AgCountry Farm Credit Services, ACA

Quarterly Report
September 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:

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MERGER ACTIVITY

The merger between AgCountry Farm Credit Services, ACA (AgCountry) and United FCS, ACA (United) was effective July 1, 2017. The merged entity, AgCountry Farm Credit Services, ACA, is headquartered in Fargo, ND. The effects of the merger with United are included in our financial position at September 30, 2018, and December 31, 2017. Results of operations and equity reflect the results of AgCountry prior to July 1, 2017, and the merged Association after July 1, 2017.

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 3.1% 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 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 3.1% 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 North American Free Trade Agreement (NAFTA) and upcoming elections. GDP growth of 2.1% is forecast for the Eurozone compared with 2.4% in 2017. GDP growth is expected to be down in France, Spain, Portugal, Netherlands, Austria, and Ireland.

U.S. economic fundamentals are expected to improve in 2018, with much stronger growth of 3.1% compared with 2.3% in 2017. Uncertainty regarding trade policy actions under the Trump administration and trade retaliation continues. GDP growth in the first quarter of this year was 2.1%, compared with an average of 2.7% for the last three quarters of 2017. Some analysts indicate growth has increased in the second quarter and could be over 4.0%. June was the 93rd consecutive month of job growth, the longest streak on record. Employers added 213,000 jobs in June. The unemployment rate rose slightly to 4%. There are concerns the economy will be adversely impacted by the tariffs the U.S. has imposed on China, EU, Canada, Mexico, and others and the retaliatory tariffs those countries are assessing in response. NAFTA negotiations have resumed and some reports indicate a deal is still possible this year. 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.

Information received since the Federal Open Market Committee (Committee) met in August indicates the labor market has continued to strengthen and economic activity has been rising at a strong rate. Average job gains have been strong in recent months, and the unemployment rate has stayed low. Household spending and business fixed investment have grown strongly. On a 12-month basis, both overall inflation and inflation for items other than food and energy remain near 2.0%. Indicators of longer-term inflation expectations are little changed.

In view of realized and expected labor market conditions and inflation, the Committee raised the target range for the federal funds rate from 2.0% to 2.25% in September.

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 7.0% 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 5.7% from 2017, which is the lowest level since 2009. The decline in 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. Cash receipts for crops are forecast to decrease $1.5 billion to $188.2 billion, largely reflecting expected declines in fruit/nut, cotton, and vegetable/melon cash receipts. Animal/animal product receipts are expected to fall $0.5 billion or 0.3%, led by declining receipts for milk, turkeys, and broilers. Production expenses are forecast to increase again in 2018, up 0.5% or $1.7 billion, with increases expected in fuel and oil expenditures, interest and labor costs.

Specific Production Conditions

We expect to see a wide range of crop yields across our association in 2018. Southern areas experienced excessive rainfall, limiting production, while the northwest saw promising soybean stands dry up with limited to no rainfall from July 1st through harvest. Since weather related events were not experienced association wide, some areas will see average to above average production. The small grain harvest is essentially complete and harvest is well underway, although wet conditions have hampered harvest.

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

Corn: As of the end of September, U.S. corn production for 2018/19 was estimated at 14.83 billion bushels, an increase of 241 million bushels from previous estimates. If realized, the crop would be the second highest on record. The projected 2018/19 season-average farm price for corn is estimated at $3.00 to $4.00 per bushel. Projected ending stocks have been raised by 90 million bushels to 1.78 million bushels due to supply increasing more than demand.

Soybeans: U.S. soybean production is projected at a record 4.69 million bushels, an increase of 107 million from the prior month on a projected higher yield forecast. Projected yield is estimated at a record 52.8 bushel per acre. United States Department of Agriculture (USDA) is forecasting the 2018/19 national season-average price for soybeans at $7.35 to $9.85 per bushel.

Sugar Beets: Pre-haul harvest took place at all three area sugar beet cooperatives from August through September. Growing conditions for northern growers were generally warm and dry, resulting in good yields and sugar content. Much of the southern sugar beet production received excess rainfall, reducing yields and sugar content. The wet areas also experienced more disease, despite diligent efforts for resistance. Full harvest for all coops was scheduled to begin around October 1st.

According to the September 12, 2018, World Agricultural Supply and Demand Estimates (WASDE) U.S. Sugar Supply and Use report, a reduced ending stocks-to-use ratio of 13.5% is forecast for 2018/19. Overall production increased due to higher beet sugar production from improved sugar extraction and lower pile shrink, however, the increase was more than offset by lower imports, primarily from Mexico, as defined by the amended Suspension Agreements, reducing total supply. With no change in forecast total use, the stocks-to-use ratio declined.

U.S. wholesale refined beet sugar price has been holding at $0.36 per pound throughout the last several months, an increase from $0.32 a year ago, but significantly lower than the $0.50 from 2011 and 2012. U.S. raw sugar prices as of August 2018 increased to $0.26 per pound compared to $0.25 as of last quarter and prior year. World raw sugar prices continue to decline to $0.10 per pound as of August 2018, the lowest in over 10 years.

Wheat: All wheat production totaled 1.88 billion bushels in 2018, an increase of 8% from the revised 2017 total of 1.74 billion bushels. Area harvested for grain totaled 39.6 million acres, an increase of 5% from prior year. The U.S. yield is estimated at 47.6 bushels per acre, an increase of 1.3 bushels per acre from prior year. Winter wheat produced 1.18 billion bushels, a decrease of 7% from prior year. Other spring wheat produced 623 million bushels, an increase of 50% from prior year. Durum wheat produced 77.3 million bushels, an increase of 41% from prior year. USDA forecasts the season-average farm prices for wheat to be $4.70 to $5.50 per bushel.

Cattle: The forecast for 2018 commercial beef production remains unchanged at 27.1 billion pounds. This reflects lower expected production in the third quarter that offsets higher anticipated production in the fourth quarter. Beef production is forecast higher in the fourth quarter as a result of higher anticipated cow slaughter and the expectation that some of the fed cattle that may have been marketed in the third quarter are expected to come out in the fourth quarter. The 2019 beef production forecast is also unchanged at 27.7 billion pounds. Price forecast for feeder steers in the fourth quarter is $143 to $151 per cwt. The price forecast for fed steers in the fourth quarter is $108 to $114 per cwt.

Hogs: The September 27, 2018 Quarterly Hogs and Pigs report from USDA indicates there were 75.5 million hogs and pigs on U.S. farms on September 1, 2018, an increase of 3% from prior year and 3% from June 1, 2018. Of the 75.5 million hogs and pigs, 69.2 million were market hogs while 6.33 million were kept for breeding. The June through August 2018 pig crop is 34.2 million head, an increase of 3% from 2017. Sows farrowing during this period totaled 3.19 million head, an increase of 3% from 2017. The sows farrowed during this quarter represented 50% of the breeding herd. The average pigs saved per litter was a record high of 10.7 for June through August, an increase from 10.6 at this time in 2017.

Dairy: The milk production forecast for 2018 had decreased from earlier estimates due to slightly lower milk cow numbers and a slower rate of growth in milk per cow in the third quarter. Production for 2019 has increased from previous estimates due to slightly higher cow inventories. The forecast for imports on a milk-fat basis has been raised to 6.2 billion pounds for the year as both butter and cheese imports saw strong year-over-year gains in July. Exports on the milk-fat basis are now forecast at 10.3 billion pounds for the year, a slight decrease from the previous forecast. Ending stocks are forecast at 13.5 billion pounds, unchanged from the previous forecast. The all-milk price forecast has increased to $16.30 to $16.50 per cwt for 2018 and $16.75 to $17.75 per cwt for 2019.

Ethanol: Ethanol plant crush margins remain positive, but have decreased during July, August, and September 2018. Decreasing crush margins are a direct result of an oversupply of ethanol in the market. Ethanol stocks peaked in August, at over 23 million barrels, a year-over-year increase of 8%. Since then, stocks have declined to 22.6 million barrels for the week ending September 21, 2018. Some plants have slowed production slightly, but a majority of the industry is still producing at full capacity.

Ethanol exports through June 2018 were 928 million gallons, an increase of 33% from the first half of 2017 and on pace to exceed the prior year record of 1.4 billion gallons. Brazil is the leading market for U.S. ethanol exports, at around 37% of total shipments, compared to 28% over the same time period in the prior year. Exports remain key to reducing the oversupply of ethanol in the U.S.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $7.4 billion at September 30, 2018, an increase of $299.7 million from December 31, 2017. The increase was primarily due to growth across all loan portfolio segments.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2017. Adversely classified loans increased to 2.9% of the portfolio at September 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 September 30, 2018, $305.5 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**September 30 2018**	December 31 2017
Loans:		
Nonaccrual	**$ 33,198**	$ 27,022
Accruing restructured	**--**	30
Accruing loans 90 days or more past due	**1,656**	--
Total risk loans	**34,854**	27,052
Other property owned	**351**	115
Total risk assets	**$ 35,205**	$ 27,167
Total risk loans as a percentage of total loans	**0.5%**	0.4%
Nonaccrual loans as a percentage of total loans	**0.4%**	0.4%
Current nonaccrual loans as a percentage of total nonaccrual loans	**64.1%**	67.0%
Total delinquencies as a percentage of total loans	**0.3%**	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 customers moving to nonaccrual status in our energy and agribusiness loan categories during the first nine months of 2018. Nonaccrual loans remained at an acceptable level at September 30, 2018, and December 31, 2017.

The increase in accruing loans 90 days or more past due was primarily due to 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.

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:	**September 30 2018**	December 31 2017
Allowance as a percentage of:		
Loans	**0.3%**	0.2%
Nonaccrual loans	**62.5%**	58.5%
Total risk loans	**59.6%**	58.5%

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

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the nine months ended September 30	**2018**	2017
Net income	**$ 108,406**	$ 81,520
Return on average assets	**1.9%**	1.8%
Return on average members' equity	**8.9%**	8.4%

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 nine months ended September 30	**2018**	2017	**Increase (decrease) in net income**
Net interest income	**$ 146,590**	$ 115,703	**$ 30,887**
Provision for credit losses	**5,498**	4,108	**(1,390)**
Patronage income	**21,288**	19,540	**1,748**
Other income, net	**31,157**	22,504	**8,653**
Operating expenses	**85,033**	69,684	**(15,349)**
Provision for income taxes	**98**	2,435	**2,337**
Net income	**$ 108,406**	$ 81,520	**$ 26,886**

Changes in Net Interest Income

(in thousands) For the nine months ended September 30	**2018 vs 2017**
Changes in volume	**$ 27,772**
Changes in interest rates	**2,235**
Changes in nonaccrual income and other	**880**
Net change	**$ 30,887**

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 as a result of the merger with United.
- An increase in patronage received from AgriBank due to a higher average balance on our note payable, primarily as a result of the merger with United, which was partially offset by a lower patronage rate compared to the prior year.

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 $7.3 billion with a maturity date of June 30, 2021. 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 and additional paid-in capital from the merger with United.

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 September 30, 2018, or December 31, 2017.

Total members' equity increased $87.7 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.

Regulatory Capital Requirements and Ratios

As of:	**September 30 2018**	December 31 2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**17.9%**	17.2%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**17.9%**	17.2%	6.0%	2.5%*	8.5%
Total capital ratio	**18.1%**	17.5%	8.0%	2.5%*	10.5%
Permanent capital ratio	**17.9%**	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	**21.0%**	20.4%	1.5%	N/A	1.5%

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums is being phased in through 2020 under the FCA capital requirements.

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 September 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

November 5, 2018

CONSOLIDATED STATEMENTS OF CONDITION

AgCountry Farm Credit Services, ACA

(in thousands)

(Unaudited)

As of:		September 30 2018		December 31 2017
ASSETS				
Loans	**$**	**7,383,748**	$	7,084,093
Allowance for loan losses		**20,761**		15,818
Net loans		**7,362,987**		7,068,275
Investment in AgriBank, FCB		**157,567**		156,408
Investment securities		**--**		7,059
Accrued interest receivable		**112,879**		85,697
Premises and equipment, net		**43,072**		45,768
Other property owned		**351**		115
Assets held for lease, net		**2,966**		6,900
Other assets		**77,062**		72,659
Total assets	**$**	**7,756,884**	$	7,442,881
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**5,998,265**	$	5,758,089
Accrued interest payable		**36,100**		27,414
Deferred tax liabilities, net		**1,114**		1,217
Patronage distribution payable		**21,000**		34,530
Other liabilities		**36,389**		45,362
Total liabilities		**6,092,868**		5,866,612
Contingencies and commitments (Note 4)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**12,406**		12,451
Additional paid-in capital		**304,385**		304,385
Unallocated surplus		**1,350,653**		1,263,212
Accumulated other comprehensive loss		**(3,428)**		(3,779)
Total members' equity		**1,664,016**		1,576,269
Total liabilities and members' equity	**$**	**7,756,884**	$	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		Nine Months Ended	
For the period ended September 30	**2018**	2017	**2018**	2017
Interest income	**$ 86,684**	$ 76,163	**$ 246,853**	$ 177,620
Interest expense	**36,144**	27,086	**100,263**	61,917
Net interest income	**50,540**	49,077	**146,590**	115,703
Provision for credit losses	**3,057**	1,687	**5,498**	4,108
Net interest income after provision for credit losses	**47,483**	47,390	**141,092**	111,595
Other income				
Patronage income	**7,161**	10,312	**21,288**	19,540
Financially related services income	**11,239**	11,759	**17,803**	17,398
Fee income	**2,062**	2,090	**5,831**	5,561
Allocated Insurance Reserve Accounts distribution	**--**	--	**4,094**	--
Miscellaneous income (loss), net	**1,000**	491	**3,429**	(455)
Total other income	**21,462**	24,652	**52,445**	42,044
Operating expenses				
Salaries and employee benefits	**16,983**	16,735	**50,975**	41,036
Other operating expenses	**11,387**	10,889	**34,058**	28,648
Total operating expenses	**28,370**	27,624	**85,033**	69,684
Income before income taxes	**40,575**	44,418	**108,504**	83,955
(Benefit from) provision for income taxes	**(3)**	822	**98**	2,435
Net income	**$ 40,578**	$ 43,596	**$ 108,406**	$ 81,520
Other comprehensive income				
Employee benefit plans activity	**$ 117**	$ --	**$ 351**	$ --
Total other comprehensive income	**117**	--	**351**	--
Comprehensive income	**$ 40,695**	$ 43,596	**$ 108,757**	$ 81,520

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	--	--	81,520	--	81,520
Unallocated surplus designated for patronage distributions	--	--	(14,251)	--	(14,251)
Equity issued in connection with merger	5,037	304,385	--	--	309,422
Capital stock and participation certificates issued	284	--	--	--	284
Capital stock and participation certificates retired	(348)	--	--	--	(348)
Balance at September 30, 2017	$ 12,343	$ 304,385	$ 1,228,615	$ --	$ 1,545,343
Balance at December 31, 2017	$ 12,451	$ 304,385	$ 1,263,212	$ (3,779)	$ 1,576,269
Net income	**--**	**--**	**108,406**	**--**	**108,406**
Other comprehensive income	**--**	**--**	**--**	**351**	**351**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(20,965)**	**--**	**(20,965)**
Capital stock and participation certificates issued	**520**	**--**	**--**	**--**	**520**
Capital stock and participation certificates retired	**(565)**	**--**	**--**	**--**	**(565)**
Balance at September 30, 2018	**$ 12,406**	**$ 304,385**	**$ 1,350,653**	**$ (3,428)**	**$ 1,664,016**

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 nine months ended September 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).

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 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 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 the 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 Statement 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.

Standard and effective date	Description	Adoption status and financial statement impact
In February 2016, the FASB issued ASU 2016-02 “Leases.” In July 2018, the FASB issued ASU 2018-11 “Leases (Topic 842): Targeted Improvements.” The guidance is effective for public 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 have no plans to early adopt this guidance. We are in the process of system implementation, 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 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 will not 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. Significant implementation matters yet to be addressed include system selection, drafting of accounting policies and disclosures, and designing processes and controls. We are currently unable to estimate the impact on the financial statements.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	**September 30, 2018**			December 31, 2017		
		Amount	%		Amount	%
Real estate mortgage	**$**	**3,039,878**	**41.1%**	$	2,882,177	40.7%
Production and intermediate-term		**2,279,916**	**30.9%**		2,275,535	32.1%
Agribusiness		**1,563,707**	**21.2%**		1,475,142	20.8%
Other		**500,247**	**6.8%**		451,239	6.4%
Total	**$**	**7,383,748**	**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 September 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	**$**	**3,231**	**$**	**4,250**	**$**	**7,481**	**$**	**3,096,186**	**$**	**3,103,667**	**$**	**--**
Production and intermediate-term		**6,955**		**8,420**		**15,375**		**2,305,812**		**2,321,187**		**1,656**
Agribusiness		**280**		**41**		**321**		**1,570,018**		**1,570,339**		**--**
Other		**62**		**17**		**79**		**501,355**		**501,434**		**--**
Total	**$**	**10,528**	**$**	**12,728**	**$**	**23,256**	**$**	**7,473,371**	**$**	**7,496,627**	**$**	**1,656**

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:	**September 30 2018**	December 31 2017
Volume with specific allowance	**$ 11,965**	$ 3,292
Volume without specific allowance	**22,889**	23,760
Total risk loans	**$ 34,854**	$ 27,052
Total specific allowance	**$ 6,106**	$ 1,730
For the nine months ended September 30	**2018**	2017
Income on accrual risk loans	**$ 101**	$ 83
Income on nonaccrual loans	**1,744**	864
Total income on risk loans	**$ 1,845**	$ 947
Average risk loans	**$ 35,084**	$ 28,921

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 September 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.

TDR Activity

(in thousands) Nine months ended September 30	**2018**		2017	
	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	**$ 410**	**$ 370**	$ --	$ --
Production and intermediate-term	**369**	**310**	274	274
Agribusiness	**3,939**	**3,939**	--	--
Total	**$ 4,718**	**$ 4,619**	$ 274	$ 274

Pre-modification represents the outstanding recorded investment of the loan just prior to restructuring and post-modification represents the outstanding recorded investment of the loan immediately following the restructuring. The recorded investment in the loan is the unpaid principal amount 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 the merger and may also reflect a previous direct charge-off of the investment.

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

We had TDRs in the production and intermediate-term loan category of $9 thousand and $33 thousand that defaulted during the nine months ended September 30, 2018, and 2017, respectively in which the modifications were within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:		**September 30** **2018**		December 31 2017
Accrual status:				
Real estate mortgage	**$**	**--**	$	--
Production and intermediate-term		**--**		30
Agribusiness		**--**		--
Total TDRs in accrual status	**$**	**--**	$	30
Nonaccrual status:				
Real estate mortgage	**$**	**3,691**	$	3,670
Production and intermediate-term		**537**		510
Agribusiness		**4,119**		--
Total TDRs in nonaccrual status	**$**	**8,347**	$	4,180
Total TDRs:				
Real estate mortgage	**$**	**3,691**	$	3,670
Production and intermediate-term		**537**		540
Agribusiness		**4,119**		--
Total TDRs	**$**	**8,347**	$	4,210

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

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Nine months ended September 30		**2018**		2017
Balance at beginning of period	**$**	**15,818**	$	14,284
Provision for loan losses		**5,290**		3,056
Loan recoveries		**390**		458
Loan charge-offs		**(737)**		(259)
Balance at end of period	**$**	**20,761**	$	17,539

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 nine months ended September 30		**2018**		2017
Provision for credit losses	**$**	**208**	$	1,052
		September 30		December 31
As of:		**2018**		2017
Accrued credit losses	**$**	**2,484**	$	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 December 2021. Certain commitments may have an option to extend under certain circumstances. Our investment in the RBICs is recorded in "Other assets" in the Consolidated Statements of Condition, and totaled $7.0 million at September 30, 2018, and $5.9 million at December 31, 2017.

The investments were evaluated for impairment. No investments were impaired as of September 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 input levels 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 September 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 September 30, 2018			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$ 6,152**	**$ 6,152**
Other property owned	**--**	**--**	**365**	**365**
	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 observable market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as Level 3.

Other property owned: Represents the fair value and related losses of 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 November 5, 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.