AgCountry Farm Credit Services, ACA

Quarterly Report
June 30, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of AgCountry Farm Credit Services, ACA and its subsidiaries AgCountry Farm Credit Services, FLCA and AgCountry Farm Credit Services, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2017 (2017 Annual Report).

Due to the nature of our financial relationship with AgriBank, FCB (AgriBank), the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of the AgriBank or the AgriBank District financial reports or additional copies of our report, contact us at:

AgCountry Farm Credit Services, ACA	AgriBank, FCB
Post Office Box 6020	30 East 7th Street, Suite 1600
Fargo, ND 58108-6020	St. Paul, MN 55101
(701) 282-9494	(651) 282-8800
www.agcountry.com	www.agribank.com
acndinternet@agcountry.com	financialreporting@agribank.com

MERGER ACTIVITY

Effective July 1, 2017, United FCS, ACA (United) merged into AgCountry Farm Credit Services, ACA (AgCountry). AgCountry acquired 100% of the assets and liabilities of United. The acquisition method of accounting requires the financial statement presentation of combined balances as of the date of merger, but not for previous periods. The Consolidated Statements of Condition reflect the merged Association at June 30, 2018, and December 31, 2017. The Consolidated Statements of Comprehensive Income reflect the results of AgCountry for the three and six months ended June 30, 2017, and the merged Association for the three and six months ended June 30, 2018. The Consolidated Statements of Changes in Members' Equity reflect the results of AgCountry for the six months ended June 30, 2017, and the merged Association for the six months ended June 30, 2018.

FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2017 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

World Gross Domestic Product (GDP) is projected to grow 3.5% in 2018 compared to 3.3% in 2017. The United States is expected to be the main driver of the world economy, with GDP growing 3.0% in 2018 compared with 2.3% in 2017. GDP growth in China and India is forecast to be strong. However, China's GDP is forecast to continue to decline from 6.9% in 2017 to 6.8% in 2018. India's GDP is forecast to grow 7.3% in 2018 compared with growth of 7.1% in 2017. Japan's economy relies heavily on trade and has benefitted from a weaker yen, with growth forecast at 2.2% in 2018 compared with 1.7% in 2017. GDP growth of 2.2% is forecast in Latin America. The Brazilian economy is forecast to grow 2.0% in 2018 based on increased consumption and export growth. Despite high inflation and high interest rates, the Argentine economy is forecast to grow 3.0% in 2018. Canadian economic growth rate is forecast to be 2.7% in 2018, which is slightly below 3.0% in 2017. Consumption appears to be leading growth and business spending has bounced back. In Mexico, growth is forecast at 2.4% in 2018, although the Mexican economy is plagued by high inflation, and the Mexican peso is under pressure with the renegotiation of the North American Free Trade Agreement (NAFTA) and upcoming elections. Economic expansion is underway in the Eurozone with GDP growth in 2018 forecast at 2.5%, which is slightly above 2.3% in 2017. Demand components show particular strength in business investment and exports.

U.S. economic fundamentals are expected to improve in 2018, with much stronger growth of 3.0% compared with 2.3% in 2017. Uncertainty regarding trade policy actions under the Trump administration continues. GDP growth in the fourth quarter of 2017 was at a 2.9% annual rate. March was the 90th consecutive month of job growth, the longest streak on record. Employers have added an average of just over 200,000 jobs per month thus far in 2018, a pace that has held relatively steady for the last two years. The unemployment rate has not moved since October, but remains at its lowest level since 2000. There are concerns the economy will be adversely impacted if the U.S. imposes tariffs on China as proposed by President Trump. NAFTA negotiations are ongoing and some reports indicate a deal may be close. Not reaching an agreement will adversely impact U.S. exports. Stronger

economic growth will likely push inflation higher. Inflation could increase to 2.5% in 2018 compared with 2.1% in 2017. The dollar remains well above 2011-2014 levels, and the positive forces that supported a strong dollar since that time largely remain intact. Fiscal stimulus from tax and spending policies in an environment of very low unemployment may stimulate inflation. Such conditions would support more rapid increases in interest rates, driving up demand for dollars and thus the dollar's value.

Information received from the June Federal Open Market Committee (Committee) meeting indicates the labor market has continued to strengthen and economic activity has been rising at a solid rate. Recent data suggests that growth of household spending has picked up, while business fixed investment has continued to grow strongly. On a 12-month basis, both overall inflation and inflation for items other than food and energy have moved close to 2.0%. Indicators of longer-term inflation expectations are little changed.

In view of realized and expected labor market conditions and inflation, the Committee decided to raise the target range for the federal funds rate by 0.25% at the June meeting. The stance of monetary policy remains accommodative, thereby supporting strong labor market conditions and a sustained return to 2.0% inflation.

In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its objectives of maximum employment and 2.0% inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. The Committee expects that further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2.0% objective over the medium term.

Net farm income is forecast at $59.5 billion, a decrease of $4.3 billion or 6.7% from 2017, the lowest net farm income level in nominal dollar terms since 2006. Net cash farm income is forecast at $91.9 billion, a decrease of $5.0 billion or 5.1% from 2017, which is the lowest level since 2009. Falling net farm income is largely the result of falling commodity prices. Farm cash receipts for all commodities are forecast to fall $2.0 billion, a decrease of 0.5% from the previous year. Relatively small annual declines of 0.3% and 0.8% are forecast for both animal and animal product, and crop receipts, respectively. Forecast declines in receipts for milk, poultry, and eggs are expected to more than offset a forecast increase in meat animal receipts. A forecast 4.5% increase in soybean receipts will be more than offset by expected declines in receipts for wheat, corn, cotton, fruits and nuts, and vegetables and melons. Total production expenses are forecast to increase $3.5 billion in 2018, led by increases for fuels and oils, interest, and hired labor. Partially offsetting these increases are an expected drop in feed expenses.

Specific Production Conditions

Spring 2018 resulted in a notable transition in the central and eastern United States from a cold April to a warm May. Nationally, the change in average temperature between April and May was 16.4 degrees Fahrenheit. This is considerably above the 1901-2000 average value of 9.2 degrees Fahrenheit. Given the sudden transition from winter-like to summer-like conditions, the planting season was generally compressed, with fieldwork starting late in many areas, but generally ending on schedule. Subsequently, summer crops, such as corn and soybeans, exhibited rapid germination and growth due to the late spring warmth.

Corn, soybeans, wheat, and sugar beets continue to be the primary cash crops produced in our territory.

Corn: According to the United States Department of Agriculture's (USDA) Acreage Report dated June 29, 2018, corn planted for all purposes in 2018 is forecast at 89.1 million acres, a decrease of 1% from prior year. According to the survey, planted acres are down or unchanged in 31 of the 48 estimating states compared to the prior year. Area harvested for grain, forecast at 81.8 million acres in 2018, is down 1% from the prior year. As of June 24, 2018, 77% of the corn was reported in good to excellent condition, an increase of 10% over last year. Corn stocks in all positions as of June 1, 2018, totaled 5.3 billion bushels, an increase of 1% from prior year. The projected range for the season average corn price is $3.40 to $4.40 per bushel.

Soybeans: Soybean planted acres for 2018 is forecast at 89.6 million, a decrease of 1% from prior year. Compared to the previous year, planted acreage intentions are down or unchanged in 14 of the 31 estimating states. Forecast area for harvest in 2018, at 88.9 million acres, is down 1% from 2017. Soybeans stored in all positions on June 1, 2018, totaled 1.22 billion bushels, an increase of 26% from prior year. The projected range for the season average soybean price is $8.75 to $11.25 per bushel.

Sugar Beets: According to the USDA's Acreage Report dated June 29, 2018, total sugar beet planted area for 2018 is forecast at 1.1 million acres, a decrease of 1.4% from prior year. Sugar beet area planted in Minnesota and North Dakota is forecast at 0.6 million acres, a decrease of 2.2% from prior year. Minnesota and North Dakota provide an estimated 57% of the total U.S. sugar beet production. Despite a cooler spring and some delayed planting, the 2018 crop has good production potential assuming normal growing conditions are present.

Slicing of the 2017 beet crop is largely complete. One factory experienced equipment malfunction causing an interruption in processing, therefore extending the slice time through June.

According to the World Agricultural Supply and Demand Estimates (WASDE) U.S. Sugar Supply and Use report dated June 18, 2018, ending stocks-to-use ratio of 14.9% is forecast for fiscal 2017/18. The forecast for U.S. sugar markets is expected to be slightly tighter due, in part, to fewer supplies. Wet conditions in Florida have reduced cane sugar production. The 2018/19 ending stocks-to-use ratio could fall to 11.5%. U.S. wholesale refined sugar beet price has been holding at $0.36 per pound over the past several months, an increase of $0.295 over last year. This, however, is significantly lower than $0.50 from 2011 and 2012.

World raw sugar prices continue to decrease and were approximately $0.12 per pound as of May 2018, a decrease from $0.16 in 2017. U.S. raw sugar prices dropped to $0.25 per pound at the same time, a decrease from $0.28 per pound from prior year.

Wheat: All wheat planted area for 2018 is forecast at 47.8 million acres, an increase of 4% from 2017. This represents the second lowest all wheat planted area for the United States since records began in 1919. The 2018 winter wheat planted area of 32.7 million acres is an increase of less than 1%

from both last year and previous estimates. Of this total, 23.3 million acres are Hard Red Winter, 5.9 million acres are Soft Red Winter, and 3.6 million acres are White Winter. Area planted to other spring wheat for 2018 is estimated at 13.2 million acres, an increase of 20% from 2017. Hard Red Spring wheat area is 12.7 million acres. The Durum planted area for 2018 is an estimated 1.9 million acres, a decrease of 18% from the prior year. All wheat stored in all positions on June 1, 2018, totaled 1.1 billion bushels, a decrease of 7% from prior year. The projected season average wheat price is $5.10 per bushel.

Cattle: Cattle slaughter remains robust heading into the summer months. However, the 2018 beef production forecast was reduced slightly to 27.1 billion pounds due to lighter than expected dressed weights. Greater demand from Asia, as reflected in recent trade data, has led to an expected increase in the forecast for 2018 beef exports. A full-year export total of 3.05 billion pounds is forecast. Increased shipments from Oceania have increased the beef import forecast to an expected full-year total of 3.05 billion pounds. The projected price range for feeder steers, 1,100 to 1,300 pounds, is $106 to $114 per cwt for the third quarter and $114 to $119 per cwt for the year.

Hogs: United States inventory of all hogs and pigs on June 1, 2018, was 73.5 million head, an increase of 3% from 2017 and an increase of 1% from March 1, 2018. This represents the highest June 1 inventory of all hogs and pigs since estimates began in 1964. Breeding inventory of 6.3 million head was up 3% from the prior year and 2% from the previous quarter. Market hog inventory of 67.1 million head was up 3% from the prior year and 1% from the previous quarter. This also represents the highest June 1 market hog inventory since estimates began in 1964. United States hog producers intend to have 3.2 million sows farrow during the third quarter, an increase of 2% from actual farrowing during the same period in 2017 and an increase of 4% from 2016. The projected price range for hogs in the third quarter is $44 to $46 per cwt, more than 19% lower than a year ago. The projected price range for hogs in the fourth quarter is $36 to $38 per cwt, over 17% lower than the fourth quarter of the prior year.

Dairy: Dairy commercial exports were high in April, reaching a monthly record of 4.5 billion pounds on a skim-solids milk-equivalent basis. On a milk-fat milk-equivalent basis, April commercial exports were 1.1 billion pounds, the highest level since July 2014. Although new tariffs imposed by Mexico will hinder U.S. cheese exports to some extent, dairy exports overall are expected to remain robust for the remainder of 2018 and throughout 2019. Milk production forecasts for 2018 have been reduced slightly resulting from a small decline in cow numbers and lower expectations of milk production per cow. The 2018 projected all milk price is $16.60 to $17.00 per cwt and is increased to $16.70 to $17.70 per cwt for 2019.

Ethanol: The Trump Administration's potential issuance of a Reid Vapor Pressure (RVP) waiver for E15 (15% Ethanol) has been a hot topic throughout the second quarter of 2018. E15 is restricted from sale in a number of states from May 1 to September 15 each year as a result of this restriction. In spite of having almost identical physical characteristics to E10 (10% Ethanol), E15 does not qualify for a decades-old exception from the Clean Air Act's volatility limitations. As gasoline evaporates, volatile organic compounds (VOCs) enter the atmosphere and contribute to ozone formation. This problem is amplified in the summer months by hotter temperatures. The Environmental Protection Agency (EPA) has granted a waiver for the sale of E10 in the summer months, but not for E15. There was considerable traction to get the RVP waiver done, but ethanol opponents had also requested that RINs be available on ethanol exports. This would have hurt domestic ethanol demand and President Trump abandoned the plan.

U.S. ethanol prices have increased, but still remain weak relative to 2017 prices. As a result, a large amount of ethanol has been exported year-to-date, primarily to Brazil. Year-to-date exports through April 2018 were 684.3 million gallons, 44% stronger than the first four months of 2017. Export markets will be key to reducing U.S. ethanol supplies.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $7.3 billion at June 30, 2018, an increase of $173.5 million from December 31, 2017. The increase was primarily due to growth in our agribusiness and real estate mortgage portfolios.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2017. Adversely classified loans increased to 2.8% of the portfolio at June 30, 2018, from 2.7% 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.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At June 30, 2018, $300.9 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**June 30 2018**	December 31 2017
Loans:		
Nonaccrual	**$ 36,553**	$ 27,022
Accruing restructured	**--**	30
Accruing loans 90 days or more past due	**4,418**	--
Total risk loans	**40,971**	27,052
Other property owned	**115**	115
Total risk assets	**$ 41,086**	$ 27,167
Total risk loans as a percentage of total loans	**0.6%**	0.4%
Nonaccrual loans as a percentage of total loans	**0.5%**	0.4%
Current nonaccrual loans as a percentage of total nonaccrual loans	**63.7%**	67.0%
Total delinquencies as a percentage of total loans	**0.5%**	0.2%

Note: Accruing loans include accrued interest receivable.

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

The increase in nonaccrual loans was primarily due to several customers moving to nonaccrual status in our energy, production and intermediate-term, and real estate loan categories during the first six months of 2018. Nonaccrual loans remained at an acceptable level at June 30, 2018, and December 31, 2017.

The increase in accruing loans 90 days or more past due was primarily due to two customers with signed plans in place and full collection expected, along with loans from our ProPartners Financial alliance. Our accounting policy requires loans past due 90 days or more to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, accruing loans 90 days or more past due were eligible to remain in accruing status.

The increase in total delinquencies as a percentage of total loans was primarily due to a general decline in overall portfolio credit quality.

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. 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.

Allowance Coverage Ratios

As of:	**June 30 2018**	December 31 2017
Allowance as a percentage of:		
Loans	**0.3%**	0.2%
Nonaccrual loans	**49.8%**	58.5%
Total risk loans	**44.5%**	58.5%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2018.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the six months ended June 30	**2018**	2017
Net income	**$ 67,828**	$ 37,924
Return on average assets	**1.8%**	1.4%
Return on average members' equity	**8.5%**	6.4%

Changes in the chart above relate directly to:

- changes in income discussed below,
- changes in assets discussed in the Loan Portfolio section, and
- changes in capital discussed in the Funding, Liquidity, and Capital section.

Changes in Significant Components of Net Income

(in thousands) For the six months ended June 30	2018	2017	Increase (decrease) in net income
Net interest income	$ **96,050**	$ 66,626	$ **29,424**
Provision for credit losses	**2,441**	2,421	**(20)**
Patronage income	**14,127**	9,228	**4,899**
Other income, net	**16,856**	8,164	**8,692**
Operating expenses	**56,663**	42,060	**(14,603)**
Provision for income taxes	**101**	1,613	**1,512**
Net income	$ **67,828**	$ 37,924	$ **29,904**

Changes in Net Interest Income

(in thousands) For the six months ended June 30	2018 vs 2017
Changes in volume	$ **24,392**
Changes in interest rates	**4,442**
Changes in nonaccrual income and other	**590**
Net change	$ **29,424**

The change in net interest income is primarily due to a combination of increased loan volume, with the majority of the loan volume increase due to loans acquired in the merger with United, and increased earnings on capital with the rising interest rate environment.

The change in patronage income was primarily due to the following:

- An increase in patronage income received on loans in the AgriBank Asset Pool Program due to a higher average balance on our portfolio in the AgriBank Asset Pool Program compared to the prior year due to the merger with United.
- An increase in patronage received from AgriBank due to a higher average balance on our note payable, primarily due to the merger with United, and a higher patronage rate compared to the prior year.
- An increase in the wholesale spread on our note payable.

The change in other income was primarily due to our share of distributions from Allocated Insurance Reserve Accounts (AIRA) of $4.1 million. The AIRA was recently established by the Farm Credit System Insurance Corporation (FCSIC) when premiums collected increased the level of the Insurance Fund beyond the required 2% of insured debt. There was no distribution in 2017. Refer to the 2017 Annual Report for additional information about the FCSIC.

The change in operating expenses was primarily related to increased salaries and benefits expense due to the merger with United.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. We renegotiated our note payable on July 1, 2018, for $7.25 billion with a maturity date of June 30, 2021. The note payable will be renegotiated no later than the maturity date. 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.

The components of cost of funds associated with our note payable include:

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

We were not subject to a risk premium at June 30, 2018, or December 31, 2017.

Total members' equity increased $54.1 million from December 31, 2017, primarily due to net income for the period partially offset by 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. Refer to Note 10 in our 2017 Annual Report for more information on the Pension Restoration Plan.

The Farm Credit Administration (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. Refer to Note 8 in our 2017 Annual Report for a more complete description of these ratios.

Select Capital Ratios

As of:	**June 30 2018**	December 31 2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**17.8%**	17.2%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**17.8%**	17.2%	6.0%	2.5%*	8.5%
Total capital ratio	**18.0%**	17.5%	8.0%	2.5%*	10.5%
Permanent capital ratio	**17.8%**	17.3%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**20.2%**	19.7%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**20.9%**	20.4%	1.5%	N/A	1.5%

*The capital conservation buffer over risk-adjusted ratio minimums continues to be phased in under the Farm Credit Administration capital requirements, up to 2.5% beginning in 2020.

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section.

RELATIONSHIP WITH AGRIBANK

Purchased Services

During 2016, District associations and AgriBank conducted research related to repositioning many business services offered by AgriBank into a separate entity jointly owned by AgriBank and participating associations. The long-term strategic objective of this initiative is to increase scale, improve operating efficiency, and enhance technology and business services. The proposed service entity will be named SunStream Business Services. An application to form the service entity was submitted to the FCA for approval in May 2017, and the FCA continues its due diligence on the charter request.

REGULATORY MATTERS

Investment Securities Eligibility

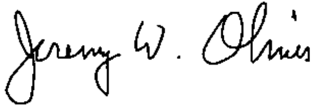
In May 2018, the FCA Board approved a final rule to revise the requirements governing the eligibility of investment securities for System Banks and associations. The new regulation revises the eligibility purpose, type, and amount of investments that a System association may hold. The regulation is effective January 1, 2019. We currently do not have investment securities on our Consolidated Statements of Condition.

CERTIFICATION

The undersigned have reviewed the June 30, 2018, Quarterly Report of AgCountry Farm Credit Services, ACA, which has been prepared under the oversight of the Audit Committee and 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.

Leif Aakre
Chairperson of the Board
AgCountry Farm Credit Services, ACA

Marcus L. Knisely
Chief Executive Officer
AgCountry Farm Credit Services, ACA



Jeremy W. Oliver
Chief Financial Officer
AgCountry Farm Credit Services, ACA

August 6, 2018

CONSOLIDATED STATEMENTS OF CONDITION

AgCountry Farm Credit Services, ACA

(in thousands)
(Unaudited)

As of:		June 30 2018		December 31 2017
ASSETS				
Loans	**$**	**7,257,611**	$	7,084,093
Allowance for loan losses		**18,215**		15,818
Net loans		**7,239,396**		7,068,275
Investment in AgriBank, FCB		**156,408**		156,408
Investment securities		**--**		7,059
Accrued interest receivable		**76,023**		85,697
Premises and equipment, net		**43,794**		45,768
Other property owned		**115**		115
Assets held for lease, net		**4,351**		6,900
Other assets		**64,208**		72,659
Total assets	**$**	**7,584,295**	$	7,442,881
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**5,873,493**	$	5,758,089
Accrued interest payable		**33,947**		27,414
Deferred tax liabilities, net		**1,210**		1,217
Patronage distribution payable		**14,000**		34,530
Other liabilities		**31,311**		45,362
Total liabilities		**5,953,961**		5,866,612
Contingencies and commitments (Note 4)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**12,419**		12,451
Additional paid-in capital		**304,385**		304,385
Unallocated surplus		**1,317,075**		1,263,212
Accumulated other comprehensive loss		**(3,545)**		(3,779)
Total members' equity		**1,630,334**		1,576,269
Total liabilities and members' equity	**$**	**7,584,295**	$	7,442,881

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

AgCountry Farm Credit Services, ACA

(in thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
For the period ended June 30	**2018**	2017	**2018**	2017
Interest income	**$ 82,313**	$ 52,098	**$ 160,169**	$ 101,457
Interest expense	**34,034**	18,417	**64,119**	34,831
Net interest income	**48,279**	33,681	**96,050**	66,626
Provision for credit losses	**1,103**	2,656	**2,441**	2,421
Net interest income after provision for credit losses	**47,176**	31,025	**93,609**	64,205
Other income				
Patronage income	**7,205**	4,397	**14,127**	9,228
Financially related services income	**2,060**	2,371	**6,564**	5,639
Fee income	**1,797**	1,879	**3,769**	3,471
Allocated insurance reserve accounts distribution	**--**	--	**4,094**	--
Miscellaneous income (loss), net	**1,837**	(723)	**2,429**	(946)
Total other income	**12,899**	7,924	**30,983**	17,392
Operating expenses				
Salaries and employee benefits	**16,842**	11,776	**33,992**	24,301
Other operating expenses	**10,679**	8,717	**22,671**	17,759
Total operating expenses	**27,521**	20,493	**56,663**	42,060
Income before income taxes	**32,554**	18,456	**67,929**	39,537
(Benefit from) provision for income taxes	**(563)**	592	**101**	1,613
Net income	**$ 33,117**	$ 17,864	**$ 67,828**	$ 37,924
Other comprehensive income				
Employee benefit plans activity	**$ 117**	$ --	**$ 234**	$ --
Total other comprehensive income	**117**	--	**234**	--
Comprehensive income	**$ 33,234**	$ 17,864	**$ 68,062**	$ 37,924

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

AgCountry Farm Credit Services, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Additional Paid-in Capital	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2016	$ 7,370	$ --	$ 1,161,346	$ --	$ 1,168,716
Net income	--	--	37,924	--	37,924
Unallocated surplus designated for patronage distributions	--	--	(8,501)	--	(8,501)
Capital stock and participation certificates issued	168	--	--	--	168
Capital stock and participation certificates retired	(288)	--	--	--	(288)
Balance at June 30, 2017	$ 7,250	$ --	$ 1,190,769	$ --	$ 1,198,019
Balance at December 31, 2017	$ 12,451	$ 304,385	$ 1,263,212	$ (3,779)	$ 1,576,269
Net income	**--**	**--**	**67,828**	**--**	**67,828**
Other comprehensive income	**--**	**--**	**--**	**234**	**234**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(13,965)**	**--**	**(13,965)**
Capital stock and participation certificates issued	**413**	**--**	**--**	**--**	**413**
Capital stock and participation certificates retired	**(445)**	**--**	**--**	**--**	**(445)**
Balance at June 30, 2018	**$ 12,419**	**$ 304,385**	**$ 1,317,075**	**$ (3,545)**	**$ 1,630,334**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. Our accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the six months ended June 30, 2018, are not necessarily indicative of the results to be expected for the year ending December 31, 2018. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2017 (2017 Annual Report).

Effective July 1, 2017, United FCS, ACA (United) merged into AgCountry Farm Credit Services, ACA (AgCountry). AgCountry acquired 100% of the assets and liabilities of United. The acquisition method of accounting requires the financial statement presentation of combined balances as of the date of merger, but not for previous periods. The Consolidated Statements of Condition reflect the merged Association at June 30, 2018, and December 31, 2017. The Consolidated Statements of Comprehensive Income reflect the results of AgCountry for the three and six months ended June 30, 2017, and the merged Association for the three and six months ended June 30, 2018. The Consolidated Statements of Changes in Members' Equity reflect the results of AgCountry for the six months ended June 30, 2017, and the merged Association for the six months ended June 30, 2018.

The Consolidated Financial Statements present the consolidated financial results of AgCountry Farm Credit Services, ACA (the Association) and its subsidiaries AgCountry Farm Credit Services, FLCA and AgCountry Farm Credit Services, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

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, we generally adopt on the public entity required date to align with other Farm Credit System institutions. For recently issued and adopted accounting pronouncements disclosed, we plan to adopt on the public entity effective date.

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 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 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 the Association's revenues are not subject to the new guidance, the adoption of the guidance did not have a material impact on the financial condition, results of operations, equity, 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 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 the Association's financial condition or cash flows, but did change the classification of certain items in the results of operations. The change in classification was not material and did not result in a reclassification on the Statement of Comprehensive Income. There were no 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 the Association's fair value disclosures.

Standard and effective date	Description	Adoption status and financial statement impact
In February 2016, the FASB issued ASU 2016-02 "Leases." The guidance is effective for public 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.	We have no plans to early adopt this guidance. We are in the process of system selection, drafting accounting policies, and designing processes and controls to implement this standard. The necessary disclosures will be determined during 2018. We have determined after preliminary review, this guidance will not have a material impact on our financial condition, results of operations, and financial statement disclosures, and will have no impact on cash flows.
In June 2016, the FASB issued ASU 2016-13 "Financial Instruments – Credit Losses." This guidance is effective for public business entities for non-U.S. Securities Exchange Commission filers for the first quarter of 2021 and early adoption is permitted.	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	We have no plans to early adopt this guidance. We are in the process of reviewing the standard. Significant implementation matters yet to be addressed include system selection, drafting of accounting policies and disclosures, designing processes and controls. We are currently unable to estimate the impact on the financial statements.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	**June 30, 2018**		December 31, 2017	
	Amount	%	Amount	%
Real estate mortgage	**$ 2,956,736**	**40.7%**	$ 2,882,177	40.7%
Production and intermediate-term	**2,205,345**	**30.4%**	2,275,535	32.1%
Agribusiness	**1,601,051**	**22.1%**	1,475,142	20.8%
Other	**494,479**	**6.8%**	451,239	6.4%
Total	**$ 7,257,611**	**100.0%**	$ 7,084,093	100.0%

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

Delinquency

Aging Analysis of Loans

(in thousands) **As of June 30, 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	**$ 8,090**	**$ 4,258**	**$ 12,348**	**$ 2,986,756**	**$ 2,999,104**	**$ --**
Production and intermediate-term	**7,284**	**12,353**	**19,637**	**2,211,873**	**2,231,510**	**4,418**
Agribusiness	**1,109**	**41**	**1,150**	**1,606,441**	**1,607,591**	**--**
Other	**--**	**17**	**17**	**495,412**	**495,429**	**--**
Total	**$ 16,483**	**$ 16,669**	**$ 33,152**	**$ 7,300,482**	**$ 7,333,634**	**$ 4,418**

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	$ 2,625	$ 2,033	$ 4,658	$ 2,921,262	$ 2,925,920	$ --
Production and intermediate-term	6,886	4,420	11,306	2,299,697	2,311,003	--
Agribusiness	294	41	335	1,480,267	1,480,602	--
Other	24	--	24	452,225	452,249	--
Total	$ 9,829	$ 6,494	$ 16,323	$ 7,153,451	$ 7,169,774	$ --

Note: Accruing loans include accrued interest receivable.

Risk Loans

Risk loans are loans for which all principal and interest may not be collected according to the contractual terms.

Risk Loan Information

(in thousands) As of:		June 30 2018		December 31 2017
Volume with specific allowance	$	16,468	$	3,292
Volume without specific allowance		24,503		23,760
Total risk loans	$	40,971	$	27,052
Total specific allowance	$	6,443	$	1,730
For the six months ended June 30		2018		2017
Income on accrual risk loans	$	63	$	48
Income on nonaccrual loans		1,222		587
Total income on risk loans	$	1,285	$	635
Average risk loans	$	34,345	$	22,911

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

We did not have any material commitments to lend additional money to borrowers whose loans were classified as risk loans at June 30, 2018.

Troubled Debt Restructurings (TDRs)

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 restructured loan. 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 TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

We completed TDRs of certain production and intermediate-term loans during the six months ended June 30, 2018, and 2017. Our recorded investment in these loans just prior to restructuring was $73 thousand and $173 thousand during the six months ended June 30, 2018, and 2017, respectively. Our recorded investment in these loans immediately following the restructuring was $73 thousand and $172 thousand during the six months ended June 30, 2018, and 2017, 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, acquisition costs, and unamortized adjustments to fair value on loans acquired through merger and may also reflect a previous direct charge-off of the investment.

The primary type of modification was extension of maturity.

We had TDRs in the production and intermediate-term loan category of $117 thousand and $8 thousand that defaulted during the six months ended June 30, 2018, and 2017, respectively in which the modifications were within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:		June 30 2018		December 31 2017
Accrual status:				
Real estate mortgage	$	--	$	--
Production and intermediate-term		--		30
Total TDRs in accrual status	$	--	$	30
Nonaccrual status:				
Real estate mortgage	$	3,816	$	3,670
Production and intermediate-term		639		510
Total TDRs in nonaccrual status	$	4,455	$	4,180
Total TDRs:				
Real estate mortgage	$	3,816	$	3,670
Production and intermediate-term		639		540
Total TDRs	$	4,455	$	4,210

There were no commitments to lend to borrowers whose loans have been modified in a TDR at June 30, 2018.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Six months ended June 30		2018		2017
Balance at beginning of period	$	**15,818**	$	14,284
Provision for loan losses		**2,438**		2,126
Loan recoveries		**242**		283
Loan charge-offs		**(283)**		(227)
Balance at end of period	$	**18,215**	$	16,466

The "Provision for credit losses" in the Consolidated Statements of Comprehensive Income includes a provision for loan losses as presented in the previous chart, as well as a provision for credit losses on unfunded commitments. The accrued credit losses on unfunded commitments are recorded in "Other liabilities" in the Consolidated Statements of Condition.

Credit Loss Information on Unfunded Commitments

(in thousands) For the six months ended June 30		2018		2017
Provision for credit losses	$	**3**	$	295
		June 30		December 31
As of:		**2018**		2017
Accrued credit losses	$	**2,279**	$	2,276

NOTE 3: OTHER INVESTMENTS

We and other Farm Credit Institutions are among the limited partners for Rural Business Investment Companies (RBICs). Our total commitment is $12.0 million with varying commitment end dates through September 2021. Certain commitments may have an option to extend under certain circumstances. Our investments in the RBICs are recorded in "Other assets" in the Consolidated Statements of Condition, and totaled $6.9 million at June 30, 2018, and $5.9 million at December 31, 2017.

The investments were evaluated for impairment. No investments were impaired as of June 30, 2018, and December 31, 2017.

NOTE 4: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, 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.

NOTE 5: 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 levels of inputs that may be used to measure fair value. Refer to Note 2 in our 2017 Annual Report 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 June 30, 2018, or December 31, 2017.

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 June 30, 2018			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$ 10,526**	**$ 10,526**
Other property owned	**--**	**--**	**120**	**120**

	As of December 31, 2017			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$ --	$ 1,640	$ 1,640
Other property owned	--	--	120	120

Valuation Techniques

Impaired loans: Represents the carrying amount and related write-downs of loans that 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 independent appraisals and other market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as Level 3.

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

NOTE 6: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 6, 2018, 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 Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.