HELPING FARM FAMILIES SUCCEED

2018 ANNUAL REPORT

FARM CREDIT ILLINOIS

2018 HIGHLIGHTS

FARM CREDIT ILLINOIS
Helping Farm Families Succeed

7,759 FARM FAMILY MEMBER-OWNERS

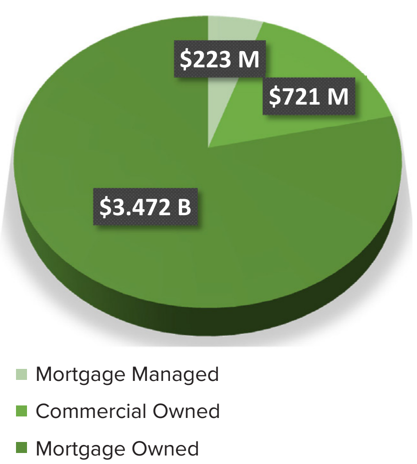
$4.4 BILLION TOTAL LOANS

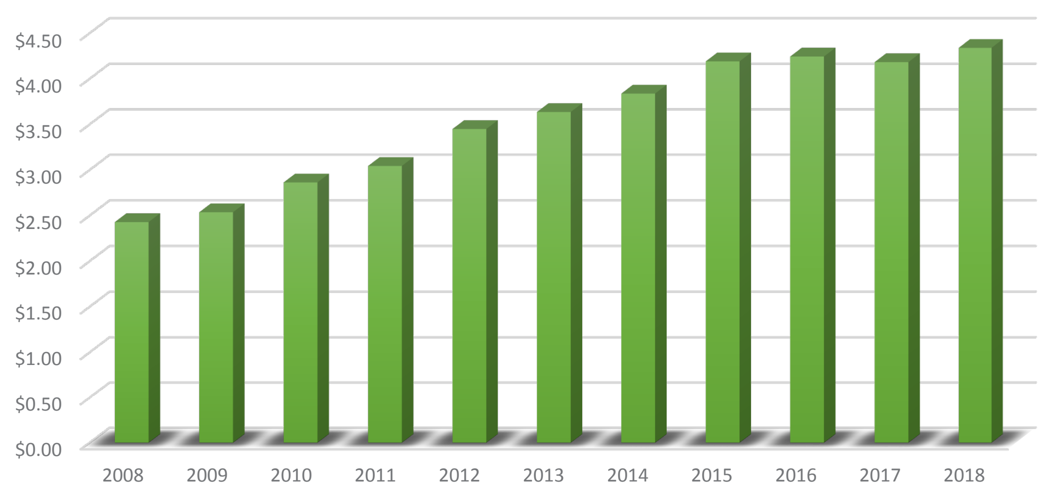
213 FULL-TIME EMPLOYEES

14 REGIONAL OFFICES

BUSINESS RESULTS	2018	2017	CHANGE
Total Owned Loans	$4.193 billion	$4.074 billion	+2.9%
Total Managed Loans	$223 million	$266 million	-16.2%
Total Owned & Managed Loans	$4.416 billion	$4.340 billion	+1.8%
Net Earnings	$72.4 million	$73.3 million	-1.2%
Multi-Peril Crop Insurance Premiums	$40.3 million	$41.9 million	-3.8%
Nonadverse Credit Quality	97.4%	97.5%	-0.1%
Total Capital	$972 million	$919 million	+5.8%
Total Regulatory Capital	19.2%	18.3%	+4.5%

Loan Portfolio

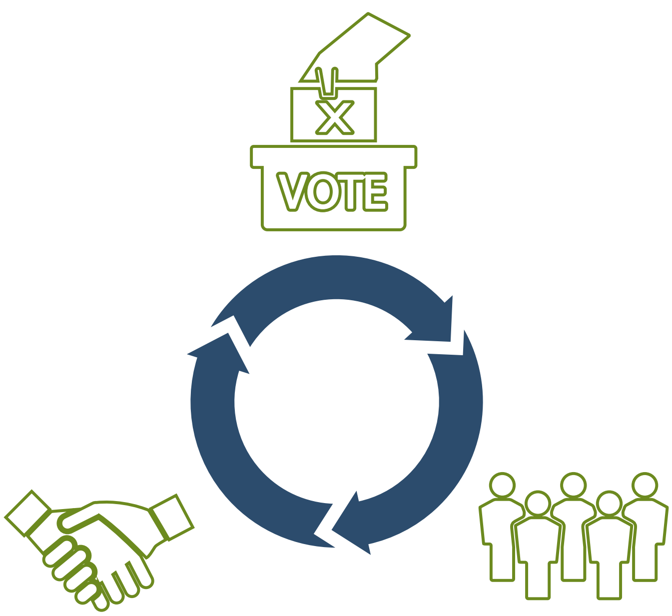




Owned & managed as of 12/31 annually (in billions).

LEADERSHIP | BOARD OF DIRECTORS & SENIOR MANAGEMENT

L-R (back): **Kevin Miller**, **Steve Hettinger**, **Mike Carls**, **David Haase**, **Mark Miller**, **Kent Brinkmann**, **Larry Hasheider** L-R (front): **Lisa Helmink**, , **Wes Durbin**, **Eric Mosbey**, **K. Bridget Schneider**, **Michael Donohoe** (not pictured **Clayton Bloome** and **Karen Neff**)



Member-owners elect **12** peers to the **board of directors**, and **2** outside directors are appointed ensuring FCI carries out its **cooperative mission**.

REGION 1 (Name, County)

Wes Durbin, Vice Chair, Shelby
Clayton Bloome, Christian
Mike Carls, Cass
Mark Miller, Macon

REGION 2 (Name, County)

Eric Mosbey, Board Chair, Crawford
David Haase, Iroquois
Steve Hettinger, Champaign
Kevin Miller, Jasper

REGION 3 (Name, County)

Kent Brinkmann, Clinton
Larry Hasheider, Washington
Lisa Helmink, Clinton
Karen Neff, St. Clair

OUTSIDE APPOINTED (Name, County)

Michael Donohoe, Champaign
K. Bridget Schneider, Logan

FCI's senior management team sets strategic direction and protects the financial well-being of the Association.

Senior Management

L-R: **Bob Rhode,** General Counsel; **Shaun Murray,** Chief Operating Officer; **Jackie Martinie,** Chief Credit Officer; **Aaron Johnson**, Executive Vice President; **Tom Tracy**, President & CEO; **Steve Carson,** Chief Risk Officer; **Kelly Loschen,** Chief Financial Officer; **Ryan Berg**, Chief Administrative Officer

MEMBER ENGAGEMENT

The **2019 Nominating Committee** will nominate candidates for the **2020 Board of Directors** and **Nominating Committee**.

REGION 1 (Name, County)

Nominating Committee

David Dorn Jr., Christian
Blake Furness, Montgomery
Joseph J. Pickrell, Sangamon
Mike Stacey, Macon

Alternates

Andrew Bertolino, Montgomery
Christopher Dussold, Bond
William Kuebrich, Jersey
Clifford Nolte, Calhoun

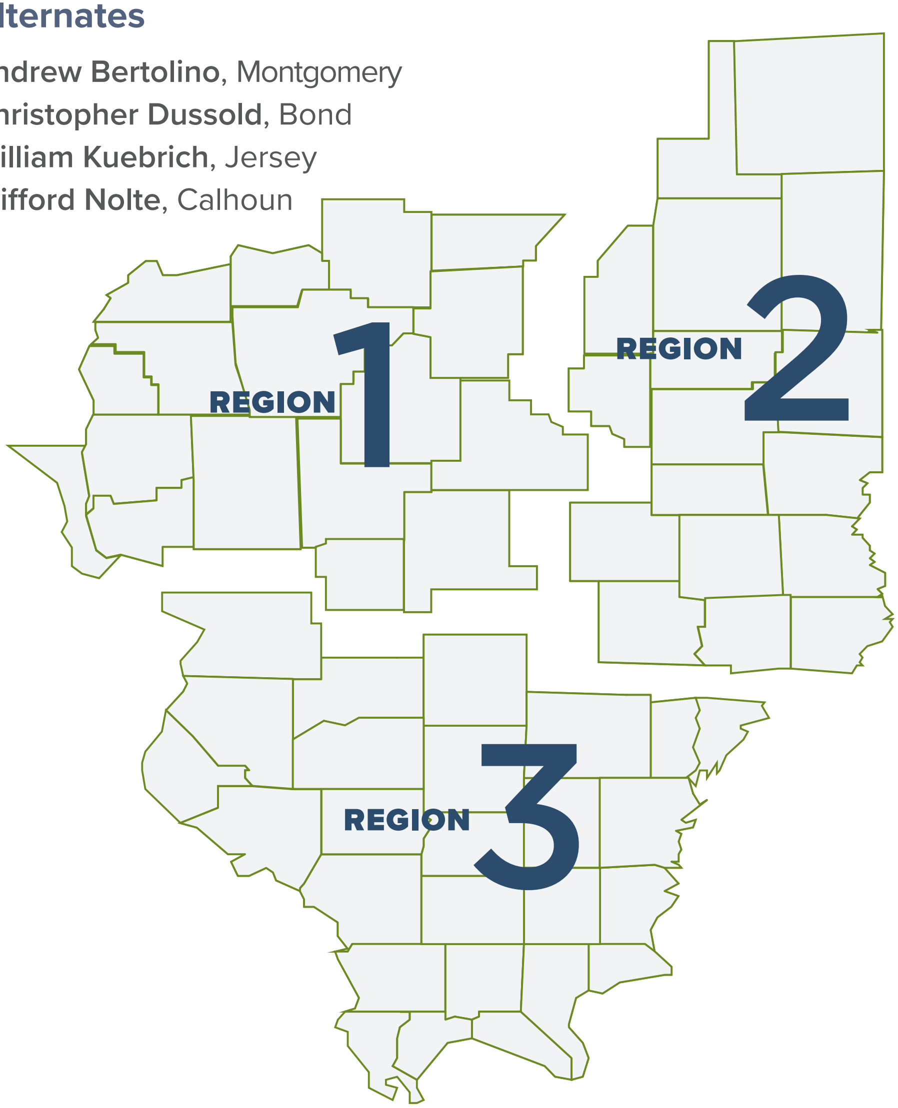
REGION 2 (Name, County)

Nominating Committee

Scott Bidner, Champaign
Brian Walk, Cumberland
J. Kent Krukewitt, Champaign
Matthew Moss, Edgar

Alternates

Stanley Catlett, Vermilion
Bill Gartner, Lawrence
Mitchell Heap, Ford
Allen Walters, Clark



REGION 3 (Name, County)

Nominating Committee

John Danner, Jefferson
Scott Knop, Randolph
David Krebel, Monroe
Alan Neuhaus, Jackson

Alternates

Charles Randall Lambdin, Union
Arthur Matecki, Washington
Rick Pytlinski, Jefferson
Michael Weilbacher, St. Clair

Contact a **2019 Nominating Committee Member** to express interest in serving as a future director or nominating committee member. Candidate interest forms may be submitted at **www.farmcreditIL.com/candidate**

NOMINATING COMMITTEE & MEMBER ADVISORY COUNCIL

A diverse **group of members** exchange ideas with cooperative leadership, guiding **FCI's member experience and vision for the future**.

2018 Member Advisory Council (Name, County)

REGION 1

Beth Brehm, Sangamon
Jeff Brown, Macon
Garrett Brockelsby, Christian
Chad & Katy Conder, Shelby
Tom Connors, Macoupin
Dave Davenport, Morgan
Noah Gregurich, Sangamon
Alex Head, Christian
Ben Hortenstine, Fayette
Dennis Paul, Macon
Chelsea Reeves, Bond
Roger & Vickie White, Macon
Teresa Wilson, Morgan

REGION 2

Scot & Sharlie Berry, Piatt
Ed & Alan Buckner, Clark
Jill & Dave Cain, Champaign
Mark Crawford, Vermilion
Jeff Fisher, Champaign
Marty Gray, Iroquois
Gregg Hilgenberg, Douglas
Kurt Holscher, Crawford
Reid & Stayce Ingram, Edgar
Rory Keigher, Iroquois
Randy Toohill, DeWitt
Thomas Weger, Lawrence
Dennis Goeckner, Effingham
Stephen Gilbert, Edgar

REGION 3

Rodney Beckman, Jackson
Steven Borrenpohl, Washington
Josh Case, Edwards
Casey Douglas, Pulaski
Daniel Haege, Washington
Monty Kerley, Johnson
Ginger Launius, Hamilton
Jeff Lueke, Hamilton
Evan & Cliff Schuette, Clinton
Steve & Angie Snider, Coles
Jared Steckler, Wabash
Justin Wallace, Hamilton
Ryan Kent, Marion
Nick Pingsterhaus, Clinton

FARMER ENGAGEMENT

Learning workshops equip members with strategies and knowledge for success.

Farm Credit College Programs

- Estate Planning
- Crop Marketing and Weather Outlook
- Farm Financial Analysis Workshops
- Young & Beginning Farmer Forums

23 EDUCATIONAL PROGRAMS HELD

1,368 MEMBERS ATTENDED

*my*FCI Secure Member Portal

FCI's technology upgrade gave members access to an all-in-one portal

- Review an account summary
- Access online banking
- Interact with FCI in a whole new way

460 *my*FCI USERS

123 ONLINE BANKING USERS

175 MOBILE APP DOWNLOADS

FARM CREDIT COLLEGE, *my*FCI, & FRESHROOTS

FreshRoots Program

FCI equips today's young & beginning farmers by providing **lending assistance** and **learning incentives** to members

- up to age 40

OR

- in their first 10 years of farming

FreshRoots
YOUNG & BEGINNING FARMERS

596 MEMBERS ENROLLED

$740,000 LEARNING INCENTIVES REDEEMED

$127M COMMITTED TO FRESHROOTS LOANS

RURAL MARKETPLACE SERVICE | VOLUNTEER HOURS

Employees and directors give back on behalf of FCI to the communities where they live and work.

IN 2018

160 EMPLOYEES & DIRECTORS CONTRIBUTED

2,033 VOLUNTEER SERVICE HOURS

VOLUNTEER SERVICE HOURS

912 IN SUPPORT OF YOUTH DEVELOPMENT

531 IN SUPPORT OF AG-VOCACY

590 IN SUPPORT OF COMMUNITY CHARITIES

RURAL MARKETPLACE INVESTMENTS

SCHOLARSHIPS, GRANTS, & ENDOWMENTS

Scholarships support college students studying agriculture and **community improvement grants** help 4-H clubs and FFA chapters deliver tangible value in their community.

IN 2018

$80,000 INVESTED IN YOUTH PROGRAMS

30 FCI SCHOLARS **50** GRANT RECIPIENTS

$229,174 YOUTH DEVELOPMENT

$75,406 AG-VOCACY

$60,070 FARMER DEVELOPMENT

$23,254 COMMUNITY CHARITIES

$387,904 **TOTAL**

A growing portion of net earnings are **returned to the rural marketplace** with cash, in-kind, and endowment gifts.

Farmer development funds support external organizations delivering learning programs for young, beginning, small, women, urban, and veteran farmers.

$1.9 M MARKET VALUE OF PERMANENT ENDOWMENTS

FCI's **permanent endowments** are an everlasting legacy with annual earnings supporting the organization or cause in perpetuity.

- **4-H**
- **FFA**
- ***farmdoc***
- **Ag-vocacy Fund at the Community Foundation of East Central Illinois**
- **Illinois Farm Bureau Young Leaders**
- **Illinois Agricultural Leadership Foundation**
- **Lake Land College**
- **Southern Illinois University College of Agricultural Sciences**
- **University of Illinois College of ACES**

2018 REFLECTIONS

Farm Credit Friend of Agriculture Presentation to Congressman Davis

2018 Summer Interns
L-R: Avery Schrock, Jake Albers, Lauren Robison, Michael Plunk

2018 National Agriculture Week at FCI central office, Mahomet

2018 Farm Safety Week Kickoff at Maroa Forsyth H.S.

2019 ON THE HORIZON

- Farm Progress Show Aug. 27-29, Decatur
- FreshRoots Directors Cup
- Cash Patronage Program
- Rural 1st Home Loan Collaboration

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Farm Credit Illinois, ACA

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MESSAGE FROM THE CHAIRPERSON OF THE BOARD AND CHIEF EXECUTIVE OFFICER

Dear Farm Credit Illinois Members,

Even through turbulent times in agriculture, Farm Credit Illinois (FCI) remains financially strong and a reliable source of credit and trusted resource throughout our service area's rural communities. Politically, 2018 was an attention-grabbing year for Rural America with trade tariffs, the Market Facilitation Program, and the passage of a new Farm Bill.

Ending 2018 with solid financial results

The time-tested strategy of focusing on credit quality, stable earnings, and growth – in that order – once again proved its worth. Credit quality remained steady at 97.4% for all non-adverse loans owned and managed by the Association, despite current conditions.

Following multiple strong years of annual earnings, net income results were $72.4 million. While the Association owns $4.4 billion of assets, FCI's involvement in System collaborations allows the Association to generate additional income. These collaborations give FCI the ability to sustain and grow members' value proposition through low upfront pricing and vibrant member programs.

The moderate growth in loan volume with strong earnings boosted the total regulatory capital to 19.2%, up 0.8% from the year prior.

Supporting the next generation of farm families

FCI's members and Board of Directors voiced their desire for the cooperative to assist today's young and beginning farmers. As a member-owned and driven cooperative, we heard their requests and launched a specifically tailored **FreshRoots** young and beginning farmers program in February 2018, offering lending assistance and learning incentives.

A total of 576 members leveraged the lending assistance, closing $127.0 million in **FreshRoots** loans. And 596 young and beginning members earned learning incentives totaling $740 thousand.

FCI is proud to help young and beginning farmers get a healthy start in their farming careers – **Helping the Next Generation of Farm Families Succeed**.

Growing through change

In 2017, FCI invested $10.0 million to become a co-owner of the Farm Credit System's leading technology platform – Farm Credit Financial Partners, Inc. (FPI) – alongside four of the 10 largest System Associations.

In August 2018, FCI transitioned to FPI, undergoing the most substantial technology upgrade the Association has experienced. Thanks to the staff team's steadfast operational focus and commitment to outstanding member service, the conversion was a success.

Members now have access to the secure, interactive ***myFCI*** portal through the newly redesigned **www.farmcreditIL.com**. More than online banking, ***myFCI*** provides an all-in-one portal for members to review an account summary and interact with FCI. We believe the benefits of this significant investment in technology will have a lasting, positive impact on our Association and cooperative members.

FCI held interest rates on most variable rate loans in April and July, breaking its longtime practice to follow interest rate moves by the Federal Open Market Committee. The decision to provide relief from the interest rate increases is consistent with FCI's mission of supporting farm families through both the prosperous and challenging cycles of agriculture.

FCI saw retirements and promotions for organization leaders in 2018 and more are coming. Our succession planning begins months in advance of key retirements and allows for a thoughtful transition to occur – ensuring member service is seamless and institutional knowledge is preserved.

Increasing FCI membership value through collaborations and new programs

Another impactful year is on the horizon as our team continues adjusting to the technology systems and rolling out additional member benefits. We will have ample opportunities in 2019 to embrace change and growth.

As the 11th largest Association in the nationwide Farm Credit System, FCI's senior leaders and Directors have developed meaningful relationships with leading Associations throughout the System. This has provided opportunities for mentoring, sharing best practices, and business collaborations. FCI will leverage lessons learned as we launch new initiatives and improve current programs.

In 2019, FCI will launch rural home loan and cash patronage programs, adding to the value of a cooperative membership and **Helping Farm Families Succeed** today and tomorrow.

Thank you, for choosing to be a member of Farm Credit Illinois, and best wishes for a successful and significant 2019.
Sincerely,

Eric J. Mosbey
Chairperson of the Board
Farm Credit Illinois, ACA

Thomas H. Tracy
President and Chief Executive Officer
Farm Credit Illinois, ACA

March 11, 2019

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Farm Credit Illinois, ACA

(dollars in thousands)

As of December 31	**2018**	2017	2016	2015	2014
Statement of Condition Data					
Loans	**$ 4,193,053**	$ 4,073,787	$ 3,942,719	$ 3,824,454	$ 3,424,902
Allowance for loan losses	**8,798**	7,111	6,420	5,489	4,833
Net loans	**4,184,255**	4,066,676	3,936,299	3,818,965	3,420,069
Investment in AgriBank, FCB	**109,647**	95,206	95,206	96,697	93,338
Other assets	**121,761**	102,292	82,522	74,978	71,779
Total assets	**$ 4,415,663**	$ 4,264,174	$ 4,114,027	$ 3,990,640	$ 3,585,186
Obligations with maturities of one year or less	**$ 56,841**	$ 30,872	$ 3,267,063	$ 3,213,038	$ 2,868,714
Obligations with maturities greater than one year	**3,387,272**	3,314,191	--	--	--
Total liabilities	**3,444,113**	3,345,063	3,267,063	3,213,038	2,868,714
Protected members' equity	**--**	4	5	6	11
Capital stock and participation certificates	**7,554**	7,922	8,035	8,305	8,315
Unallocated surplus	**964,705**	912,270	838,924	769,291	708,146
Accumulated other comprehensive loss	**(709)**	(1,085)	--	--	--
Total members' equity	**971,550**	919,111	846,964	777,602	716,472
Total liabilities and members' equity	**$ 4,415,663**	$ 4,264,174	$ 4,114,027	$ 3,990,640	$ 3,585,186

For the year ended December 31	**2018**	2017	2016	2015	2014
Statement of Income Data					
Net interest income	**$ 98,663**	$ 93,806	$ 96,090	$ 84,297	$ 78,920
Provision for loan losses	**1,952**	983	2,111	1,522	1,511
Other expenses, net	**24,276**	19,477	24,346	21,630	16,263
Net income	**$ 72,435**	$ 73,346	$ 69,633	$ 61,145	$ 61,146
Key Financial Ratios					
For the Year					
Return on average assets	**1.7%**	1.8%	1.8%	1.7%	1.9%
Return on average members' equity	**7.6%**	8.3%	8.6%	8.2%	8.9%
Net interest income as a percentage of average earning assets	**2.4%**	2.4%	2.5%	2.5%	2.6%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%	0.0%	0.0%
At Year End					
Members' equity as a percentage of total assets	**22.0%**	21.6%	20.6%	19.5%	20.0%
Allowance for loan losses as a percentage of loans	**0.2%**	0.2%	0.2%	0.1%	0.1%
Capital ratios effective beginning January 1, 2017:					
Common equity tier 1 ratio	**18.9%**	18.2%	N/A	N/A	N/A
Tier 1 capital ratio	**18.9%**	18.2%	N/A	N/A	N/A
Total capital ratio	**19.2%**	18.3%	N/A	N/A	N/A
Permanent capital ratio	**19.0%**	18.2%	N/A	N/A	N/A
Tier 1 leverage ratio	**20.3%**	20.0%	N/A	N/A	N/A
Capital ratios effective prior to 2017:					
Permanent capital ratio	**N/A**	N/A	17.2%	16.6%	16.8%
Total surplus ratio	**N/A**	N/A	17.0%	16.4%	16.6%
Core surplus ratio	**N/A**	N/A	17.0%	16.4%	16.6%

No income was distributed to members in the form of cash patronage, dividends, stock, or allocated surplus during the five years presented. However, we accrued patronage in 2018 and expect it to be paid in cash in 2019.

MANAGEMENT’S DISCUSSION AND ANALYSIS

Farm Credit Illinois, ACA

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Illinois, ACA (the Association) and its subsidiaries, Farm Credit Illinois, FLCA and Farm Credit Illinois, 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 members’ investment. To request free copies of AgriBank financial reports, contact us at:

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www.farmcreditIL.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 members 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.

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 and fair value measurements

AGRICULTURAL AND ECONOMIC CONDITIONS

Crop yields in Illinois for 2018 are estimated to have averaged 210.0 bushels per acre for corn and 64.0 bushels per acre for soybeans. The projected corn yield is up 9.0 bushels per acre for corn and 6.0 bushels per acre for soybeans from the 2017 yield figures. The December 11, 2018, United States Department of Agriculture’s World Agricultural Supply and Demand Estimates report estimates 2018 corn production at 14.63 billion bushels, up slightly from 2017 production. The report indicates lower ending stocks for the first time in five years. The marketing year average mid-point price remained unchanged at $3.60 per bushel, up $0.40 per bushel from last year at this time. A trade war with China, beginning in the summer of 2018, led to a substantial drop in soybean prices. Soybean production for 2018 is estimated at 4.6 billion bushels, up from 4.4 billion bushels in 2017. The mid-point price of $8.60 per bushel is unchanged from November and down $0.70 per bushel from the December 2017 estimate. Prospective plantings of corn and cotton acres are estimated to be larger for 2019 with soybean acreage decreasing accordingly. Trade talks and intended acres will dominate markets during the second half of the marketing year.

Soybean prices averaged in the high $9.00 per bushel range from 2015 through the early part of 2018 according to Gary Schnitkey, Professor at the University of Illinois. The impact of the trade dispute with China has driven soybean prices below $9.00 per bushel, sometimes below $8.00 per bushel. Schnitkey reports that despite lower soybean prices, 2018 farm income could be above 2017 levels. Factors affecting higher income include exceptional yields, strong marketing opportunities during the spring of 2018, and Market Facilitation Program (MFP) payments which will add significant income.

Expected to be a one-time program, the MFP provided direct payments to producers who experienced deteriorated commodity prices as a result of retaliatory tariffs. The payments are particularly helpful to soybean producers. For 2019, however, Schnitkey anticipates incomes could be negative for Illinois producers if corn prices continue near $3.50 per bushel and soybean prices average around $8.50 per bushel. Higher input costs for the coming crop further erode income potential for 2019. Another year of exceptional yields could precipitate break-even income and resolution of the trade situation could provide additional support.

The 2018 Farm Bill was signed by President Trump on December 20, 2018. According to Jonathan Coppess, et al., Department of Agricultural and Consumer Economics, University of Illinois, and Carl Zulauf, Department of Agricultural, Environmental, and Development Economics, Ohio State University, the current bill is largely status quo. In general, the 2018 bill continues the farm programs from 2014 with some beneficial changes. Where the election between Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) was a one-time election in the previous bill, the new version is an election for the 2019 and 2020 crop years. And beginning in 2021, producers can change the ARC/PLC election each year. A second change is a one-time option to update program yields for PLC. There were few changes to the crop insurance program in the 2018 Farm Bill. The Conservation Reserve Program will see increases in the 24 million acre cap on enrollment, growing to 27 million acres by 2023.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $4.2 billion at December 31, 2018, an increase of $119.3 million from December 31, 2017.

Components of Loans

(in thousands)

As of December 31	**2018**	2017	2016
Accrual loans:			
Real estate mortgage	**$ 2,408,766**	$ 2,275,124	$ 2,192,966
Production and intermediate-term	**747,105**	862,854	916,993
Agribusiness	**786,537**	742,575	620,860
Other	**244,010**	187,694	205,052
Nonaccrual loans	**6,635**	5,540	6,848
Total loans	**$ 4,193,053**	$ 4,073,787	$ 3,942,719

The other category is primarily comprised of communication, energy, and agricultural export finance related loans and certain assets originated under the mission related investment authority.

The increase in total loans from December 31, 2017, was primarily due to increases in our government guaranteed loan portfolio and capital markets portfolio. On December 1, 2018, we sold to AgriBank a 100% participation interest in production and intermediate-term loans associated with the ProPartners Financial (ProPartners) alliance totaling $124.6 million.

We offer variable, fixed, capped, indexed, and adjustable interest rate loan programs to our borrowers, and fixed interest rate lease programs through Farm Credit Leasing. 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 to AgriBank participation interests in certain loans as part of pool programs. The total outstanding participation interests in these programs were $334.1 million, $265.8 million, and $301.8 million at December 31, 2018, 2017, and 2016, respectively.

Portfolio Distribution

Agricultural Concentrations

As of December 31	**2018**	2017	2016
Corn and soybeans	**56.9%**	60.2%	61.7%
Production and services	**10.4%**	9.8%	9.2%
Landlords	**8.5%**	8.6%	8.8%
Livestock	**8.0%**	6.1%	5.0%
Ancillary agriculture products	**5.0%**	5.7%	5.7%
Other	**11.2%**	9.6%	9.6%
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 crop producers. These loans are normally at their lowest levels following the harvest and then increase in the spring and throughout the rest of the year as borrowers fund operating needs.

Portfolio Credit Quality

The credit quality of our portfolio declined slightly from December 31, 2017. Adversely classified loans increased to 2.6% of the portfolio at December 31, 2018, from 2.5% 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.

Risk Assets

Components of Risk Assets

(dollars in thousands)

As of December 31	2018	2017	2016
Loans:			
Nonaccrual	**$ 6,635**	$ 5,540	$ 6,848
Accruing restructured	**67**	110	123
Accruing loans 90 days or more past due	**--**	--	43
Total risk loans	**6,702**	5,650	7,014
Other property owned	**--**	--	--
Total risk assets	**$ 6,702**	$ 5,650	$ 7,014
Total risk loans as a percentage of total loans	**0.2%**	0.1%	0.2%
Nonaccrual loans as a percentage of total loans	**0.2%**	0.1%	0.2%
Current nonaccrual loans as a percentage of total nonaccrual loans	**51.0%**	45.1%	60.3%
Total delinquencies as a percentage of total loans	**0.4%**	0.2%	0.4%

Note: Accruing loans include accrued interest receivable.

The increase in nonaccrual loans and total delinquencies as a percentage of total loans was primarily due to a large capital markets relationship that was transferred into nonaccrual during the fourth quarter of 2018, partially offset by the sale of our ProPartners portfolio to AgriBank during the fourth quarter of 2018. Nonaccrual loans remained at an acceptable level at December 31, 2018, 2017, and 2016.

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	**0.2%**	0.2%	0.2%
Nonaccrual loans	**132.6%**	128.4%	93.8%
Total risk loans	**131.3%**	125.9%	91.5%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%
Adverse assets to risk funds	**12.4%**	12.4%	8.9%

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

The allowance for loan losses increased during 2018 due to a downgrade in credit classification of a large commercial relationship and an increase in the specific allowance for a large capital markets relationship, partially offset by the sale of our ProPartners portfolio to AgriBank. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2018.

Additional loan information is included in Notes 3, 10, 11, and 12 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	**$ 72,435**	$ 73,346	$ 69,633
Return on average assets	**1.7%**	1.8%	1.8%
Return on average members' equity	**7.6%**	8.3%	8.6%

Changes in the previous chart relate directly to:

- Changes in income discussed below
- Changes in assets discussed in the Loan Portfolio section
- 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	**$ 98,663**	$ 93,806	$ 96,090	**$ 4,857**	$ (2,284)
Provision for loan losses	**1,952**	983	2,111	**(969)**	1,128
Patronage income	**24,713**	23,351	15,676	**1,362**	7,675
Other income, net	**11,877**	8,992	9,800	**2,885**	(808)
Operating expenses	**62,070**	51,533	48,368	**(10,537)**	(3,165)
(Benefit from) provision for income taxes	**(1,204)**	287	1,454	**1,491**	1,167
Net income	**$ 72,435**	$ 73,346	$ 69,633	**$ (911)**	$ 3,713

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	**$ 5,464**	$ 2,597
Changes in interest rates	**(545)**	(4,763)
Changes in nonaccrual income and other	**(62)**	(118)
Net change	**$ 4,857**	$ (2,284)

Net interest income included income on nonaccrual loans that totaled $394 thousand, $456 thousand, and $574 thousand 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 2.4%, 2.4%, 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 fluctuation in the provision for loan losses was related to our estimate of losses in our portfolio for the applicable years. Additional discussion is included 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	**$ 17,667**	$ 16,271	$ 7,990
Pool program patronage	**6,016**	6,273	6,880
AgDirect partnership distribution	**1,018**	792	784
Other Farm Credit Institutions	**12**	15	22
Total patronage income	**$ 24,713**	$ 23,351	$ 15,676

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. 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 $210 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 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.

Other Income, Net

The change in other income, net was primarily due to our share of distributions from AIRA of $2.3 million in 2018. The AIRA was established by the FCSIC when premiums collected increased the level of the Insurance Fund beyond the required secured base amount of 2.0% of insured debt. There were no AIRA distributions in 2017 or 2016.

Operating Expenses

Components of Operating Expenses

(dollars in thousands)

For the year ended December 31	2018	2017	2016
Salaries and employee benefits	**$ 30,768**	$ 29,846	$ 28,428
Purchased and vendor services	**12,947**	3,771	2,710
Communications	**965**	932	864
Occupancy and equipment	**3,286**	3,190	2,972
Advertising and promotion	**1,541**	2,207	1,814
Examination	**1,171**	1,127	984
Farm Credit System insurance	**2,987**	4,831	5,535
Other	**8,405**	5,629	5,061
Total operating expenses	**$ 62,070**	$ 51,533	$ 48,368
Operating rate	**1.5%**	1.3%	1.3%

The increase in purchased and vendor services was primarily due to expenses incurred from our technology conversion.

The Farm Credit System insurance expense 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.

The increase in other expenses was primarily due to member incentive distributions associated with our FreshRoots program and an account reclassification.

(Benefit from) Provision for Income Taxes

The variance in (benefit from) provision for income taxes was related to our estimate of taxes based on taxable income. Additional discussion is included in Note 8 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 6 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 $1.1 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	**$ 3,262,456**	$ 3,118,326	$ 3,121,037
Average interest rate	**2.5%**	2.0%	1.5%

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. At December 31, 2018, gross loans were funded 80.8% by the direct note and 19.2% by unallocated surplus.

CAPITAL ADEQUACY

Total members' equity was $971.6 million, $919.1 million, and $847.0 million at December 31, 2018, 2017, and 2016, respectively. Total members' equity increased $52.4 million from December 31, 2017, primarily due to net income for the year partially offset by $20.0 million of patronage distribution accruals. 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 9 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	**18.9%**	18.2%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**18.9%**	18.2%	6.0%	2.5%*	8.5%
Total capital ratio	**19.2%**	18.3%	8.0%	2.5%*	10.5%
Permanent capital ratio	**19.0%**	18.2%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**20.3%**	20.0%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**21.6%**	21.1%	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 member needs and protect member interests, both now and in the future.

Additional discussion of these regulatory ratios is included in Note 7 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 section for further discussion of the changes in assets. Additional members' equity information is included in Note 7 to the accompanying Consolidated Financial Statements. Refer to Note 6 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.

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 17.0%, as defined in our 2019 capital plan.

In December of 2017, the Board of Directors adopted a resolution that would allow us to make patronage distributions in the future. Patronage distributions may be declared and paid in amounts authorized by the Board of Directors provided we meet all statutory and regulatory requirements. All patronage distributions must be paid on an equitable and nondiscriminatory basis as determined by the Board of Directors and will be paid within eight-and-a-half months after year end. We accrued patronage distributions of $20.0 million at December 31, 2018. No patronage distributions were accrued as of December 31, 2017 or 2016. The patronage distributions are expected to be paid in cash. 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 6 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 and liquidity
- A bank profitability component
- 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 with approval by AgriBank's Asset/Liability Committee.

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.

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 program 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 retail systems, financial reporting services, tax reporting services, and insurance services.

The total cost of services we purchased from AgriBank was $1.1 million, $931 thousand, and $872 thousand in 2018, 2017, and 2016, respectively.

Impact on Members' Investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our members' 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 $101.6 million and $103.4 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.

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. We had $1.1 billion, $966.2 million, and $902.6 million of CMG volume at December 31, 2018, 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 members 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. As part of this relationship, our equity investment in CoBank was $79 thousand at December 31, 2018, 2017, and 2016.

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 $29 thousand. The total cost of services we purchased from Foundations was $176 thousand, $255 thousand, and $197 thousand in 2018, 2017, and 2016, respectively.

Farm Credit Financial Partners, Inc.: Beginning in 2018, our customer relationship, reporting, internet, network security, loan accounting, loan origination, and general ledger systems are provided by Farm Credit Financial Partners, Inc. (FPI), a System service corporation, which provides technology and other operational services to its owners. As part of this relationship, we had an equity investment in FPI of $10.3 million and $10.0 million as of December 31, 2018, and 2017, respectively. The total cost of services we purchased from FPI in 2018 consisted of $6.6 million in conversion expense and $2.8 million in core service fees. We incurred $791 thousand in conversion expense in 2017.

Rural Business Investment Company: We and other Farm Credit Institutions are among the limited partners for Rural Business Investment Companies (RBIC). Refer to Note 5 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.

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 $8.0 million, $6.9 million, and $6.3 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.

Harvest RE: 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.

Agriculture and Rural Community (ARC) Bond Program: We participated in the ARC Bond program authorized during 2006 by the FCA in order to meet the changing needs of agriculture and rural America by making investments that support farmers, ranchers, agribusinesses, and their rural communities and businesses. The FCA Board voted to conclude the program effective December 31, 2014. The Board's action permits each System institution to hold its ARC Bond program investments through the maturity dates for the investments, provided the institution continues to meet all approval conditions. The ARC Bond program is part of our mission related investments. These investments will help to increase rural communities' and businesses' well-being and prosperity by providing an adequate flow of capital into rural areas. We had $17.6 million, $20.0 million, and $35.2 million of volume under this program at December 31, 2018, 2017, and 2016, respectively.

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. We currently do not have investment securities on our Consolidated Statements of Condition.

REPORT OF MANAGEMENT

Farm Credit Illinois, ACA

We prepare the Consolidated Financial Statements of Farm Credit Illinois, 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.

Eric J. Mosbey
Chairperson of the Board
Farm Credit Illinois, ACA

Thomas H. Tracy
President and Chief Executive Officer
Farm Credit Illinois, ACA

Kelly D. Loschen
Chief Financial Officer
Farm Credit Illinois, ACA

March 11, 2019

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Farm Credit Illinois, ACA

The Farm Credit Illinois, 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.

Thomas Tracy

Thomas H. Tracy
President and Chief Executive Officer
Farm Credit Illinois, ACA

Kelly D. Loschen

Kelly D. Loschen
Chief Financial Officer
Farm Credit Illinois, ACA

March 11, 2019

REPORT OF AUDIT COMMITTEE

Farm Credit Illinois, ACA

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 Farm Credit Illinois, 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.

Kevin Miller

Kevin Miller
Chairperson of the Audit Committee
Farm Credit Illinois, ACA

Kent Brinkmann
Michael Donohoe
David Haase
Karen Neff
K. Bridget Schneider

March 11, 2019

Report of Independent Auditors

To the Board of Directors of Farm Credit Illinois, ACA,

We have audited the accompanying Consolidated Financial Statements of Farm Credit Illinois, 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 members' 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 Farm Credit Illinois, 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 11, 2019

PricewaterhouseCoopers LLP, 45 South Seventh Street, Suite 3400, Minneapolis, MN 55402
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CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Illinois, ACA

(in thousands)

As of December 31	**2018**	2017	2016
ASSETS			
Loans	**$ 4,193,053**	$ 4,073,787	$ 3,942,719
Allowance for loan losses	**8,798**	7,111	6,420
Net loans	**4,184,255**	4,066,676	3,936,299
Investment in AgriBank, FCB	**109,647**	95,206	95,206
Accrued interest receivable	**54,569**	49,442	45,409
Deferred tax assets, net	**1,120**	--	354
Other assets	**66,072**	52,850	36,759
Total assets	**$ 4,415,663**	$ 4,264,174	$ 4,114,027
LIABILITIES			
Note payable to AgriBank, FCB	**$ 3,387,272**	$ 3,314,191	$ 3,240,487
Accrued interest payable	**22,244**	16,341	12,076
Deferred tax liabilities, net	**--**	145	--
Patronage distribution payable	**20,000**	--	--
Other liabilities	**14,597**	14,386	14,500
Total liabilities	**3,444,113**	3,345,063	3,267,063
Contingencies and commitments (Note 11)			
MEMBERS' EQUITY			
Protected members' equity	**--**	4	5
Capital stock and participation certificates	**7,554**	7,922	8,035
Unallocated surplus	**964,705**	912,270	838,924
Accumulated other comprehensive loss	**(709)**	(1,085)	--
Total members' equity	**971,550**	919,111	846,964
Total liabilities and members' equity	**$ 4,415,663**	$ 4,264,174	$ 4,114,027

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Farm Credit Illinois, ACA

(in thousands)

For the year ended December 31	2018	2017	2016
Interest income	**$ 178,723**	$ 154,629	$ 143,207
Interest expense	**80,060**	60,823	47,117
Net interest income	**98,663**	93,806	96,090
Provision for loan losses	**1,952**	983	2,111
Net interest income after provision for loan losses	**96,711**	92,823	93,979
Other income			
Patronage income	**24,713**	23,351	15,676
Financially related services income	**7,085**	6,880	6,858
Fee income	**2,788**	1,833	2,860
Allocated Insurance Reserve Accounts distribution	**2,318**	--	--
Miscellaneous (loss) income, net	**(314)**	279	82
Total other income	**36,590**	32,343	25,476
Operating expenses			
Salaries and employee benefits	**30,768**	29,846	28,428
Other operating expenses	**31,302**	21,687	19,940
Total operating expenses	**62,070**	51,533	48,368
Income before income taxes	**71,231**	73,633	71,087
(Benefit from) provision for income taxes	**(1,204)**	287	1,454
Net income	**$ 72,435**	$ 73,346	$ 69,633
Other comprehensive income			
Employee benefit plans activity	**$ 376**	$ --	$ --
Total other comprehensive income	**376**	**--**	**--**
Comprehensive income	**$ 72,811**	$ 73,346	$ 69,633

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Illinois, ACA

(in thousands)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance as of December 31, 2015	$ 6	$ 8,305	$ 769,291	$ --	$ 777,602
Net income	--	--	69,633	--	69,633
Capital stock and participation certificates issued	--	488	--	--	488
Capital stock and participation certificates retired	(1)	(758)	--	--	(759)
Balance as of December 31, 2016	5	8,035	838,924	--	846,964
Net income	--	--	73,346	--	73,346
Other comprehensive loss and other	--	--	--	(1,085)	(1,085)
Capital stock and participation certificates issued	--	511	--	--	511
Capital stock and participation certificates retired	(1)	(624)	--	--	(625)
Balance as of December 31, 2017	4	7,922	912,270	(1,085)	919,111
Net income	**--**	**--**	**72,435**	**--**	**72,435**
Other comprehensive income	**--**	**--**	**--**	**376**	**376**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(20,000)**	**--**	**(20,000)**
Capital stock and participation certificates issued	**--**	**429**	**--**	**--**	**429**
Capital stock and participation certificates retired	**(4)**	**(797)**	**--**	**--**	**(801)**
Balance as of December 31, 2018	**$ --**	**$ 7,554**	**$ 964,705**	**$ (709)**	**$ 971,550**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Farm Credit Illinois, ACA

(in thousands)

For the year ended December 31		**2018**		2017		2016
Cash flows from operating activities						
Net income	**$**	**72,435**	$	73,346	$	69,633
Depreciation on premises and equipment		**879**		999		1,023
Loss (gain) on sale of premises and equipment, net		**3**		(90)		--
Amortization of premiums on loans		**2,410**		277		--
Provision for loan losses		**1,952**		983		2,111
Stock patronage received from Farm Credit Institutions		**--**		(1)		--
Changes in operating assets and liabilities:						
Increase in accrued interest receivable		**(5,801)**		(5,470)		(5,799)
Increase in other assets		**(6,172)**		(5,562)		(3,137)
Increase in accrued interest payable		**5,903**		4,265		1,655
Increase (decrease) in other liabilities		**442**		(1,054)		1,944
Net cash provided by operating activities		**72,051**		67,693		67,430
Cash flows from investing activities						
Increase in loans, net		**(128,758)**		(130,140)		(118,224)
(Purchases) redemptions of investment in AgriBank, FCB, net		**(14,441)**		--		1,491
Purchases of investment in other Farm Credit Institutions, net		**(1,303)**		(10,646)		(541)
Purchases of premises and equipment, net		**(192)**		(437)		(378)
Net cash used in investing activities		**(144,694)**		(141,223)		(117,652)
Cash flows from financing activities						
Increase in note payable to AgriBank, FCB, net		**73,081**		73,704		50,426
Capital stock and participation certificates retired, net		**(438)**		(174)		(204)
Net cash provided by financing activities		**72,643**		73,530		50,222
Net change in cash		**--**		--		--
Cash at beginning of year		**--**		--		--
Cash at end of year	**$**	**--**	$	--	$	--
Supplemental schedule of non-cash activities						
Stock financed by loan activities	**$**	**256**	$	366	$	356
Stock applied against loan principal		**190**		304		412
Stock applied against interest		**--**		2		11
Interest transferred to loans		**674**		1,435		1,277
Patronage distributions payable to members		**20,000**		--		--
Increase (decrease) in members' equity from employee benefits		**376**		(1,085)		--
Supplemental information						
Interest paid	**$**	**74,157**	$	56,558	$	45,462
Taxes (refunded) paid, net		**(443)**		680		777

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Farm Credit Illinois, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

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. In addition, loans that are purchased from other entities are classified as FLCA loans. 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.

Association

Farm Credit Illinois, ACA (the Association) and its subsidiaries, Farm Credit Illinois, FLCA and Farm Credit Illinois, PCA (subsidiaries) are lending institutions of the System. We are a customer-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Alexander, Bond, Calhoun, Cass, Champaign, Christian, Clark, Clay, Clinton, Coles, Crawford, Cumberland, DeWitt, Douglas, Edgar, Edwards, Effingham, Fayette, Ford, Franklin, Gallatin, Greene, Hamilton, Hardin, Iroquois, Jackson, Jasper, Jefferson, Jersey, Johnson, Lawrence, Logan, Macon, Macoupin, Madison, Marion, Massac, Menard, Monroe, Montgomery, Morgan, Moultrie, Perry, Piatt, Pope, Pulaski, Randolph, Richland, Saline, Sangamon, Scott, Shelby, St. Clair, Union, Vermillion, Wabash, Washington, Wayne, White, and Williamson in the state of Illinois.

We borrow from AgriBank and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries.

We offer crop hail and multi-peril crop insurance to borrowers and those eligible to borrow. We also offer fee appraisals to our members.

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.

Principles of Consolidation

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

Significant Accounting Policies

Loans: Loans are carried at their principal amount outstanding net of any unearned income, cumulative charge-offs, unamortized deferred fees and costs on originated loans, and unamortized premiums or discounts on purchased loans. 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.

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.

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.

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.

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

Other Investment: The carrying amount of the investments in the Rural Business Investment Companies, in which we are a limited partner and hold a non-controlling interest, is at cost and are included in "Other assets" in the Consolidated Statements of Condition. The investments are assessed for impairment. If impairment exists, losses are included in "Miscellaneous (loss) income, net" in the Consolidated Statements of Comprehensive Income in the year of impairment. Income on the investments are limited to distributions received. In circumstances when distributions exceed our share of earnings after the date of the investment, these distributions are applied to reduce the carrying value of the investment and are not recognized as income.

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation and is included in "Other assets" in the Consolidated Statements of Condition. 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 "Miscellaneous (loss) 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. All purchases of premises and equipment greater than $5 thousand are capitalized.

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 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 Statements of Comprehensive Income. Service costs are included in the line item “Salaries and employee benefits” on the 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 state income taxes. Deferred tax assets and liabilities are recognized for future tax benefits and 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 benefits and 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.

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 is recorded in “Other liabilities” in the Consolidated Statements of Condition and a corresponding loss is recorded in “Provision for credit losses” in the Consolidated Statements of Comprehensive Income. However, no such reserve was necessary as of December 31, 2018, 2017, or 2016.

Cash: For purposes of reporting cash flow, cash includes cash on hand.

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. While we are a nonpublic entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements on the public business entities effective date or aligned with other System institutions, whichever is earlier.

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, or cash flows.
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. The adoption of the guidance did not impact our financial condition or cash flows, but did result in an immaterial change to the classification of certain items in the results of operations. The components of net periodic benefit cost other than the service cost component are included in other operating expenses line item on the Statements of Comprehensive Income. As the change in classification was immaterial, there were no retroactive adjustments to the Statements of Comprehensive Income. There were no material changes to the 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, but did impact our fair value disclosures.
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. The adoption of this guidance did not have a material impact on our financial condition, results of operations, and financial statement disclosures, and had no impact on cash flows.
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, and financial statement 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. We have selected a system. Significant implementation matters yet to be addressed include 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 AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)	**2018**		2017		2016	
As of December 31	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 2,412,305**	**57.5%**	$ 2,278,901	55.9%	$ 2,195,592	55.7%
Production and intermediate-term	**747,936**	**17.8%**	864,617	21.2%	921,215	23.4%
Agribusiness	**788,801**	**18.8%**	742,575	18.2%	620,860	15.7%
Other	**244,011**	**5.9%**	187,694	4.7%	205,052	5.2%
Total	**$ 4,193,053**	**100.0%**	$ 4,073,787	100.0%	$ 3,942,719	100.0%

The other category is primarily comprised of communication, energy, and agricultural export finance related loans and certain assets originated under the 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.

Total loans plus any unfunded commitments represent a proportionate maximum potential credit risk. However, substantial portions of our lending activities are collateralized. 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, equipment, 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	**$ --**	**$ (222,278)**	**$ 66,289**	**$ (454)**	**$ 141,466**	**$ --**	**$ 207,755**	**$ (222,732)**
Production and intermediate-term	**--**	**(110,655)**	**185,015**	**--**	**--**	**--**	**185,015**	**(110,655)**
Agribusiness	**--**	**(1,133)**	**715,302**	**(5,846)**	**11,142**	**--**	**726,444**	**(6,979)**
Other	**--**	**--**	**226,119**	**--**	**--**	**--**	**226,119**	**--**
Total	**$ --**	**$ (334,066)**	**$ 1,192,725**	**$ (6,300)**	**$ 152,608**	**$ --**	**$ 1,345,333**	**$ (340,366)**

	AgriBank Participations		Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations		Total Participations	
As of December 31, 2017	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (264,528)	$ 83,233	$ (1,266)	$ 50,836	$ --	$ 134,069	$ (265,794)
Production and intermediate-term	--	--	154,848	--	--	--	154,848	--
Agribusiness	--	(1,253)	671,528	(6,330)	5,911	--	677,439	(7,583)
Other	--	(43)	167,702	--	--	--	167,702	(43)
Total	$ --	$ (265,824)	$ 1,077,311	$ (7,596)	$ 56,747	$ --	$ 1,134,058	$ (273,420)

	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	$ --	$ (301,778)	$ 81,807	$ (6,756)	$ 21,787	$ --	$ 103,594	$ (308,534)
Production and intermediate-term	--	(4,295)	166,207	--	1,887	--	168,094	(4,295)
Agribusiness	--	--	597,222	(1,429)	--	--	597,222	(1,429)
Other	--	(54)	169,906	--	--	--	169,906	(54)
Total	$ --	$ (306,127)	$ 1,015,142	$ (8,185)	$ 23,674	$ --	$ 1,038,816	$ (314,312)

Information in the preceding chart excludes loans entered into under our mission related investment 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	**$ 2,364,782**	**96.6%**	**$ 24,521**	**1.0%**	**$ 59,970**	**2.4%**	**$ 2,449,273**	**100.0%**
Production and intermediate-term	**707,036**	**92.8%**	**23,563**	**3.1%**	**30,987**	**4.1%**	**761,586**	**100.0%**
Agribusiness	**771,380**	**97.4%**	**2,583**	**0.3%**	**18,356**	**2.3%**	**792,319**	**100.0%**
Other	**239,384**	**97.9%**	**5,060**	**2.1%**	**--**	**0.0%**	**244,444**	**100.0%**
Total	**$ 4,082,582**	**96.1%**	**$ 55,727**	**1.3%**	**$ 109,313**	**2.6%**	**$ 4,247,622**	**100.0%**

	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2017	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 2,222,633	96.2%	$ 28,687	1.2%	$ 59,187	2.6%	$ 2,310,507	100.0%
Production and intermediate-term	817,990	93.1%	28,988	3.3%	31,890	3.6%	878,868	100.0%
Agribusiness	733,217	98.4%	1,687	0.2%	10,676	1.4%	745,580	100.0%
Other	188,274	100.0%	--	0.0%	--	0.0%	188,274	100.0%
Total	$ 3,962,114	96.1%	$ 59,362	1.4%	$ 101,753	2.5%	$ 4,123,229	100.0%

	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2016	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 2,160,433	97.2%	$ 33,249	1.5%	$ 29,450	1.3%	$ 2,223,132	100.0%
Production and intermediate-term	877,581	93.7%	28,966	3.1%	29,944	3.2%	936,491	100.0%
Agribusiness	614,032	98.5%	1,813	0.3%	7,191	1.2%	623,036	100.0%
Other	205,469	100.0%	--	0.0%	--	0.0%	205,469	100.0%
Total	$ 3,857,515	96.7%	$ 64,028	1.6%	$ 66,585	1.7%	$ 3,988,128	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	**$ 13,939**	**$ 2,207**	**$ 16,146**	**$ 2,433,127**	**$ 2,449,273**	**$ --**
Production and intermediate-term	**1,319**	**744**	**2,063**	**759,523**	**761,586**	**--**
Agribusiness	**--**	**--**	**--**	**792,319**	**792,319**	**--**
Other	**890**	**--**	**890**	**243,554**	**244,444**	**--**
Total	**$ 16,148**	**$ 2,951**	**$ 19,099**	**$ 4,228,523**	**$ 4,247,622**	**$ --**

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	$ 1,953	$ 1,677	$ 3,630	$ 2,306,877	$ 2,310,507	$ --
Production and intermediate-term	1,842	1,284	3,126	875,742	878,868	--
Agribusiness	293	--	293	745,287	745,580	--
Other	--	--	--	188,274	188,274	--
Total	$ 4,088	$ 2,961	$ 7,049	$ 4,116,180	$ 4,123,229	$ --

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	$ 13,350	$ 161	$ 13,511	$ 2,209,621	$ 2,223,132	$ --
Production and intermediate-term	1,597	2,217	3,814	932,677	936,491	43
Agribusiness	--	--	--	623,036	623,036	--
Other	--	--	--	205,469	205,469	--
Total	$ 14,947	$ 2,378	$ 17,325	$ 3,970,803	$ 3,988,128	$ 43

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	**$ 3,383**	$ 2,500	$ 4,131
Past due	**3,252**	3,040	2,717
Total nonaccrual loans	**6,635**	5,540	6,848
Accruing restructured loans	**67**	110	123
Accruing loans 90 days or more past due	**--**	--	43
Total risk loans	**$ 6,702**	$ 5,650	$ 7,014
Volume with specific allowance	**$ 2,273**	$ 679	$ 1,707
Volume without specific allowance	**4,429**	4,971	5,307
Total risk loans	**$ 6,702**	$ 5,650	$ 7,014
Total specific allowance	**$ 713**	$ 529	$ 891
For the year ended December 31	**2018**	2017	2016
Income on accrual risk loans	**$ 64**	$ 29	$ 40
Income on nonaccrual loans	**394**	456	574
Total income on risk loans	**$ 458**	$ 485	$ 614
Average risk loans	**$ 7,202**	$ 6,327	$ 8,344

Note: Accruing loans include accrued interest receivable.

Nonaccrual Loans by Loan Type

(in thousands)

As of December 31	**2018**	2017	2016
Real estate mortgage	**$ 3,540**	$ 3,777	$ 2,626
Production and intermediate-term	**831**	1,763	4,222
Agribusiness	**2,264**	--	--
Total	**$ 6,635**	$ 5,540	$ 6,848

Additional Impaired Loan Information by Loan Type

(in thousands)	As of December 31, 2018 Recorded Investment	As of December 31, 2018 Unpaid Principal Balance	As of December 31, 2018 Related Allowance	For the year ended December 31, 2018 Average Impaired Loans	For the year ended December 31, 2018 Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	**$ --**	**$ --**	**$ --**	**$ --**	**$ --**
Production and intermediate-term	**9**	**9**	**9**	**32**	**--**
Agribusiness	**2,264**	**2,284**	**704**	**307**	**--**
Total	**$ 2,273**	**$ 2,293**	**$ 713**	**$ 339**	**$ --**
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	**$ 3,540**	**$ 3,438**	**$ --**	**$ 3,909**	**$ 156**
Production and intermediate-term	**889**	**1,293**	**--**	**2,954**	**302**
Agribusiness	**--**	**--**	**--**	**--**	**--**
Total	**$ 4,429**	**$ 4,731**	**$ --**	**$ 6,863**	**$ 458**
Total impaired loans:					
Real estate mortgage	**$ 3,540**	**$ 3,438**	**$ --**	**$ 3,909**	**$ 156**
Production and intermediate-term	**898**	**1,302**	**9**	**2,986**	**302**
Agribusiness	**2,264**	**2,284**	**704**	**307**	**--**
Total	**$ 6,702**	**$ 7,024**	**$ 713**	**$ 7,202**	**$ 458**

	As of December 31, 2017 Recorded Investment	As of December 31, 2017 Unpaid Principal Balance	As of December 31, 2017 Related Allowance	For the year ended December 31, 2017 Average Impaired Loans	For the year ended December 31, 2017 Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ --	$ --	$ --	$ --	$ --
Production and intermediate-term	679	705	529	1,156	--
Agribusiness	--	--	--	--	--
Total	$ 679	$ 705	$ 529	$ 1,156	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 3,777	$ 3,704	$ --	$ 3,136	$ 166
Production and intermediate-term	1,194	3,050	--	2,035	319
Agribusiness	--	--	--	--	--
Total	$ 4,971	$ 6,754	$ --	$ 5,171	$ 485
Total impaired loans:					
Real estate mortgage	$ 3,777	$ 3,704	$ --	$ 3,136	$ 166
Production and intermediate-term	1,873	3,755	529	3,191	319
Agribusiness	--	--	--	--	--
Total	$ 5,650	$ 7,459	$ 529	$ 6,327	$ 485

	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	$ --	$ --	$ --	$ --	$ --
Production and intermediate-term	1,707	1,732	891	1,938	--
Agribusiness	--	--	--	--	--
Total	$ 1,707	$ 1,732	$ 891	$ 1,938	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 2,626	$ 2,573	$ --	$ 3,363	$ 352
Production and intermediate-term	2,681	4,727	--	3,043	262
Agribusiness	--	--	--	--	--
Total	$ 5,307	$ 7,300	$ --	$ 6,406	$ 614
Total impaired loans:					
Real estate mortgage	$ 2,626	$ 2,573	$ --	$ 3,363	$ 352
Production and intermediate-term	4,388	6,459	891	4,981	262
Agribusiness	--	--	--	--	--
Total	$ 7,014	$ 9,032	$ 891	$ 8,344	$ 614

The recorded investment in the loan is the unpaid principal amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs 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.

We completed TDRs of certain production and intermediate-term loans during the years ended December 31, 2018, 2017, and 2016. Our recorded investment in these loans just prior to restructuring was $78 thousand, $217 thousand, and $132 thousand during the years ended December 31, 2018, 2017, and 2016, respectively. Our recorded investment in these loans immediately following the restructuring was $78 thousand, $216 thousand, and $132 thousand during the years ended December 31, 2018, 2017, and 2016, respectively. The recorded investment in the loan is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment.

The primary types of modification included extension of maturity and forgiveness of interest.

We had TDRs in the production and intermediate-term loan category of $19 thousand and $49 thousand that defaulted during the years ended December 31, 2018 and 2017, respectively, in which the modifications were within twelve months of the respective reporting period. We had no TDRs that defaulted during the year ended December 31, 2016, in which the modifications were within twelve months of the respective reporting period.

TDRs Outstanding in the Production and Intermediate-Term Loan Category

(in thousands)

As of December 31	**2018**	2017	2016
TDRs in accrual status	**$ 67**	$ 110	$ 123
TDRs in nonaccrual status	**9**	254	116
Total TDRs	**$ 76**	$ 364	$ 239

There were no commitments to lend to borrowers whose loans have been modified in a TDR 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	**$ 7,111**	$ 6,420	$ 5,489
Provision for loan losses	**1,952**	983	2,111
Loan recoveries	**478**	464	250
Loan charge-offs	**(743)**	(756)	(1,430)
Balance at end of year	**$ 8,798**	$ 7,111	$ 6,420

The provision for loan losses reflects $1.6 million that was reversed when the ProPartners portfolio was sold to AgriBank.

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	**$ 1,175**	**$ 3,537**	**$ 1,990**	**$ 409**	**$ 7,111**
Provision for (reversal of) loan losses	**249**	**(534)**	**2,149**	**88**	**1,952**
Loan recoveries	**1**	**477**	**--**	**--**	**478**
Loan charge-offs	**(186)**	**(557)**	**--**	**--**	**(743)**
Balance as of December 31, 2018	**$ 1,239**	**$ 2,923**	**$ 4,139**	**$ 497**	**$ 8,798**
Ending balance: individually evaluated for impairment	**$ --**	**$ 9**	**$ 704**	**$ --**	**$ 713**
Ending balance: collectively evaluated for impairment	**$ 1,239**	**$ 2,914**	**$ 3,435**	**$ 497**	**$ 8,085**
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2018	**$ 2,449,273**	**$ 761,586**	**$ 792,319**	**$ 244,444**	**$ 4,247,622**
Ending balance: individually evaluated for impairment	**$ 3,540**	**$ 898**	**$ 2,264**	**$ --**	**$ 6,702**
Ending balance: collectively evaluated for impairment	**$ 2,445,733**	**$ 760,688**	**$ 790,055**	**$ 244,444**	**$ 4,240,920**

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2016	$ 768	$ 3,476	$ 1,701	$ 475	$ 6,420
Provision for (reversal of) loan losses	400	360	289	(66)	983
Loan recoveries	7	457	--	--	464
Loan charge-offs	--	(756)	--	--	(756)
Balance as of December 31, 2017	$ 1,175	$ 3,537	$ 1,990	$ 409	$ 7,111
Ending balance: individually evaluated for impairment	$ --	$ 529	$ --	$ --	$ 529
Ending balance: collectively evaluated for impairment	$ 1,175	$ 3,008	$ 1,990	$ 409	$ 6,582
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2017	$ 2,310,507	$ 878,868	$ 745,580	$ 188,274	$ 4,123,229
Ending balance: individually evaluated for impairment	$ 3,777	$ 1,873	$ --	$ --	$ 5,650
Ending balance: collectively evaluated for impairment	$ 2,306,730	$ 876,995	$ 745,580	$ 188,274	$ 4,117,579

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2015	$ 585	$ 3,193	$ 1,215	$ 496	$ 5,489
Provision for (reversal of) loan losses	184	1,462	486	(21)	2,111
Loan recoveries	--	250	--	--	250
Loan charge-offs	(1)	(1,429)	--	--	(1,430)
Balance as of December 31, 2016	$ 768	$ 3,476	$ 1,701	$ 475	$ 6,420
Ending balance: individually evaluated for impairment	$ --	$ 891	$ --	$ --	$ 891
Ending balance: collectively evaluated for impairment	$ 768	$ 2,585	$ 1,701	$ 475	$ 5,529
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2016	$ 2,223,132	$ 936,491	$ 623,036	$ 205,469	$ 3,988,128
Ending balance: individually evaluated for impairment	$ 2,626	$ 4,388	$ --	$ --	$ 7,014
Ending balance: collectively evaluated for impairment	$ 2,220,506	$ 932,103	$ 623,036	$ 205,469	$ 3,981,114

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

NOTE 4: 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. During 2018, the District did not grow beyond the targeted growth rate, therefore we were not required to purchase any additional stock as of December 31, 2018.

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	**$ 108,727**	$ 93,452	$ 95,206
Purchased excess stock investment	**920**	1,754	--
Total investment	**$ 109,647**	$ 95,206	$ 95,206

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

NOTE 5: OTHER INVESTMENTS

We and other Farm Credit Institutions are among the limited partners for Rural Business Investment Companies (RBICs). Our total commitment is $4.0 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 $143 thousand at December 31, 2018, which is included in “Other assets” in the Consolidated Statements of Condition. We had no investment in the RBICs at December 31, 2017 or 2016.

The investments were evaluated for impairment. We did not recognize any impairment on these investments in 2018.

NOTE 6: 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	**$ 4,500,000**	$ 4,500,000	$ 4,500,000
Outstanding principal under the line of credit	**3,387,272**	3,314,191	3,240,487
Interest rate	**2.7%**	2.1%	1.6%

Our note payable matures July 31, 2020, 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 7: MEMBERS' EQUITY

Capitalization Requirements

In accordance with the Farm Credit Act, each borrower 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 customer's total loan(s) or one thousand dollars, whichever is less. The purchase of a $5.00 participation certificate is required of all non-stockholder customers who purchase financial services. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The borrower 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 unless guaranteed by a federal program or required by the title company at closing, in which case cash is collected for the value of the stock. We retain a first lien on the stock or participation certificates owned by customers.

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	**18.9%**	18.2%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**18.9%**	18.2%	6.0%	2.5%*	8.5%
Total capital ratio	**19.2%**	18.3%	8.0%	2.5%*	10.5%
Permanent capital ratio	**19.0%**	18.2%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**20.3%**	20.0%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**21.6%**	21.1%	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 6 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.

	Number of Shares		
As of December 31	**2018**	2017	2016
Class A common stock (protected)	**--**	738	1,097
Class C common stock (at-risk)	**1,506,390**	1,579,854	1,597,482
Participation certificates (at-risk)	**4,529**	4,670	9,425

The participation certificates include 2,253 certificates that are due to be retired in the following year. Under our bylaws, we are also authorized to issue Class B and Class D common stock. The Class B common stock is at-risk and nonvoting with a $5.00 par value per share, and Class D common stock is at-risk and nonvoting with a one thousand dollar par value per share. Currently, no stock of these classes has been issued.

Only holders of Class C common stock have voting rights. Our bylaws do not prohibit us from paying dividends on any classes of stock. However, no dividends have been declared to date.

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, pro rata to all classes of preferred stock (if any) at par value
- Second, to the holders pro rata of all classes of common stock and participation certificates at par value

In the event of impairment, losses will be absorbed pro rata by all classes of common stock and participation certificates then by preferred stock, if any.

All classes of stock are transferable to other customers who are eligible to hold such class as long as we meet the regulatory minimum capital requirements.

Patronage Distributions

In December of 2017, the Board of Directors adopted a resolution that would allow us to make patronage distributions in the future. Patronage distributions may be declared and paid in amounts authorized by the Board of Directors provided we meet all statutory and regulatory requirements. All patronage distributions must be paid on an equitable and nondiscriminatory basis as determined by the Board of Directors and will be paid within eight-and-a-half months after year end. We accrued patronage distributions of $20.0 million at December 31, 2018. No patronage distributions were accrued as of December 31, 2017 or 2016. The patronage distributions are expected to be paid in cash.

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 8: 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 34%, 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 (benefit from) provision for income taxes for the year ended December 31, 2017.

(Benefit from) Provision for Income Taxes

(Benefit from) Provision for Income Taxes

(dollars in thousands) For the year ended December 31	2018	2017	2016
Current:			
Federal	**$ 61**	$ (157)	$ 1,043
State	**--**	(55)	257
Total current	**$ 61**	$ (212)	$ 1,300
Deferred:			
Federal	**$ (1,443)**	$ 403	$ 123
State	**(364)**	96	31
Increase in valuation allowance	**542**	--	--
Total deferred	**(1,265)**	499	154
(Benefit from) provision for income taxes	**$ (1,204)**	$ 287	$ 1,454
Effective tax rate	**(1.7%)**	0.4%	2.0%

Reconciliation of Taxes at Federal Statutory Rate to (Benefit from) Provision for Income Taxes

(in thousands) For the year ended December 31	2018	2017	2016
Federal tax at statutory rates	**$ 14,959**	$ 25,035	$ 24,170
State tax, net	**(417)**	34	188
Effect of non-taxable entity	**(16,125)**	(24,812)	(22,922)
Change in statutory tax rates due to the Tax Cuts and Jobs Act	**--**	10	--
Increase in valuation allowance	**542**	--	--
Other	**(163)**	20	18
(Benefit from) provision for income taxes	**$ (1,204)**	$ 287	$ 1,454

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	**$ 1,211**	$ 616	$ 840
Postretirement benefit accrual	**409**	413	513
Net operating loss carryforward	**542**	--	--
Accrued incentive	**530**	441	556
Accrued patronage income not received	**--**	(397)	(271)
AgriBank 2002 allocated stock	**(390)**	(390)	(534)
Accrued pension asset	**(553)**	(630)	(509)
Other liabilities	**(87)**	(198)	(241)
Total deferred tax assets (liabilities)	**1,662**	(145)	354
Valuation allowance	**(542)**	--	--
Deferred tax assets (liabilities), net	**$ 1,120**	$ (145)	$ 354
Gross deferred tax assets	**$ 2,692**	$ 1,470	$ 1,909
Gross deferred tax liabilities	**$ (1,030)**	$ (1,615)	$ (1,555)

A valuation reserve for a certain deferred tax asset was necessary at December 31, 2018, because we determined that the deferred tax asset related to a tax net operating loss generated in 2018 was not realizable due to our minimal projected future current tax liability, caused primarily by levels of anticipated expenses as well as our implementation of a patronage program.

We have not provided for deferred income taxes on 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. Our total permanent investment in AgriBank is $20.6 million. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $905.6 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members 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 9: 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 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	**2,418**	2,351	2,437
Contributions by participating employers	**90,000**	90,000	90,000
Our allocated share of contributions	**4,216**	4,604	4,165

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 $4.2 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.

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	**$**	**818**	$	957	$	227
Projected benefit obligation for the Combined District		**41,205**		37,190		28,514
Accumulated benefit obligation for the Combined District		**33,215**		29,844		22,778

For the year ended December 31		2018		2017		2016
Total plan expense	**$**	**4,899**	$	8,336	$	5,767
Our allocated share of plan expenses		**191**		212		135
Our cash contributions		**148**		567		567

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	**$**	**(30)**	$	65	$	58
Our cash contributions		**84**		92		88

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 these plans, included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income, were $1.7 million, $1.4 million, and $1.3 million in 2018, 2017, and 2016, respectively. These expenses were equal to our cash contributions for each year.

NOTE 10: 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	$	**34,257**	$	35,319	$	11,682
For the year ended December 31		**2018**		2017		2016
Advances to related parties	$	**8,394**	$	12,262	$	5,118
Repayments by related parties		**7,756**		8,424		6,569

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. Information in the preceding chart is related to those considered related parties at year end.

As discussed in Note 6, 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 $24.7 million, $23.3 million, and $15.7 million in 2018, 2017, and 2016, respectively. Refer to Note 3 for information on participations sold to AgriBank and Note 4 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 retail systems, financial reporting services, tax reporting services, and insurance services. The total cost of services we purchased from AgriBank was $1.1 million, $931 thousand, and $872 thousand in 2018, 2017, and 2016, respectively.

Beginning in 2018, our customer relationship, reporting, internet, network security, loan accounting, loan origination, and general ledger systems are provided by Farm Credit Financial Partners, Inc. (FPI), a System service corporation, which provides technology and other operational services to its owners. As part of this relationship, we had an equity investment in FPI of $10.3 million and $10.0 million as of December 31, 2018, and 2017, respectively. The total cost of services we purchased from FPI in 2018 consisted of $6.6 million in conversion expense and $2.8 million in core service fees. We incurred $791 thousand in conversion expense in 2017.

We also purchase human resource information systems, and benefit, payroll, and workforce management services from Farm Credit Foundations (Foundations). As of December 31, 2018, 2017, and 2016, our investment in Foundations was $29 thousand. The total cost of services purchased from Foundations was $176 thousand, $255 thousand, and $197 thousand in 2018, 2017, and 2016, respectively.

NOTE 11: 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 $935.1 million. Additionally, we had $9.5 million of issued standby letters of credit 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. We evaluated outstanding commitments and no allowances were deemed necessary. 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 are among the limited partners in RBICs. Refer to Note 5 for additional discussion regarding this commitment.

NOTE 12: 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.

We did not have any assets or liabilities measured at fair value on a recurring basis at December 31, 2018, 2017, or 2016.

Non-Recurring

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

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	**$ --**	**$ --**	**$ 1,638**	**$ 1,638**

As of December 31, 2017	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ --	$ 157	$ 157

As of December 31, 2016	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ --	$ 857	$ 857

Valuation Techniques

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.

NOTE 13: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 11, 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

Farm Credit Illinois, 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
Belleville	Owned	Held for Sale[(1)]
Decatur	Owned	Branch
Effingham	Owned	Branch
Highland	Owned	Branch
Jacksonville	Owned	Branch
Jerseyville	Owned	Branch
Marion	Owned	Branch
Lawrenceville	Owned	Branch
Mahomet	Owned	Headquarters/Branch
Mt. Vernon	Owned	Branch
Paris	Owned	Branch
Red Bud	Owned	Branch
Sherman	Owned	Branch
Taylorville	Owned	Branch
Watseka	Owned	Branch

[(1)] The Belleville building was sold during 2017, however there is an attached lot that remains for sale.

Legal Proceedings

Information regarding legal proceedings is discussed in Note 11 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	15.9%	14.7%
Total surplus ratio	15.7%	14.4%
Core surplus ratio	15.7%	14.4%

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 7 to the Consolidated Financial Statements in this Annual Report.

Description of Liabilities

Information regarding liabilities is discussed in Notes 6, 7, 8, 9, and 11 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

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

Name	Term	Principal occupation and other business affiliations
Clayton Bloome Service Began: 2017	2017-2020	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Director: Rural Electric Convenience Cooperative
Kent Brinkmann[(2)] Service Began: 1998	2018-2021	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** President: Carlyle FFA Alumni
Mike Carls Service Began: 2014	2018-2021	**Principal Occupation:** Self-employed farmer primarily growing non-genetically modified corn for the Japanese market
Wesley Durbin[(1)] Vice Chairperson Service Began: 2010	2015-2018	**Principal Occupation:** Self-employed grain and livestock farmer **Other Affiliations:** Treasurer: Shelby County Pork Producers Director: Shelby County Land Assessment
David Haase[(2)] Service Began: 2017	2018-2021	**Principal Occupation:** Self-employed grain farmer
Larry Hasheider Service Began: 2005	2016-2019	**Principal Occupation:** Self-employed grain and livestock farmer
Lisa Helmink Service Began: 2017	2017-2020	**Principal Occupation:** Self-employed grain and livestock farmer Clinic Manager: Clinton County Veterinary Services, Ltd. **Other Affiliations:** Treasurer: Breese District 12 Band Boosters
Steve Hettinger Service Began: 2018	2018-2020	**Principal Occupation:** Self-employed farmer **Other Affiliations:** Director: Premier Cooperative, a grain elevator
Kevin Miller[(2)] Service Began: 2012	2016-2019	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Director: South American Soy, a Brazilian farm investment group Director: Lutheran Care Center Chairperson: North Island Creek Drainage District Treasurer: South Island Creek Drainage District
Mark Miller Service Began: 1997	2016-2019	**Principal Occupation:** Self-employed grain farmer and seed dealer **Other Affiliations:** Director: Farmers Grain Co. of Central Illinois
Eric Mosbey[(1)] Chairperson Service Began: 2015	2015-2018	**Principal Occupation:** Self-employed grain farmer General Manager: Lincolnland Agri-Energy, LLC **Other Affiliations:** Vice President: Mosbey Farms, Inc.

Karen Neff(1)(2) Service Began: 2007	2015-2018	**Principal Occupation:** Self-employed grain and livestock farmer Former Project Manager: Unisys **Other Affiliations:** Member: Illinois Corn Marketing Board
K. Bridget Schneider(2) Appointed Director Service Began: 2010	2017-2020	**Principal Occupation:** Certified Financial Planner™ Professional Managing Member: Connections Financial Advisors, LLC Managing Member: G&S Properties of Illinois, LLC
Robin Yockey(3) Appointed Director Service Began: 2015	2015-2018	**Principal Occupation:** Self-employed CPA

(1)Re-elected in January 2019 to a term that expires December 2022
(2)Member of the Audit Committee
(3)Retired from the Board as of December 31, 2018

Our Board of Directors has established an Audit Committee to oversee financial reporting, the adequacy of our internal control systems, the scope of our internal audit program, the independence of outside auditors, and the processes for monitoring compliance with laws and regulations and the code of ethics. The Audit Committee also oversees the adequacy of management's action with respect to recommendations arising from auditing activities.

We had a newly appointed director in 2019, Michael Donohoe, with a term expiring in 2022. He is currently a member of the Audit Committee.

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. Our Board of Directors has adopted a rate of $500 per day in addition to a $2,500 retainer fee per quarter, except for the Chairperson and Vice Chairperson whose retainer fee is $3,500 and $3,000 per quarter, respectively. Audit Committee members earn $500 per meeting.

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

	Number of Days Served				
Name	Board Meetings	Other Official Activities	Compensation Paid for Service on a Board Committee	Name of Committee	Total Compensation Paid in 2018
Clayton Bloome	8.0	23.5	$ 2,000	Audit	$ 27,750
Kent Brinkmann	8.0	16.0	--		22,000
Mike Carls	8.0	15.0	--		21,500
Wesley Durbin	8.0	1.0	2,500	Audit	17,000
David Haase	8.0	28.0	2,000	Audit	30,000
Larry Hasheider	8.0	24.0	--		26,000
Lisa Helmink	8.0	11.0	--		19,500
Steve Hettinger(1)	7.0	26.5	--		29,250
Kevin Miller	7.5	24.5	2,250	Audit	28,250
Mark Miller	8.0	14.5	--		25,250
Eric Mosbey	8.0	8.5	500	Audit	20,750
Karen Neff	8.5	28.5	--		28,500
K. Bridget Schneider	8.0	10.0	3,000	Audit	22,000
Robin Yockey(2)	8.0	1.5	3,000	Audit	15,250
					$ 333,000

(1)Newly elected in 2018
(2)Retired from the Board as of 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
Thomas H. Tracy President and Chief Executive Officer	**Business experience:** President and Chief Executive Officer since January 2015 Senior Vice President of Operations from 2010-2014 **Other business affiliations:** Director: Kirby Foundation Director: Farm Credit Financial Partners, Inc.
Stephen W. Carson Senior Vice President and Chief Credit Officer	**Business experience:** Senior Vice President and Chief Credit Officer since February 2017 Senior Vice President of Credit from 2014-2017 Regional Vice President of Commercial Lending from 2008-2014 **Other business affiliations:** Director: ProPartners Financial Board Member: Capital Markets Group
Kelly D. Loschen Senior Vice President and Chief Financial Officer	**Business experience:** Senior Vice President and Chief Financial Officer since January 2016 Public Accountant: Martin, Hood, Friese & Associates from 2000-2016 **Other business affiliations:** Board Member: Parkland College Foundation
Aaron S. Johnson Executive Vice President and Chief Operations Officer	**Business experience:** Executive Vice President and Chief Operations Officer since July 2014 Senior Vice President of Operations from 2007-2014 **Other business affiliations:** Trustee: Farm Credit Foundations Trust Committee
Ryan W. Berg Senior Vice President and Chief Administrative Officer	**Business experience:** Senior Vice President and Chief Administrative Officer since November 2014 Vice President of Operations from 2007-2014
Robert H. Rhode Senior Vice President and General Counsel	**Business experience:** Senior Vice President and General Counsel since January 2014 Attorney: Sutkowski & Rhoads Ltd. from 1991-2014

Effective January 1, 2019, Jackie Martinie has been named Senior Vice President and Chief Credit Officer. She is succeeding Stephen Carson, who has been named Senior Vice President and Chief Risk Officer. Shaun Murray has been named Senior Vice President and Chief Operations Officer.

Senior Officer Compensation

Compensation Risk Management: We believe the design and governance of our CEO and senior officer compensation program is consistent with the highest standards of risk management and provides total compensation that promotes our mission to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America. Our compensation philosophy aims to provide a competitive total rewards package that will enable us to attract and retain highly qualified officers with the requisite expertise and skills while achieving desired business results aligned with the best interests of our members. The design of our CEO and senior officer compensation program supports our risk management goals through a set of checks and balances, including (1) a balanced mix of base and variable pay, (2) a balanced use of performance measures that are risk-adjusted where appropriate, and (3) a pay-for-performance process that allocates individual awards based on both results and how those results were achieved.

Elements of Compensation: The CEO and senior officers are compensated with base salary and short-term incentives as well as retirement plans generally available to all employees. Base salary and short-term incentives are intended to be competitive with annual compensation for comparable positions at peer organizations.

Base Salary: The CEO and senior officer base salaries reflect their experience and level of responsibility. Base salaries are subject to review and approval by the Compensation Committee of our Board of Directors and are subject to adjustment based on changes in responsibilities or competitive market conditions.

Short-term Incentives: The CEO and senior officer incentives are paid annually based on performance criteria established by our Board of Directors. The criteria related to the overall association performance include capital measures, loan volume, customer satisfaction, operating efficiency, and credit quality. These measures include risk score, permanent capital ratio, total loan volume (owned and managed), customer satisfaction (very satisfied), and efficiency ratio. The amount of the short-term incentive paid is based solely on the Association's performance. We calculate the incentives after the end of the plan year (the plan year is the calendar year). We pay out the incentives within 90 days of year end. In addition, the CEO and senior officers, and generally all employees are eligible for discretionary bonuses based on performance on special projects, service awards based on years of service, and retirement awards.

Retirement Plans: We have various post-employment benefit plans which are generally available to all Association employees, including the CEO and senior officers, based on dates of service to the Association and are not otherwise differentiated by position, unless specifically stated. Information regarding the post-employment benefit plans is included in Notes 2 and 9 to the Consolidated Financial Statements in this Annual Report.

Other Components of Compensation: Additionally, compensation associated with any company-paid vehicles, group term life insurance premiums, disability insurance premiums, or other taxable reimbursements may be made available to the CEO and senior officers based on job criteria or similar plans available to all employees.

Compensation to the CEO and Senior Officers

(in thousands) Name	Year	Salary	Bonus	Deferred/ Perquisites	Other	Total
Thomas H. Tracy, CEO	**2018**	**$ 405**	**$ 255**	**$ 8**	**$ 57**	**$ 725**
Thomas H. Tracy, CEO	2017	375	222	9	52	658
Thomas H. Tracy, CEO	2016	332	197	26	50	605
Aggregate Number of Senior Officers, excluding CEO						
Five	**2018**	**$ 1,123**	**$ 519**	**$ 14**	**$ 294**	**$ 1,950**
Seven(1)	2017	1,220	554	38	1,690	3,502
Seven(2)	2016	1,465	610	46	754	2,875

(1)Includes compensation for two senior officers who retired in 2017, one in January and one in July.

(2)Includes two Chief Financial Officer positions, the CFO and the CFO Designee at that time.

The amount in the “Other” category in the preceding table primarily includes:

- Employer match on qualified and nonqualified defined contribution plans available to all employees.
- Changes in the value of pension benefits. The change in value of the pension benefits is defined as the change in the vested portion of the present value of the accumulated benefit obligation from December 31 of the prior year to December 31 of the most recent year for the District-wide Pension Plan and the Pension Restoration Plan, as applicable, as disclosed in Note 9 to the Consolidated Financial Statements in this Annual Report. This change in value does not represent cash payments made by the Association during the year, but rather is an estimate of the change in the Association’s future obligations under the pension plans. The change in the value of the pension benefits is highly sensitive to discount rates used to value the plan liabilities to participants.
- Amounts paid related to senior officer retirements in 2017.

No tax reimbursements are made to the CEO and senior officers.

The value of the pension benefits from December 31, 2017 to December 31, 2018, changed primarily due to interest cost, accumulation of an additional year of credited service by plan participants, and changes in actuarial assumptions.

Members may request information on the compensation to the individuals included in the preceding table during 2018.

Pension Benefits Attributable to Senior Officers

(dollars in thousands) **2018** Name	Plan	Years of Credited Service	Present Value of Accumulated Benefits	Payments Made During the Reporting Period
Aggregate Number of Senior Officers, excluding CEO				
Three	AgriBank District Retirement Plan	**33.0**	**$ 4,585**	**$ --**
Two	AgriBank District Pension Restoration Plan	**26.5**	**43**	**--**

The change in composition of the aggregate senior officer can have a significant impact on the calculation of the accumulated pension benefits.

Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. Therefore, any employee starting employment with the AgriBank District after that date is not eligible to be in the plan.

The AgriBank District Pension Restoration Plan restores retirement benefits to certain highly compensated employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits. Not all senior officers or highly compensated employees are eligible to participate in this plan.

Transactions with Senior Officers and Directors

Information regarding related party transactions is discussed in Note 10 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:

1100 Farm Credit Drive
Mahomet, IL 61853
(217) 590-2200
www.farmcreditIL.com

The total directors' travel, subsistence, and other related expenses were $242 thousand, $250 thousand, and $204 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.

Member Privacy

The FCA Regulations protect members' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our Association or our members 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 members and we are in agreement with the opinion expressed by the independent auditors. The total financial statement audit fees paid during 2018 were $66 thousand. Our engagement letter commits to reimbursing the external auditor for reasonable out-of-pocket expenses as incurred for travel. In addition, we incurred $4 thousand for tax services.

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.

YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

Farm Credit Illinois, ACA

(Unaudited)

We have specific programs in place to serve the credit and related needs of young, beginning, and small farmers and ranchers (YBS) in our territory. In 2018, the YBS program called "FreshRoots" was implemented with special pricing and reduced credit standards available for young and beginning farmers. We feel that our traditional loans, especially our Scorecard program, adequately addresses the needs of small farmers. The definitions of young, beginning, and small farmers and ranchers as developed by the Farm Credit Administration are as follows:

- 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.

Demographics

We have used a special tabulation of the 2012 United States Department of Agriculture (USDA) Census of Agriculture as our source of demographic data for comparison to our performance in serving young, beginning, and small farmers and ranchers. This special tabulation includes only those farms in our chartered territory that have debt and annual gross sales of at least $10 thousand.

The following table is a comparison of our results compared to the 2012 USDA census data for our territory:

	Percentages by Number		
As of December 31, 2018	Young	Beginning	Small
Farm Credit Illinois, ACA	19.4%	22.0%	38.4%
2012 Census data	15.0%	17.0%	51.8%

The Association's business activity with young and beginning farmers is above the demographics of the marketplace. Business activity with small farmers is below the demographics of the marketplace. Grain and livestock prices have fluctuated since the 2012 census data was released. In general, farms have been able to generate excellent production of grain and livestock even as the price has trended downward, and we have seen more small farmers' incomes rising above the $250 thousand threshold. Thus, the Association's business activity with the small farmers continues to be below the census data.

Mission Statement

Our mission is to provide farm families and the rural marketplace with constructive credit, related services, and financial expertise. This applies to all eligible customers. The mission of the FreshRoots program is to provide financing and learning development opportunities to young and beginning farmers to further their success, while ensuring lifetime partnerships with Farm Credit Illinois (FCI). We will accomplish this mission by:

- Providing discounted interest rates for up to a maximum period of five years through our FreshRoots loan program for young and beginning farmers
- Offering learning incentives for young and beginning farmers that attend educational workshops with the intent of encouraging personal growth and professional development
- Provide relaxed lending standards for approval within the eligibility guidelines
- Making full use of guaranteed loan programs through the State of Illinois and the USDA Farm Service Agency (FSA)
- Establishing both quantitative portfolio targets and qualitative goals for services offered
- Continuing to participate in numerous outreach programs which benefit young, beginning, and small farmers and ranchers
- Fully utilizing a streamlined application and approval process for small loans

Quantitative Targets and Qualitative Goals

Quantitative targets and qualitative goals for YBS loans are established on an annual basis for the succeeding three years. The following targets and goals were established for 2018:

(dollars in thousands)

Category	Number of New Loans Closed	Number of Loans Outstanding	Total Loan Volume	Percent of Total Loans
Young Farmer	3,400	6,000	$ 550,000	12.0%
Beginning Farmer	3,600	6,800	655,000	13.0%
Small Farmer	7,300	13,500	735,000	33.0%
Outreach Program - Goal for total number of activities			70	

As of December 31, 2018, all targets and goals except for outreach activities were not met. These targets and goals were set when we were participating in the ProPartners alliance, however we sold all of these loans in 2018. Revised goals for the next three years are presented at the end of this discussion.

The following tables detail the level of new business generated in 2018 plus the level of business outstanding as of December 31, 2018, both by number of loans and by volume for young and beginning farmers and ranchers:

(dollars in thousands)

	Number of Loans	Percent of Total	Volume Outstanding	Percent of Total
Total gross new loans and commitments made during the year	5,068		$ 1,285,140	
Total loans and commitments made to young farmers and ranchers	1,060	20.9%	220,279	17.1%
Total loans and commitments made to beginning farmers and ranchers	1,031	20.3%	186,117	14.5%
Total loans and commitments outstanding at year end	17,908		$ 4,618,404	
Young farmers and ranchers	3,472	19.4%	527,591	11.4%
Beginning farmers and ranchers	3,930	22.0%	612,704	13.3%

The following tables detail the level of new business generated in 2018 plus the level of business outstanding as of December 31, 2018, both by number of loans and by volume for small farmers and ranchers:

(dollars in thousands)

	$0 - $50,000	$50,001 - $100,000	$100,001 - $250,000	$250,001 and greater
Total number of new loans and commitments made during the year	1,109	769	1,170	2,020
Total number of loans made to small farmers and ranchers during the year	692	398	358	123
Number of loans to small farmers and ranchers as a % of total number of loans	62.4%	51.8%	30.6%	6.1%
Total gross loan volume of all new loans and commitments made during the year	$ 31,037	$ 60,965	$ 202,487	$ 990,651
Total gross loan volume to small farmers and ranchers	$ 18,433	$ 30,440	$ 55,113	$ 59,705
Loan volume to small farmers and ranchers as a % of total gross new loan volume	59.4%	49.9%	27.2%	6.0%
Total number of loans and commitments outstanding at year end	6,334	3,048	4,264	4,262
Total number of loans to small farmers and ranchers	3,305	1,408	3,504	660
Number of loans to small farmers and ranchers as a % of total number of loans	52.2%	46.2%	82.2%	15.5%
Total loan volume outstanding at year end	$ 122,637	$ 226,210	$ 701,611	$ 3,567,946
Total loan volume to small farmers and ranchers	$ 64,514	$ 103,000	$ 237,580	$ 303,782
Loan volume to small farmers and ranchers as a % of total loan volume	52.6%	45.5%	33.9%	8.5%

Government Guarantees

As a means to control risk in some situations, comakers or guaranteed loan programs through the State of Illinois and the USDA FSA are utilized when possible. During the past few years we have utilized several types of FSA programs for real estate loans, including:

- FSA 50-45-5. The lender loans 50.0% of the real estate purchase for a 30-year term (with most having a reduced interest rate for the first five years under the FreshRoots program), FSA loans 45.0% for a 20-year term at a 1.5% fixed interest rate, and the customer is required to put 5.0% down.
    - The FSA direct loan limit under this program changed from $300 thousand to $600 thousand for 2019.
    - One additional advantage of this program that we have utilized in most cases to reduce our loan risk is that we can obtain a 95.0% FSA loan guarantee on our loan at no additional charge to the customer.

During 2018, the Association originated 65 new FSA guaranteed loans to young, beginning, and/or small farmers with a year end volume of $15.3 million. Total volume for YBS government guaranteed loans was $42.7 million at December 31, 2018.

Outreach Program

The Association develops an annual marketplace engagement plan, which includes special emphasis on the young, beginning, and small farmer segments in the marketplace to promote Farm Credit products and services and demonstrate our commitment to serving these market populations.

FCI staff participated in a total of 143 YBS outreach activities in 2018, which exceeded our goal of 70 for the year. As noted in the Marketplace Engagement and Legislative Affairs component plan, outreach activities to YBS farmers include but are not limited to:

- Young and Beginning Farmer Forum
- Member Advisory Council meetings
- Farm Credit College educational workshops
- Cultivating Master Farmers mentoring program
- Illinois Farm Bureau's Young Leader sponsorship
- FCI Agriculture Scholarship Program
- FCI Community Improvement Grants
- The Association's Community College Outreach Initiative partners
- Farm Credit Newsroom at the Illinois State FFA Convention

Quantitative Targets and Qualitative Goals

The Association's quantitative targets and qualitative goals for the next three years are as follows:

(dollars in thousands)

Category	Number of New Loans Closed	Number of Loans Outstanding	Total Loan Volume	Percent of Total Loans
2019 Young Farmer	1,100	3,400	$ 525,000	18.0%
2020 Young Farmer	1,200	3,600	530,000	19.0%
2021 Young Farmer	1,300	3,800	535,000	20.0%
2019 Beginning Farmer	1,000	3,700	$ 610,000	20.0%
2020 Beginning Farmer	1,100	3,900	615,000	21.0%
2021 Beginning Farmer	1,200	4,100	620,000	22.0%
2019 Small Farmer	1,600	7,000	$ 710,000	38.0%
2020 Small Farmer	1,800	7,200	715,000	39.0%
2021 Small Farmer	2,000	7,400	720,000	40.0%
YBS Government Guaranteed Loan Goal	50	N/A	20,000	N/A
Outreach Program - Goal for total number of activities		70		

Safety and Soundness of the Program

In order to control and limit our risk for loans approved under the YBS loan program, we have established specific lending limits and credit standards for members who use the program. Additionally, for loans approved under the FreshRoots loan program, total loans to one borrower are limited to an aggregate limit of $1.0 million for production and intermediate-term loans and $2.0 million for real estate loans eligible for relaxed underwriting standards. The limits for discounted interest rates are $500 thousand for production and intermediate-term loans and $1.0 million for real estate loans. Exceptions to this limit and other credit standards under this program are considered when there are other adequate offsetting credit strengths.

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Mahomet, IL 61853