CoBank Quarterly District Financial Information March 31, 2019

Introduction and District Overview

CoBank, ACB (CoBank, the Bank, we, our, or us) is one of the four banks of the Farm Credit System (System) and provides loans, leases and other financial services to support agriculture, rural infrastructure and rural communities across the United States. The System is a federally chartered network of borrower-owned lending institutions composed of cooperatives and related service organizations. The System was established in 1916 by the U.S. Congress, and is a Government Sponsored Enterprise. CoBank is federally chartered under the Farm Credit Act of 1971, as amended (the Farm Credit Act), and is subject to supervision, examination, and safety and soundness regulation by an independent federal agency, the Farm Credit Administration (FCA).

We are cooperatively owned by our U.S. customers. Our customers consist of agricultural cooperatives; other food and agribusiness companies; rural power, communications and water cooperatives and companies; rural community facilities; Agricultural Credit Associations (Associations), which are regulated, farmer-owned financial institutions and members of the System; and other businesses that serve agriculture and rural communities. The Associations originate and service long-term real estate mortgage loans as well as short- and intermediate-term loans for agricultural and other purposes to full and part-time farmers. Associations may also make loans to, among others, processing and marketing entities, farm-related businesses, and rural residents for home purchase and improvement. The Associations may also purchase eligible loan participations from System entities and other lending institutions. Additionally, the Associations serve as an intermediary in offering multi-peril crop insurance and credit life insurance, and providing additional financial services to borrowers.

We are chartered by the FCA to serve the Associations that provide credit and related financial services to or for the benefit of eligible borrowers/shareholders for qualified purposes in specific geographic areas in the United States. We collectively refer to these entities as our affiliated Associations. The Associations are not authorized by the Farm Credit Act to participate directly in the issuance of Systemwide bonds, medium term notes and discount notes (collectively referred to as Systemwide Debt Securities). Therefore, we are the primary funding source for our affiliated Associations. As of March 31, 2019, we have 22 affiliated Associations serving customers in 23 states across the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States.

Our affiliated Associations are considered customers and thus operate independently and maintain an arms-length relationship with us, except to the extent that the Farm Credit Act requires us, as the funding bank, to monitor and approve certain activities of these Associations. As authorized by the FCA, the financial information of affiliated Associations is not included in the condensed consolidated quarterly financial statements presented in CoBank's March 31, 2019 Quarterly Report to Shareholders. However, the FCA authorizes CoBank to present combined Bank and Association quarterly financial information in a separate report.

The Financial Highlights, Management's Discussion and Analysis, and the Condensed Combined Balance Sheets and Statements of Income included on the following pages present unaudited combined financial information and related analysis of CoBank and its affiliated Associations, which are collectively referred to as the "District." As part of the combining process, all significant transactions between CoBank and the Associations, including loans made by the Bank to the affiliated Associations and the interest income/interest expense related thereto, and investments of the affiliated Associations in the Bank and the earnings related thereto, have been eliminated.

Financial Highlights

($ in Thousands) (Unaudited)

	March 31, 2019	December 31, 2018
Total Loans	**$ 115,970,722**	$ 115,149,430
Less: Allowance for Loan Losses	**967,141**	930,771
Net Loans	**115,003,581**	114,218,659
Total Assets	**150,124,287**	150,603,941
Total Shareholders' Equity	**20,106,936**	19,512,722

For the Three Months Ended March 31,	2019	2018
Net Interest Income	**$ 772,943**	$ 750,504
Provision for Loan Losses	**35,030**	50,814
Net Fee Income	**33,378**	29,524
Net Income	**528,853**	543,952
Net Interest Margin	**2.08 %**	2.12 %
Net Charge-offs / Average Loans	**0.01**	0.00 [1]
Return on Average Assets	**1.40**	1.52
Return on Average Total Shareholders' Equity	**10.68**	11.74
Operating Expense / Net Interest Income and Noninterest Income	**32.66**	29.48
Average Loans	**$ 116,818,596**	$ 112,053,280
Average Earning Assets	**148,849,447**	141,404,540
Average Assets	**150,711,046**	143,185,965

[1] Represents less than 0.01 percent

Discussion and Analysis of District Results of Operations and Financial Condition

District average loan volume increased 4 percent to $116.8 billion in the first three months of 2019, compared to $112.1 billion for the same period of 2018. The increase in average loan volume primarily reflected growth in production and intermediate-term, real estate mortgage, agribusiness, agricultural export finance and water and waste disposal loans.

District net income decreased $15.1 million to $528.9 million for the three-month period ended March 31, 2019, compared to $544.0 million for the same period of 2018. The decrease in earnings primarily resulted from a decrease in noninterest income and an increase in operating expenses. These items were somewhat offset by an increase in net interest income and lower provisions for loan losses and income taxes in the 2019 period.

Net interest income increased $22.4 million to $772.9 million for the first three months of 2019 from $750.5 million for the same period in 2018. The increase in net interest income was primarily driven by growth in average loan volume. The District's overall net interest margin decreased to 2.08 percent for the three months ended March 31, 2019, from 2.12 percent for the same period in 2018. The reduction in net interest margin for the first three months of 2019 primarily reflected lower earnings on balance sheet positioning at CoBank and slightly lower loan spreads somewhat offset by increased earnings on invested capital.

The District recorded a provision for loan losses of $35.0 million in the three-month period ended March 31, 2019, compared to $50.8 million for the same period of 2018. CoBank recorded a provision for loan losses of $28.0 million in the first three months of 2019 compared to $50.0 million during the 2018 period. The 2019 provision at CoBank largely reflected a higher level of overall agribusiness lending activity and a deterioration in credit quality. The Associations recorded a net combined provision for loan losses of $7.0 million for the first three months of 2019, compared to a net combined provision of $0.8 million in the same period of 2018. The net combined 2019 and 2018 provisions for loan losses at the Associations were primarily due to provisions at several Associations resulting from deterioration in credit quality and other concerns causing stress to specific industries.

Noninterest income decreased $30.6 million to $110.9 million for the first three months of 2019 from $141.5 million for the same period in 2018. Noninterest income is primarily composed of fee income, patronage income, loan prepayment income and miscellaneous gains and losses, offset by losses on early extinguishments of debt. The decrease in noninterest income resulted largely from a lower level of returned excess insurance funds from the Farm Credit System Insurance Corporation (Insurance Corporation) related to the Farm Credit Insurance Fund (Insurance Fund). In the first quarter of 2019 and 2018, excess insurance funds of $27.0 million and $69.5 million, respectively, were returned from the Insurance Corporation. When the Insurance Fund exceeds the statutory 2 percent secure base amount (SBA), the Insurance Corporation may reduce premiums and return excess amounts. In both 2019 and 2018, the Insurance Fund began the year above the SBA. This decrease in noninterest income was somewhat offset by an increase in fee income of $3.9 million primarily due to an increase in arrangement fees at CoBank, a $3.1 million increase in patronage income received from other System institutions on loan participations sold by CoBank and certain Associations, as well as an increase in mineral income of $1.1 million.

District operating expenses increased $25.8 million to $288.7 million in the first three months of 2019 from $262.9 million for the same period of 2018. Higher operating expenses included an increase in employee compensation expense of $16.1 million to $163.8 million for the first three months of 2019, compared to $147.7 million for the same period of 2018. The increase in compensation expense was driven by annual merit increases, a higher overall number of employees, compensation expenses related to lease originations that are no longer deferred and amortized under the new lease accounting standard and a reduction in partner compensation reimbursements in CoBank's digital banking activities. Purchased services increased by $3.8 million primarily due to strategic initiatives at several Associations. Information technology expense increased $1.9 million in the three months ended March 31, 2019 compared to the 2018 period primarily due to greater expenditures at CoBank and certain Associations to enhance service offerings and technology platforms. General and administrative expenses increased $1.7 million in 2019 compared to 2018. General and administrative expenses include contributions and other support provided to civic, charitable and other organizations that benefit the residents, communities and industries we serve in rural America. Occupancy and equipment expenses increased by $1.3 million primarily due to higher costs relating to rent, improvements and maintenance at CoBank and several Associations.

Income tax expense decreased $3.0 million for the three-month period ended March 31, 2019, compared to the same period of 2018. The income tax expense at the District predominantly relates to CoBank, as a substantial majority of the business activities at Associations are exempt from federal income tax. The decrease in income tax expense was driven by higher levels of patronage, which resulted from growth in average patronage-eligible loan volume.

Loan Portfolio

The following table presents the District's outstanding loans classified in accordance with the FCA's loan types.

($ in Thousands)

District Loans by Loan Type

	March 31, 2019	December 31, 2018
Real Estate Mortgage	$ **33,997,763**	$ 34,116,612
Nonaffiliated Associations	**4,907,270**	4,932,121
Production and Intermediate-term	**15,647,670**	16,242,017
Agribusiness:		
Loans to Cooperatives	**17,020,055**	15,379,249
Processing and Marketing Operations	**9,277,039**	8,873,455
Farm-Related Businesses	**1,810,671**	1,840,623
Communications	**4,091,613**	3,948,778
Rural Power	**16,477,918**	16,991,058
Water/Waste Water	**2,192,060**	2,033,851
Agricultural Export Finance	**5,993,416**	6,138,278
Rural Residential Real Estate	**750,840**	767,197
Lease Receivables	**3,661,210**	3,742,895
Other	**143,197**	143,296
Total	$ **115,970,722**	$ 115,149,430

Overall District loan volume increased $0.9 billion to $116.0 billion at March 31, 2019, as compared to loan volume of $115.1 billion as of December 31, 2018. The increase was driven primarily by an increase in agribusiness, water/waste water and communication loans partially offset by decreases in production and intermediate-term, rural power and agricultural export finance loans. The increase in agribusiness loan volume was due to a higher level of seasonal financing at many grain and farm supply cooperatives resulting from greater levels of grain ownership.

Portfolio Diversification

Loan concentrations exist when there are amounts loaned to multiple borrowers engaged in similar activities, or within close proximity, which could cause them to be similarly impacted by economic or other conditions. Credit risk in the District's loan portfolio is spread broadly among customers, industries and geographic territory. The District serves a diversified spectrum of borrowers up and down the agricultural value chain. Association retail loans in the District loan portfolio are concentrated in the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States. CoBank's retail loan portfolio extends across the United States, with moderate levels of concentration in the Midwest region of the country and in the farm supply, grain marketing, electric distribution, and generation and transmission sectors.

The following tables present the District's combined loan portfolio by primary business/commodity and geographic distribution, as a percent of total loans for the periods presented.

Distribution by Primary Business / Commodity	March 31, 2019	December 31, 2018
Fruits, Nuts and Vegetables	**15 %**	15 %
Farm Supply, Grain and Marketing	**14**	14
Dairy	**9**	9
Electric Distribution	**7**	7
Cattle	**6**	6
Forest Products	**6**	6
Agricultural Export Finance	**5**	5
Field Crops Except Grains	**4**	4
Nonaffiliated Associations	**4**	4
Livestock, Fish and Poultry	**4**	4
Farm Related Business Services	**4**	4
Generation and Transmission	**3**	3
Leasing	**3**	3
Rural Home	**2**	2
Local Telephone Exchange Carriers	**1**	1
Nursery and Greenhouse	**1**	1
Other	**12**	12
Total	**100 %**	100 %

Geographic Distribution	March 31, 2019	December 31, 2018
California	**22 %**	22 %
Kansas	**6**	6
Texas	**6**	6
New York	**5**	5
Washington	**5**	4
Colorado	**3**	3
Idaho	**3**	3
Oklahoma	**3**	3
Illinois	**3**	3
Oregon	**2**	3
Minnesota	**2**	2
Iowa	**2**	2
Other (less than 2 percent each for the current year)	**33**	33
Total States	**95 %**	95 %
Latin America	**2**	2
Europe, Middle East and Africa	**1**	1
Other International	**2**	2
Total International	**5 %**	5 %
Total	**100 %**	100 %

Loan Quality

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

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

The following table presents loans, classified by management at the various District entities pursuant to the FCA's Uniform Loan Classification System, as a percent of total loans and accrued interest.

District Loan Quality

	March 31, 2019	December 31, 2018
Acceptable	**93.96 %**	94.22 %
Special Mention	**3.01**	2.97
Substandard	**3.02**	2.80
Doubtful	**0.01**	0.01
Loss	**-**	-
Total	**100.00 %**	100.00 %

While our overall loan quality within the District remains favorable, certain entities within the District, including CoBank, experienced credit quality deterioration in the first three months of 2019 resulting from lower commodity prices and other concerns causing stress to specific industries. Acceptable loans and accrued interest decreased to 93.96 percent at March 31, 2019, compared to 94.22 percent at December 31, 2018. The level of adversely classified loans ("Substandard", "Doubtful" and "Loss") as a percent of total loans was 3.03 percent at March 31, 2019, compared to 2.81 percent at December 31, 2018. These movements were primarily driven by deterioration in credit quality impacting agribusiness, production and intermediate-term loans, as well as rural power loans.

At March 31, 2019, Special Mention loans included a CoBank participation in a $471.2 million wholesale loan made by Farm Credit Bank of Texas to one of its affiliated Associations. Pursuant to regulatory requirements, wholesale loans are classified using the same FCA Uniform Loan Classification System as is used with commercial loans. Our loans to Associations are collateralized by substantially all of the Association assets. In addition, the earnings, capital and loan loss reserves of the Associations provide additional layers of protection against losses in their retail loan portfolios. While the downgrade reflects certain material internal control weaknesses at that Association, as a result of the collateralization and other mitigants described above, no losses are anticipated related to that wholesale loan. As of March 31, 2019, CoBank has not made any provision for loan loss or recorded any allowance for credit loss related to any wholesale loans to Associations.

Nonperforming assets (which consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due and other property owned) totaled $806.8 million as of March 31, 2019, compared to $761.8 million at December 31, 2018. Nonaccrual loans increased $3.1 million during the first three months of 2019. Nonaccrual loans at CoBank improved by $17.7 million primarily due to payment activity on existing nonaccrual loans, somewhat offset by an agribusiness loan which transferred to nonaccrual status during the first quarter of 2019. Nonaccrual loans at Associations increased by $20.8 million primarily due to the addition of several agribusiness, production and intermediate-term and real estate mortgage loans to nonaccrual status during 2019. Accruing restructured loans decreased by $1.9 million to $31.1 million in the three-month period ended March 31, 2019 primarily due to payoff activity in real estate mortgage loans at three Associations. Total accruing loans 90 days or more past due increased by $39.5 million during the first three months of 2019 primarily driven by increases in real estate mortgage and production and intermediate-term loans at five Associations. Nonperforming assets represented 0.70 percent of total District loan volume and other property owned at March 31, 2019, compared to 0.66 percent at December 31, 2018. Nonaccrual loan volume, the largest component of nonperforming assets, represented 0.62 percent of total loans at March 31, 2019 and December 31, 2018.

The following table displays the District's nonperforming assets for the periods presented.

($ in Thousands)

Nonperforming Assets

	March 31, 2019	December 31, 2018
Nonaccrual Loans:		
Real Estate Mortgage	**$ 196,300**	$ 187,334
Production and Intermediate-term	**142,197**	129,866
Agribusiness	**303,719**	314,010
Communications	**-**	9,507
Rural Power	**28,988**	28,656
Rural Residential Real Estate	**4,256**	4,226
Lease Receivables	**36,220**	37,216
Other	**2,198**	-
Total Nonaccrual Loans	**713,878**	710,815
Accruing Restructured Loans:		
Real Estate Mortgage	**18,584**	19,568
Production and Intermediate-term	**10,478**	10,832
Agribusiness	**472**	489
Rural Residential Real Estate	**1,519**	2,056
Total Accruing Restructured Loans	**31,053**	32,945
Accruing Loans 90 Days or More Past Due:		
Real Estate Mortgage	**36,090**	8,857
Production and Intermediate-term	**16,003**	2,983
Agribusiness	**337**	771
Rural Residential Real Estate	**54**	-
Lease Receivables	**590**	914
Total Accruing Loans 90 Days or More Past Due	**53,074**	13,525
Total Nonperforming Loans	**798,005**	757,285
Other Property Owned	**8,801**	4,534
Total Nonperforming Assets	**$ 806,806**	$ 761,819
Nonaccrual Loans as a Percentage of Total Loans	**0.62 %**	0.62 %
Nonperforming Assets as a Percentage of Total Loans and Other Property Owned	**0.70**	0.66
Nonperforming Assets as a Percentage of Capital	**4.01**	3.90

The following tables present an aging of past due loans in the District for the periods presented.

($ in Thousands)

Aging of Past Due Loans

	30-90 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing
March 31, 2019						
Real Estate Mortgage	$ 109,103	$ 125,697	$ 234,800	$ 34,143,612	$ 34,378,412	$ 36,090
Nonaffiliated Associations	6	-	6	4,919,977	4,919,983	-
Production and Intermediate-term	109,090	83,705	192,795	15,600,991	15,793,786	16,003
Agribusiness	9,840	7,417	17,257	28,212,979	28,230,236	337
Communications	-	-	-	4,102,255	4,102,255	-
Rural Power	39,492	21,521	61,013	16,498,939	16,559,952	-
Water/Waste Water	142	-	142	2,202,757	2,202,899	-
Agricultural Export Finance	-	-	-	6,024,486	6,024,486	-
Rural Residential Real Estate	3,995	1,545	5,540	747,744	753,284	54
Lease Receivables	14,203	7,488	21,691	3,640,435	3,662,126	590
Other	-	-	-	143,621	143,621	-
Total	$ 285,871	$ 247,373	$ 533,244	$ 116,237,796	$ 116,771,040	$ 53,074
December 31, 2018						
Real Estate Mortgage	$ 111,912	$ 92,524	$ 204,436	$ 34,334,133	$ 34,538,569	$ 8,857
Nonaffiliated Associations	1	-	1	4,944,254	4,944,255	-
Production and Intermediate-term	74,252	62,167	136,419	16,239,422	16,375,841	2,983
Agribusiness	12,518	8,030	20,548	26,185,768	26,206,316	771
Communications	-	-	-	3,957,618	3,957,618	-
Rural Power	1,024	21,522	22,546	17,036,355	17,058,901	-
Water/Waste Water	1	-	1	2,043,552	2,043,553	-
Agricultural Export Finance	-	-	-	6,164,788	6,164,788	-
Rural Residential Real Estate	4,616	1,993	6,609	762,959	769,568	-
Lease Receivables	14,787	7,592	22,379	3,721,380	3,743,759	914
Other	-	-	-	143,711	143,711	-
Total	$ 219,111	$ 193,828	$ 412,939	$ 115,533,940	$ 115,946,879	$ 13,525

District entities maintain an allowance for loan losses at a level consistent with the probable losses identified by management of each institution, considering such factors as current agricultural and economic conditions, loan loss experience, portfolio quality, and loan portfolio composition and concentrations. CoBank and certain Associations also maintain a reserve for unfunded commitments, which totaled $117.9 million at March 31, 2019.

Although aggregated in the District's condensed combined financial statements, the allowance for loan losses for each District entity is particular to that institution and is not available to absorb losses realized by other District entities. The allowance for loan losses at March 31, 2019 totaled $967.1 million compared to $930.8 million at December 31, 2018. Changes in the allowance during the first three months of 2019 included an overall provision for loan losses of $35.0 million, which is described on page 3, loan charge-offs of $3.8 million, a $2.9 million net transfer from the reserve for unfunded commitments, and loan recoveries of $2.3 million.

The following table presents detailed changes in the allowance for loan losses in the District for the periods presented.

($ in Thousands)

Changes in Allowance for Loan Losses

	Real Estate Mortgage	Non-affiliated Associations	Production and Intermediate-term	Agri-business	Communi-cations	Rural Power	Water/ Wastewater	Agricultural Export Finance	Rural Residential Real Estate	Lease Receivables and Other	Total
March 31, 2019											
Allowance for Loan Losses											
Beginning Balance	$ 127,114	$ -	$ 160,124	$ 418,112	$ 54,185	$ 113,720	$ 11,668	$ 17,048	$ 3,357	$ 50,113	$ 930,771
Charge-offs	(149)	-	(1,298)	(14)	-	-	-	-	-	(2,383)	(3,844)
Recoveries	632	-	511	630	315	27	-	48	17	78	2,258
Provision for Loan Losses/										-	
(Loan Loss Reversal)	(7,028)	-	7,315	27,438	(12,899)	15,244	2,468	649	(1)	1,844	35,030
Transfers from (to) Reserve for										-	
Unfunded Commitments	(1,066)	-	351	2,791	52	589	69	139	-	1	2,926
Ending Balance	$ 118,736	$ -	$ 181,684	$ 400,038	$ 43,236	$ 135,275	$ 16,194	$ 19,277	$ 3,048	$ 49,653	$ 967,141
Allowance for Loan Losses											
Ending Balance, Allowance for Loan Losses Related to Loans:											
Individually Evaluated for Impairment	$ 2,082	$ -	$ 18,525	$ 75,677	$ -	$ 18,097	$ -	$ -	$ 12	$ 4,184	$ 118,577
Collectively Evaluated for Impairment	116,654	-	163,159	324,361	43,236	117,178	16,194	19,277	3,036	45,469	848,564
Total	$ 118,736	$ -	$ 181,684	$ 400,038	$ 43,236	$ 135,275	$ 16,194	$ 19,277	$ 3,048	$ 49,653	$ 967,141
Loans											
Ending Balance for Loans and Related Accrued Interest:											
Individually Evaluated for Impairment	$ 285,487	$ 4,919,983	$ 175,641	$ 312,331	$ 385	$ 29,292	$ 14	$ 152	$ 5,959	$ 151,179	$ 5,880,423
Collectively Evaluated for Impairment	34,092,925	-	15,618,145	27,917,905	4,101,870	16,530,660	2,202,885	6,024,334	747,325	3,654,568	110,890,617
Total	$34,378,412	$ 4,919,983	$15,793,786	$28,230,236	$ 4,102,255	$16,559,952	$ 2,202,899	$ 6,024,486	$ 753,284	$3,805,747	$116,771,040
March 31, 2018											
Allowance for Loan Losses											
Beginning Balance	$ 127,851	$ -	$ 170,997	$ 343,003	$ 50,189	$ 112,042	$ 11,606	$ 16,403	$ 3,673	$ 48,263	$ 884,027
Charge-offs	(90)	-	(636)	(247)	-	(11)	-	-	(2)	(637)	(1,623)
Recoveries	437	-	764	716	52	-	-	65	-	110	2,144
Provision for Loan Losses/										-	
(Loan Loss Reversal)	(3,102)	-	(12,321)	61,836	3,945	(848)	(198)	660	(314)	1,156	50,814
Transfers from (to) Reserve for										-	
Unfunded Commitments	2,018	-	1,320	12,804	(1)	2,537	260	(80)	-	-	18,858
Ending Balance	$ 127,114	$ -	$ 160,124	$ 418,112	$ 54,185	$ 113,720	$ 11,668	$ 17,048	$ 3,357	$ 48,892	$ 954,220
Allowance for Loan Losses											
Ending Balance, Allowance for Loan Losses Related to Loans:											
Individually Evaluated for Impairment	$ 14,845	$ -	$ 21,679	$ 70,394	$ 4,700	$ 16,533	$ -	$ 1,000	$ 57	$ 2,790	$ 131,998
Collectively Evaluated for Impairment	112,269	-	138,445	347,718	49,485	97,187	11,668	16,048	3,300	46,102	822,222
Total	$ 127,114	$ -	$ 160,124	$ 418,112	$ 54,185	$ 113,720	$ 11,668	$ 17,048	$ 3,357	$ 48,892	$ 954,220
Loans											
Ending Balance for Loans and Related Accrued Interest:											
Individually Evaluated for Impairment	$ 317,692	$ 4,876,717	$ 135,927	$ 241,432	$ 10,866	$ 44,865	$ 18	$ 4,219	$ 4,644	$ 131,206	$ 5,767,586
Collectively Evaluated for Impairment	32,240,769	-	13,907,334	29,135,711	4,180,431	16,772,739	1,794,185	5,207,990	822,645	3,669,110	107,730,914
Total	$32,558,461	$ 4,876,717	$14,043,261	$29,377,143	$ 4,191,297	$16,817,604	$ 1,794,203	$ 5,212,209	$ 827,289	$3,800,316	$113,498,500

Investment Portfolio

As the funding bank for the District, CoBank is responsible for meeting the District's funding and liquidity needs. While access to the unsecured debt capital markets remains the District's primary source of liquidity, the District also maintains a secondary source of liquidity through a high credit quality investment portfolio and other short-term liquid assets which are primarily held at CoBank. All of CoBank's investment securities are classified as "available for sale". Refer to the Annual Report for additional description of the types of investments held by the Bank and related yield information and maturities. Associations have regulatory authority to enter into certain investments that carry an explicit government guarantee and certain other securities. As of March 31, 2019 and December 31, 2018, Associations held mortgage-backed securities issued by the Federal Agricultural Mortgage Corporation which are classified as "held to maturity".

($ in Millions)

Investment Information

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2019				
CoBank Investments	**$ 31,790**	**$ 100**	**$ (186)**	**$ 31,704**
Association Investments	**13**	**-**	**-**	**13**
Total	**$ 31,803**	**$ 100**	**$ (186)**	**$ 31,717**
December 31, 2018				
CoBank Investments	$ 31,594	$ 35	$ (337)	$ 31,292
Association Investments	14	-	-	14
Total	$ 31,608	$ 35	$ (337)	$ 31,306

District Capital Resources and Other

Combined District shareholders' equity at March 31, 2019 totaled $20.1 billion, a net increase of $594.2 million as compared to December 31, 2018. The increase primarily resulted from District net income of $528.9 million, a decrease in accumulated other comprehensive loss of $182.9 million and an increase in preferred stock at Associations of $55.6 million. These items were somewhat offset by accrued patronage of $141.8 million, preferred stock dividends of $25.3 million and a decrease in common stock of $13.6 million.

The components of the District's accumulated other comprehensive loss are detailed in the following table.

($ in Thousands)

Accumulated Other Comprehensive Loss

	March 31, 2019	December 31, 2018
Unrealized Losses on Investment Securities	**$ (80,335)**	$ (271,242)
Net Pension Adjustment	**(343,328)**	(348,563)
Unrealized Losses on Interest Rate Swaps and Other Financial Instruments	**(38,851)**	(25,614)
Accumulated Other Comprehensive Loss	**$ (462,514)**	$ (645,419)

The decrease in the District's total accumulated other comprehensive loss during the first three months of 2019 is primarily due to a decrease in unrealized losses on investment securities at CoBank driven by market interest rate changes.

The following tables present regulatory capital and leverage ratios for CoBank and the range of ratios at the affiliated Associations.

Regulatory Capital Requirements and Ratios

				March 31, 2019		December 31, 2018	
Ratio	Primary Components of Numerator	Regulatory Minimums	Minimum with Buffer*	CoBank	District Associations	CoBank	District Associations
Risk Adjusted:							
Common equity tier 1 (CET1) capital ratio	Unallocated retained earnings (URE), common cooperative equities (qualifying capital stock and allocated equity)(1)	4.5%	7.0%	11.70%	13.56 - 28.81%	12.38%	14.00 - 28.58%
Tier 1 capital ratio	CET1 Capital, non-cumulative perpetual preferred stock	6.0%	8.5%	13.77%	13.56 - 28.81%	14.57%	14.00 - 28.58%
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%	14.77%	13.83 - 30.07%	15.58%	14.38 - 29.84%
Permanent capital ratio	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	7.0%	7.0%	13.89%	13.59 - 32.41%	14.69%	14.14 - 32.30%
Non-risk adjusted:							
Tier 1 leverage ratio**	Tier 1 Capital	4.0%	5.0%	7.16%	14.06 - 27.81%	7.53%	14.51 - 27.47%
UREE leverage ratio	URE and URE Equivalents	1.5%	1.5%	2.91%	16.20 - 27.44%	3.19%	16.64 - 27.09%

* 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.

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

(1) Equities outstanding 7 or more years

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

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

(4) Debt and equities outstanding 5 or more years

As depicted in the tables above, at March 31, 2019, CoBank and all affiliated Associations exceeded the FCA’s regulatory minimum capital ratios and any required buffers. Although aggregated in the District’s condensed combined financial statements, capital for each District entity is particular to that institution. In addition, the provisions of joint and several liability for Systemwide Debt Securities are applicable only to System banks and do not include Associations. CoBank has no access to Association capital beyond their required investment in the Bank. There are no capital sharing agreements between CoBank and its affiliated Associations.

Association Mergers and Other Matters

In June 2016, a lawsuit was commenced by the filing of a complaint in the United States District Court Southern District of New York against CoBank by a number of investors (the “Plaintiffs”) who had held CoBank’s 7.875 percent Subordinated Notes due in 2019 (the “Notes”). The Notes were redeemed at par plus accrued interest by CoBank in April 2016 due to the occurrence of a “Regulatory Event” (as defined under the terms of the Notes). The Plaintiffs have asserted a breach of contract claim and a breach of implied covenant of good faith and fair dealing claim alleging that CoBank impermissibly redeemed the Notes. The Plaintiffs have requested damages in an amount to be determined at trial, reasonable attorneys’ fees and any other such relief as the court may deem just and proper. CoBank filed its answer in September 2016 and discovery concluded in January 2018. CoBank and Plaintiffs filed their respective motions for summary judgment in March 2018. There is presently no indication of when the court will rule on the motions for summary judgment. CoBank intends to vigorously defend against these allegations. The likelihood of any outcome of this proceeding cannot be determined at this time.

Effective February 14, 2019, the boards of directors of American AgCredit, ACA and Farm Credit Services of Hawaii, ACA approved the terms of an Agreement and Plan of Combination, which, once finalized, will allow for the sale of the net assets of Farm Credit Services of Hawaii, ACA to American AgCredit, ACA. The transaction is scheduled to occur on July 1, 2019.

Condensed Combined Balance Sheets
(unaudited)

($ in Thousands)

		March 31, 2019		December 31, 2018
Assets				
Total Loans	**$**	**115,970,722**	$	115,149,430
Less: Allowance for Loan Losses		**967,141**		930,771
Net Loans		**115,003,581**		114,218,659
Cash and Cash Equivalents		**242,845**		1,654,814
Federal Funds Sold and Other Overnight Funds		**523,000**		1,300,000
Investment Securities		**31,717,130**		31,305,903
Interest Rate Swaps and Other Financial Instruments		**302,007**		243,233
Accrued Interest Receivable and Other Assets		**2,335,724**		1,881,332
Total Assets	**$**	**150,124,287**	$	150,603,941
Liabilities				
Bonds and Notes	**$**	**127,872,435**	$	128,504,636
Interest Rate Swaps and Other Financial Instruments		**185,627**		152,206
Reserve for Unfunded Commitments		**117,910**		120,837
Accrued Interest Payable and Other Liabilities		**1,841,379**		2,313,540
Total Liabilities		**130,017,351**		131,091,219
Shareholders' Equity				
Preferred Stock Issued by Bank		**1,500,000**		1,500,000
Preferred Stock Issued by Associations		**567,353**		511,747
Common Stock		**1,613,754**		1,627,379
Paid In Capital		**1,319,232**		1,319,232
Unallocated Retained Earnings		**15,569,111**		15,199,783
Accumulated Other Comprehensive Loss		**(462,514)**		(645,419)
Total Shareholders' Equity		**20,106,936**		19,512,722
Total Liabilities and Shareholders' Equity	**$**	**150,124,287**	$	150,603,941

Condensed Combined Statements of Income

(unaudited)

($ in Thousands)

	For the Three Months Ended March 31,			
		2019		**2018**
Interest Income				
Loans	**$**	**1,388,315**	$	1,153,711
Investment Securities, Federal Funds Sold and Other Overnight Funds		**194,978**		156,188
Total Interest Income		**1,583,293**		1,309,899
Interest Expense		**810,350**		559,395
Net Interest Income		**772,943**		750,504
Provision for Loan Losses		**35,030**		50,814
Net Interest Income After Provision for Loan Losses		**737,913**		699,690
Noninterest Income/(Expense)				
Net Fee Income		**33,378**		29,524
Patronage Income		**23,750**		20,645
Prepayment Income		**1,902**		1,912
Losses on Early Extinguishments of Debt		**(1,626)**		(5,554)
(Losses) Gains on Sale of Investment Securities		**(193)**		2,710
Return of Excess Insurance Funds		**27,004**		69,504
Other, Net		**26,672**		22,774
Total Noninterest Income		**110,887**		141,515
Operating Expenses				
Employee Compensation		**163,779**		147,687
Insurance Fund Premium		**23,394**		22,456
Information Technology		**20,669**		18,774
General and Administrative		**20,139**		18,462
Occupancy and Equipment		**17,747**		16,464
Farm Credit System Related		**8,585**		8,570
Purchased Services		**17,509**		13,664
Other		**16,853**		16,870
Total Operating Expenses		**288,675**		262,947
Income Before Income Taxes		**560,125**		578,258
Provision for Income Taxes		**31,272**		34,306
Net Income	**$**	**528,853**	$	543,952

Select Information on District Associations
(unaudited)

($ in Thousands)

As of March 31, 2019	Wholesale Loans	% of Wholesale Loans	Total Assets	Total Regulatory Capital	Total Regulatory Capital Ratio	Non-performing Loans as a % of Total Loans	Return on Average Assets
Northwest Farm Credit Services, ACA	$ 8,876,472	19.70 %	$ 11,802,876	$ 2,302,340	18.31 %	0.92 %	2.22 %
American AgCredit, ACA	8,560,490	19.00	11,006,811	1,711,139	14.10	0.56	1.72
Farm Credit West, ACA	7,698,886	17.08	10,378,613	1,598,211	14.46	1.19	2.60
Farm Credit East, ACA	5,788,925	12.85	7,373,965	1,387,540	18.53	0.76	2.58
Yosemite Farm Credit, ACA	2,566,887	5.70	3,173,345	443,680	13.83	1.51	2.19
Frontier Farm Credit, ACA	1,600,947	3.55	2,072,665	405,479	18.20	0.69	2.01
Farm Credit of New Mexico, ACA	1,375,845	3.05	1,818,175	368,870	21.97	1.03	1.94
Golden State Farm Credit, ACA	1,220,658	2.71	1,580,720	270,928	16.85	0.55	2.00
Oklahoma AgCredit, ACA	1,082,052	2.40	1,377,427	239,284	17.34	0.69	1.65
Fresno-Madera Farm Credit, ACA	882,164	1.96	1,245,798	242,343	16.95	0.92	2.18
High Plains Farm Credit, ACA	955,469	2.12	1,218,025	200,198	16.12	0.47	2.31
Western AgCredit, ACA	842,803	1.87	1,087,419	183,692	16.18	1.17	2.49
Farm Credit of Southern Colorado, ACA	807,118	1.79	1,081,976	224,702	20.01	1.55	1.45
Farm Credit Western Oklahoma, ACA	693,081	1.54	874,316	139,781	17.53	0.13	1.60
Premier Farm Credit, ACA	530,300	1.18	712,411	146,028	19.22	0.48	1.90
Yankee Farm Credit, ACA	418,872	0.93	543,146	95,895	18.94	1.96	2.80
Farm Credit Services of Colusa-Glenn, ACA	245,122	0.54	399,397	103,335	22.67	0.09	2.32
Farm Credit of Western Kansas, ACA	263,099	0.58	369,274	83,940	22.89	0.16	2.00
Idaho AgCredit, ACA	222,960	0.49	289,876	49,975	17.50	0.95	1.67
AgPreference, ACA	206,591	0.46	261,902	43,644	20.76	1.53	1.19
Farm Credit of Enid, ACA	170,276	0.38	233,673	55,575	25.90	0.83	1.35
Farm Credit Services of Hawaii, ACA	56,182	0.12	86,180	23,658	30.07	2.22	(0.71)

Association Information

AgPreference, ACA
3120 North Main
Altus, OK 73521
580-482-3030
www.agpreference.com

American AgCredit, ACA
400 Aviation Boulevard, Suite 100
Santa Rosa, CA 95403
707-545-1200
www.agloan.com

Farm Credit East, ACA
240 South Road
Enfield, CT 06082
860-741-4380
www.farmcrediteast.com

Farm Credit of Enid, ACA
1605 W. Owen K. Garriott Road
Enid, OK 73703
580-233-3489
www.fcenid.com

Farm Credit of New Mexico, ACA
5651 Balloon Fiesta Parkway NE
Albuquerque, NM 87113
505-884-1048
www.farmcreditnm.com

Farm Credit of Southern Colorado, ACA
5110 Edison Avenue
Colorado Springs, CO 80915
719-570-1087
www.aglending.com

Farm Credit of Western Kansas, ACA
1190 S Range Ave
Colby, KS 67701
785-462-6714
www.fcwk.com

Farm Credit of Western Oklahoma, ACA
3302 Williams Avenue
Woodward, OK 73801
580-256-3465
www.fcwestok.com

Farm Credit Services of Colusa-Glenn, ACA
605 Jay Street
Colusa, CA 95932
530-458-2163
www.fcscolusaglenn.com

Farm Credit Services of Hawaii, ACA
99-860 Iwaena St., Suite A
Aiea, HI 96701
808-836-8009
www.hawaiifarmcredit.com

Farm Credit West, ACA
3755 Atherton Road
Rocklin, CA 95765
916-780-1166
www.farmcreditwest.com

Fresno-Madera Farm Credit, ACA
4635 West Spruce Ave.
Fresno, CA 93794
559-277-7000
www.fmfarmcredit.com

Frontier Farm Credit, ACA
5015 South 118 Street
Omaha, NE 68137
785-776-7144
www.frontierfarmcredit.com

Golden State Farm Credit, ACA
1580 Ellis Street
Kingsburg, CA 93631
530-895-8698
www.goldenstatefarmcredit.com

High Plains Farm Credit, ACA
605 Main
Larned, KS 67550
620-285-6978
www.highplainsfarmcredit.com

Idaho AgCredit, ACA
188 West Judicial Street
Blackfoot, ID 83221
208-785-1510
www.idahoagcredit.com

Northwest Farm Credit Services, ACA
2001 South Flint Road
Spokane, WA 99224
509-340-5300
www.northwestfcs.com

Oklahoma AgCredit, ACA
601 E. Kenosha Street
Broken Arrow, OK 74012
918-251-8596
www.okagcredit.com

Premier Farm Credit, ACA
202 Poplar Street
Sterling, CO 80751
970-522-2330
www.premieraca.com

Western AgCredit, ACA
10980 South Jordan Gateway
South Jordan, UT 84095
801-571-9200
www.westernagcredit.com

Yankee Farm Credit, ACA
289 Hurricane Lane, Suite 102
Williston, VT 05495
802-879-4700
www.yankeefarmcredit.com

Yosemite Farm Credit, ACA
806 West Monte Vista Avenue
Turlock, CA 95382
209-667-2366
www.yosemitefarmcredit.com