AgCountry Farm Credit Services, ACA

Quarterly Report
March 31, 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

Effective July 1, 2017, United Farm Credit Services, 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 reflects the merged Association at March 31, 2018, and December 31, 2017. The Consolidated Statements of Comprehensive Income and the Consolidated Statements of Changes in Members' Equity reflect the results of AgCountry for the three months ended March 31, 2017, and the merged Association for the three months ended March 31, 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 3.3% in 2018 compared to 3.1% in 2017. The United States is expected to be the main driver of the world economy, with GDP growing 3.2% in 2018 compared with 2.3% in 2017. GDP growth in China and India is forecast to be strong and a driver of the world economy. Although China's GDP is forecast to continue to decline from 6.5% in 2017 to 6.2% in 2018, it is still considered strong growth. India's GDP is forecast to grow 7.3% in 2018 compared with growth of 7.0% in 2017. Japan's economy has grown in the last seven quarters and is forecast to grow 1.7% in 2018. GDP growth of 1.8% in Latin America is forecast. The Brazilian economy is forecast to grow 1.5% in 2018 based on increased consumption and export growth. Despite high inflation and high interest rates, the Argentine economy is forecast to grow 2.5% in 2018. Canadian economic growth rate is forecast to be 2.7% in 2018, slightly below 3.0% in 2017. Consumption appears to be leading growth and business spending has bounced back. In Mexico, growth is forecast at 2.0% in 2018, however the Mexican economy is plagued by high inflation, and the Mexican peso is under pressure with 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 2.1%, slightly above 2% 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 3.2% compared with 2.3% in 2017. Uncertainty regarding trade policy actions under the Trump administration continues. The North Korean crisis is also a challenge because of implications regarding China. GDP growth in the third quarter of 2017 was at a 3.3% annual rate, the fastest rate in the last two years. Consumer spending is strong driven by growing confidence with lower unemployment and income prospects. A new tax reform law was passed, with lower tax rates providing a boost to take-home pay. With the economy roughly at full employment, there are indications the Federal Reserve may need to raise interest rates in 2018 more than in 2017. Stronger economic growth will likely push inflation higher. Inflation could increase to 2.4% in 2018 compared with 2.1% in 2017. The value of the U.S. dollar has declined substantially since the beginning of 2017, and is expected to generally trend weaker against many trading partners and competitors in 2018. A change in the U.S. trade relationship with Mexico and Canada continues to be a concern, as NAFTA renegotiations are ongoing. Recent data suggests that growth rates of household spending and business fixed investments have moderated from their strong fourth-quarter readings.

Information received from the March Federal Open Market Committee meeting indicates with further gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace in the medium term and labor market conditions will remain strong. Inflation on a 12-month basis is expected to increase in coming months and to stabilize around the Committee's 2% objective over the medium term. Near-term risks to the economic outlook appear roughly balanced, but the Committee is monitoring inflation developments closely.

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 .25% at the March meeting. The stance of monetary policy remains accommodative, thereby supporting strong labor market conditions and a sustained return to 2% 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% 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.

Net cash farm income in 2017 is forecast at $96.9 billion, an increase of 3.9% from 2016. Net farm income is forecast to be $63.2 billion in 2017, an increase of 2.7% from the previous year. Cash receipts are forecast to increase 2.4% in 2017, led by an 8.4% increase in animal and animal product receipts. Cash receipts for broiler, hog, and cattle production are all forecast to show strong growth in 2017, reflecting expected increases in both prices received and quantities sold. Cash receipts for crops are forecast to decrease $3.8 billion in 2017 as prices for some crops decline. Total production expenses are forecast up $5.3 billion in 2017 following two consecutive years of decline. Increases are expected for interest expenses as interest rates and debt levels increase. Fuels and oils expenses are also expected to increase as diesel prices are forecast higher. This reverses two years of lower fuel expenses for the farm sector. Labor costs are expected to increase by 3.5%, continuing the increase from the previous year, as wage rate increases feed into hired labor costs.

Specific Production Conditions

Corn, soybeans, sugar beets, and wheat are the primary cash crops produced in our territory. A summary of each crop is presented below, along with a summary of the cattle, hog, dairy, and ethanol industries.

Corn: According to the United States Department of Agriculture's (USDA) Prospective Planting Report dated March 29, 2018, planted acres are projected at 88.0 million acres, down 2% from prior year representing a 2.14 million acre decrease. According to the survey, corn acres are expected to be down or unchanged in 33 of the 48 estimating states. Corn stocks in all positions on March 1, 2018 totaled 8.89 billion bushels, an increase of 3% from the same date last year. U.S. corn production is projected at 14.6 million bushels for the 2017/18 season. Yields are projected at 2 bushels/acre higher in 2017/18 with an estimate of 4 million fewer harvested acres. The projected range for the season average corn price is $3.15 to $3.55 per bushel.

Soybeans: Soybean acres are projected at 89.0 million acres in 2018 according to the USDA's Prospected Planting Report dated March 29, 2018. This is a decrease of 1% from prior year. Compared to the previous year, planted acreage intentions are down or unchanged in 20 of the 31 estimating states. Minnesota is projected to plant 250,000 fewer acres of soybeans in 2018 while, if realized, soybean acreage in both North Dakota and Wisconsin will be the largest on record. Soybeans stored in all positions on March 1, 2018 are 2.11 billion bushels, an increase of 21% from prior year. The projected range for the season average soybean price is $9.00 to $9.60 per bushel.

Sugar Beets: Local sugar processors have generally had favorable storage conditions during the 2017/18 campaign due to cold temperatures early in the year. Good storage should result in higher sugar extraction overall. Imports with Mexico remain controlled under Suspension agreement terms. Combined with strong demand, sugar prices have improved. The net selling price achieved by sugar marketing companies has strengthened. The outcome should be higher-than-projected payments to growers, which is encouraging after several years of depressed prices.

New technologies adopted by sugar beet growers have resulted in more sugar from less acres. The increasing yield is a continuing trend as genetics improve. Intended U.S. planting for 2018 is 1.1 million acres, a decrease of 1.6% and 4.3% from 2017 and 2016 respectively. Intended Minnesota and North Dakota planting is 0.6 million acres, a 1.9% decrease from the previous year. Recent precipitation and below average temperature in the growing area will likely cause a delay in planting.

The current USDA Farm Bill is in place through the 2018 crop. The sugar industry is well represented through good House and Senate Ag Committee leadership.

Wheat: All wheat planted area is projected at 47.3 million acres in 2018, an increase of 3% 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 up slightly from both last year and previous estimates. Of this total, 23.2 million acres are Hard Red Winter, 5.9 million acres are Soft Red Winter, and 3.6 million acres are White Winter. Acres planted to other spring wheat for 2018 is estimated at 12.6 million acres, an increase of 15% from 2017. Hard Red Spring wheat area is 12.1 million acres. The intended Durum planted area for 2018 is estimated at 2 million acres, a decrease of 13% from the prior year. In Minnesota, intended all wheat acres are projected at 138% of the 2017 total. In North Dakota, intended all wheat acres are projected at 112% of the 2017 total. The projected range for the season average wheat price is $4.60 to $4.70 per bushel.

Cattle: According to the latest National Stocker Survey Cattle on Feed report, net placements in January were 3.7% higher than last year. Drought conditions in the southern plains have diminished pasture availability resulting in more cattle being placed in feedlots in late 2017 and early 2018, likely decreasing the pool of cattle available for placement throughout the first half of 2018. The price forecast for 750 to 800 pound feeder steers was adjusted lower for the first quarter to $146 to $149/cwt on current price movements. In the second quarter, fewer calves will likely be available for placement, keeping estimated prices relatively strong at $144 to $152/cwt.

Hogs: United States inventory of all hogs and pigs on March 1, 2018 was 72.9 million head, an increase of 3% from the prior year but a 1% decrease from December 1, 2017. Breeding inventory is reported at 6.2 million head, an increase of 2% from last year. Market hog inventory, at 66.7 million head, increased 3% from previous year, however decreased 1% from last quarter. Commercial pork production for 2018 has been revised to 26.9 billion pounds, a 5.2% increase from prior year due to higher pork carcass dressed weights. Hog prices for the first quarter are expected to average $51 to $52/cwt, a near 4% increase from previous year, largely due to the strength of increased demand for hogs from expanded processing capacity. January export data showed solid demand, a 6.2% increase from prior year, particularly in Asia.

Trade policies, especially with the Chinese market, could have an effect on exports going forward. This will be something to monitor as we move through 2018.

Dairy: The milk production forecast for 2018 has increased due to more rapid growth in milk per cow in the first half of the year. The 2018 imports on a fat and skim-solids basis are reduced due to slower sales in various processed dairy products. The supply and use estimates are adjusted to reflect revisions to 2016 and 2017 milk production and 2017 storage data.

Annual product price forecasts for cheese and butter have increased as recent prices have increased, however, continued large supplies of nonfat dry milk (NDM) are expected to pressure NDM prices reducing the estimates. No change is forecast in the annual whey price. The Class III price is raised on the cheese price projection, while the Class IV price is down and lower NDM prices offsets a higher butter price forecast. The all milk price is forecast at $15.75 to $16.35/cwt, unchanged at the midpoint from previous estimates.

Ethanol: U.S. Ethanol stocks have continued to climb throughout the first quarter. Ethanol stocks through March 23, 2018, increased 2% year over year. Ethanol production rates at plants remain steady as the current margin environment is positive.

The Renewable Fuel Standard (RFS), and more specifically Renewable Identification Numbers (RINS), have come under fire lately. RINS are tracking numbers assigned to each batch of ethanol. Refiners can either blend ethanol or buy RINS. RINS are the mechanism for insuring that prescribed levels of blending are reached. The effort to change how RINS work comes on the heels of a large oil refiner filing for bankruptcy. Anti-ethanol groups claim that compliance costs of RINS were at fault. Efforts to change the RFS have been unsuccessful to date.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $7.0 billion at March 31, 2018, a decrease of $72.3 million from December 31, 2017. The decrease was primarily due to seasonality in our operating loan portfolio and our ProPartners Financial alliance.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2017. Adversely classified loans increased to 3.1% of the portfolio at March 31, 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 March 31, 2018, $291.2 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**March 31 2018**	December 31 2017
Loans:		
Nonaccrual	**$ 38,321**	$ 27,022
Accruing restructured	**19**	30
Accruing loans 90 days or more past due	**2,316**	--
Total risk loans	**40,656**	27,052
Other property owned	**294**	115
Total risk assets	**$ 40,950**	$ 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	**51.4%**	67.0%
Total delinquencies as a percentage of total loans	**0.6%**	0.2%

Note: Accruing loans include accrued interest receivable.

Our risk assets increased from December 31, 2017, but remained 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 quarter of 2018. Nonaccrual loans remained at an acceptable level at March 31, 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.

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:	**March 31 2018**	December 31 2017
Allowance as a percentage of:		
Loans	**0.2%**	0.2%
Nonaccrual loans	**45.7%**	58.5%
Total risk loans	**43.1%**	58.5%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2018.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the three months ended March 31	**2018**	2017
Net income	**$ 34,711**	$ 20,060
Return on average assets	**1.9%**	1.5%
Return on average members' equity	**8.7%**	6.8%

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 three months ended March 31	**2018**	2017	**Increase (decrease) in net income**
Net interest income	**$ 47,771**	$ 32,945	**$ 14,826**
Provision for (reversal of) credit losses	**1,338**	(235)	**(1,573)**
Patronage income	**6,922**	4,831	**2,091**
Other income, net	**11,162**	4,637	**6,525**
Operating expenses	**29,142**	21,567	**(7,575)**
Provision for income taxes	**664**	1,021	**357**
Net income	**$ 34,711**	$ 20,060	**$ 14,651**

Changes in Net Interest Income

(in thousands) For the three months ended March 31	2018 vs 2017
Changes in volume	$ 11,964
Changes in interest rates	2,888
Changes in nonaccrual income and other	(26)
Net change	$ 14,826

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 due to increased earnings on capital with the rising interest rate environment.

The change in the provision for (reversal of) credit losses was primarily a result of growth in our loan portfolio combined with a decline in overall portfolio credit quality.

The change in patronage income was primarily related to increased patronage received from AgriBank due to a higher patronage rate compared to the prior year and additional patronage accrued related to 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 of $4.1 million. These reserve accounts were established in previous years by the Farm Credit System Insurance Corporation when premiums collected increased the level of the Insurance Fund beyond the required 2% of insured debt. There were no distributions in 2017.

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. Our note payable matures on June 30, 2019, at which time the note will be renegotiated. 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 March 31, 2018, or December 31, 2017.

Total members' equity increased $28.0 million from December 31, 2017, primarily due to net income for the period partially offset by patronage distribution accruals. Accumulated other comprehensive income 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 a certain level of 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 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:	**March 31 2018**	December 31 2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**17.7%**	17.2%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**17.7%**	17.2%	6.0%	2.5%*	8.5%
Total capital ratio	**17.9%**	17.5%	8.0%	2.5%*	10.5%
Permanent capital ratio	**17.7%**	17.3%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**20.1%**	19.7%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**20.8%**	20.4%	1.5%	N/A	1.5%

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums will be phased in over three years 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.

CERTIFICATION

The undersigned have reviewed the March 31, 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

May 7, 2018

CONSOLIDATED STATEMENTS OF CONDITION

AgCountry Farm Credit Services, ACA

(in thousands)

(Unaudited)

As of:		March 31 2018		December 31 2017
ASSETS				
Loans	**$**	**7,011,791**	$	7,084,093
Allowance for loan losses		**17,510**		15,818
Net loans		**6,994,281**		7,068,275
Investment in AgriBank, FCB		**156,408**		156,408
Investment securities		**7,059**		7,059
Accrued interest receivable		**69,896**		85,697
Premises and equipment, net		**45,150**		45,768
Other property owned		**294**		115
Assets held for lease, net		**5,802**		6,900
Other assets		**62,619**		72,659
Total assets	**$**	**7,341,509**	$	7,442,881
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**5,665,805**	$	5,758,089
Accrued interest payable		**29,949**		27,414
Deferred tax liabilities, net		**1,191**		1,217
Patronage distribution payable		**7,000**		34,530
Other liabilities		**33,296**		45,362
Total liabilities		**5,737,241**		5,866,612
Contingencies and commitments (Note 5)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**12,587**		12,451
Additional paid-in capital		**304,385**		304,385
Unallocated surplus		**1,290,958**		1,263,212
Accumulated other comprehensive loss		**(3,662)**		(3,779)
Total members' equity		**1,604,268**		1,576,269
Total liabilities and members' equity	**$**	**7,341,509**	$	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	
For the period ended March 31	**2018**	2017
Interest income	**$ 77,856**	$ 49,359
Interest expense	**30,085**	16,414
Net interest income	**47,771**	32,945
Provision for (reversal of) credit losses	**1,338**	(235)
Net interest income after provision for (reversal of) credit losses	**46,433**	33,180
Other income		
Patronage income	**6,922**	4,831
Financially related services income	**4,504**	3,268
Fee income	**1,972**	1,592
Allocated insurance reserve accounts distribution	**4,094**	--
Miscellaneous income (loss), net	**592**	(223)
Total other income	**18,084**	9,468
Operating expenses		
Salaries and employee benefits	**17,150**	12,525
Other operating expenses	**11,992**	9,042
Total operating expenses	**29,142**	21,567
Income before income taxes	**35,375**	21,081
Provision for income taxes	**664**	1,021
Net income	**$ 34,711**	$ 20,060
Other comprehensive income		
Employee benefit plans activity	**$ 117**	$ --
Total other comprehensive income	**117**	--
Comprehensive income	**$ 34,828**	$ 20,060

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 Income	Total Members' Equity
Balance at December 31, 2016	$ 7,370	$ --	$ 1,161,346	$ --	$ 1,168,716
Net income	--	--	20,060	--	20,060
Unallocated surplus designated for patronage distributions	--	--	(4,250)	--	(4,250)
Capital stock and participation certificates issued	91	--	--	--	91
Capital stock and participation certificates retired	(146)	--	--	--	(146)
Balance at March 31, 2017	$ 7,315	$ --	$ 1,177,156	$ --	$ 1,184,471
Balance at December 31, 2017	$ 12,451	$ 304,385	$ 1,263,212	$ (3,779)	$ 1,576,269
Net income	**--**	**--**	**34,711**	**--**	**34,711**
Other comprehensive income	**--**	**--**	**--**	**117**	**117**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(6,965)**	**--**	**(6,965)**
Capital stock and participation certificates issued	**213**	**--**	**--**	**--**	**213**
Capital stock and participation certificates retired	**(77)**	**--**	**--**	**--**	**(77)**
Balance at March 31, 2018	**$ 12,587**	**$ 304,385**	**$ 1,290,958**	**$ (3,662)**	**$ 1,604,268**

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 three months ended March 31, 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 reflects the merged Association at March 31, 2018, and December 31, 2017. The Consolidated Statements of Comprehensive Income and the Consolidated Statements of Changes in Members' Equity reflects the results of AgCountry for the three months ended March 31, 2017, and the merged Association for the three months ended March 31, 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 position, 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.
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.	We have no plans to early adopt this guidance. 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 combined cash flows.

Standard and effective date	Description	Adoption status and financial statement impact
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 currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	**March 31, 2018**		December 31, 2017	
	Amount	%	Amount	%
Real estate mortgage	**$ 2,889,515**	**41.3%**	$ 2,882,177	40.7%
Production and intermediate-term	**1,985,915**	**28.3%**	2,275,535	32.1%
Agribusiness	**1,644,250**	**23.4%**	1,475,142	20.8%
Other	**492,111**	**7.0%**	451,239	6.4%
Total	**$ 7,011,791**	**100.0%**	$ 7,084,093	100.0%

The other category is primarily comprised of energy, communication, and 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 March 31, 2018**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$ 6,600**	**$ 2,003**	**$ 8,603**	**$ 2,919,210**	**$ 2,927,813**	**$ 437**
Production and intermediate-term	**23,486**	**7,479**	**30,965**	**1,979,524**	**2,010,489**	**1,879**
Agribusiness	**3,875**	**41**	**3,916**	**1,645,856**	**1,649,772**	**--**
Other	**--**	**16**	**16**	**493,579**	**493,595**	**--**
Total	**$ 33,961**	**$ 9,539**	**$ 43,500**	**$ 7,038,169**	**$ 7,081,669**	**$ 2,316**

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:		March 31 2018		December 31 2017
Volume with specific allowance	**$**	**13,265**	$	3,292
Volume without specific allowance		**27,391**		23,760
Total risk loans	**$**	**40,656**	$	27,052
Total specific allowance	**$**	**5,177**	$	1,730
For the three months ended March 31		**2018**		2017
Income on accrual risk loans	**$**	**18**	$	29
Income on nonaccrual loans		**394**		420
Total income on risk loans	**$**	**412**	$	449
Average risk loans	**$**	**27,959**	$	21,472

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

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 three months ended March 31, 2018, and 2017. Our recorded investment in these loans just prior to and immediately following restructuring was $55 thousand and $65 thousand during the three months ended March 31, 2018, and 2017, respectively. The recorded investment in the loan is the unpaid principal amount 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 $152 thousand that defaulted during the three months ended March 31, 2018, in which the modifications were within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:		March 31 2018		December 31 2017
Accrual status:				
Production and intermediate-term	**$**	**19**	$	30
Total TDRs in accrual status	**$**	**19**	$	30
Nonaccrual status:				
Real estate mortgage	**$**	**3,560**	$	3,670
Production and intermediate-term		**513**		510
Total TDRs in nonaccrual status	**$**	**4,073**	$	4,180
Total TDRs:				
Real estate mortgage	**$**	**3,560**	$	3,670
Production and intermediate-term		**532**		540
Total TDRs	**$**	**4,092**	$	4,210

There were no commitments to lend to borrowers whose loans have been modified in a TDR at March 31, 2018.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Three months ended March 31	2018	2017
Balance at beginning of period	**$ 15,818**	$ 14,284
Provision for (reversal of) loan losses	**1,630**	(41)
Loan recoveries	**125**	145
Loan charge-offs	**(63)**	(11)
Balance at end of period	**$ 17,510**	$ 14,377

The “Provision for (reversal of) credit losses” in the Consolidated Statements of Comprehensive Income includes a provision for (reversal of) loan losses as presented in the previous chart, as well as a (reversal of) 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 three months ended March 31	2018	2017
(Reversal of) credit losses	**$ (292)**	$ (194)
As of:	**March 31 2018**	December 31 2017
Accrued credit losses	**$ 1,984**	$ 2,276

NOTE 3: INVESTMENT SECURITIES

We held investment securities of $7.1 million at March 31, 2018, and December 31, 2017. Our investment securities consisted of Agricultural and Rural Community bonds.

The investment securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. No investments within the portfolio were impaired as of March 31, 2018, and December 31, 2017.

The amortized cost and fair value of the investment securities was $7.1 million at March 31, 2018, and December 31, 2017. The weighted average yield of the investment securities was 2.8% and 2.5% at March 31, 2018, and December 31, 2017, respectively.

Investment income is recorded in “Interest income” in the Consolidated Statements of Comprehensive Income and totaled $50 thousand and $39 thousand for the three months ended March 31, 2018, and 2017, respectively.

NOTE 4: OTHER INVESTMENT

We and other Farm Credit Institutions are among the limited partners for a Rural Business Investment Company (RBIC). Our total commitment is $10.0 million through December 2019. Our investment in the RBIC is recorded in “Other assets” in the Consolidated Statements of Condition, and totaled $6.2 million at March 31, 2018, and $5.9 million at December 31, 2017.

The investment was evaluated for impairment. The investment was not impaired as of March 31, 2018, and December 31, 2017.

NOTE 5: 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 6: 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 March 31, 2018, or December 31, 2017.

Non-Recurring

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)

	As of March 31, 2018			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$ 8,493**	**$ 8,493**
Other property owned	**--**	**--**	**306**	**306**
	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 which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses 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 foreclosed assets acquired in collection of debt obligation 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 7: SUBSEQUENT EVENTS

We have evaluated subsequent events through May 7, 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.