouthfc.com>

First South Farm Credit, ACA
574 Highland Colony Parkway, Ste. 100
Ridgeland, MS 39157
601-977-8396
<http://www.firstsouthfarmcredit.com>

ArborOne, ACA
800 Woody Jones Blvd.
Florence, SC 29501
843-662-1527
<http://www.arborone.com>

MidAtlantic Farm Credit, ACA
45 Aileron Court
Westminster, MD 21157
410-848-1033
<http://www.mafc.com>

Cape Fear Farm Credit, ACA
333 East Russell Street
Fayetteville, NC 28302
910-323-9188
<http://www.capefearfarmcredit.com>

Puerto Rico Farm Credit, ACA
213 Domenech Ave.
Hato Rey, PR 00918
787-753-0579
<http://www.prfarmcredit.com>

Carolina Farm Credit, ACA
146 Victory Lane
Statesville, NC 28625
704-873-0276
<http://www.carolinafarmcredit.com>

River Valley AgCredit, ACA
408 East Broadway
Mayfield, KY 42066
270-247-5613
<http://www.rivervalleyagcredit.com>

Central Kentucky Agricultural Credit Association
640 S. Broadway
Lexington, KY 40508
859-253-3249
<http://www.agcreditonline.com>

Southwest Georgia Farm Credit, ACA
305 Colquitt Highway
Bainbridge, GA 39817
229-246-0384
<http://wwwswgafarmcredit.com>

Colonial Farm Credit, ACA
7104 Mechanicsville Turnpike
Mechanicsville, VA 23111
804-746-4581
<http://www.colonialfarmcredit.com>