AgCountry Farm Credit Services, ACA

Quarterly Report
March 31, 2019

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, 2018 (2018 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 AgriBank financial reports or additional copies of our report, contact us at:

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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 2018 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 3.4% in 2019 compared to 3.2% in 2018. The United States is expected to be the main driver of the world economy. GDP growth in China and India is forecast to be strong. However, China's GDP is forecast to continue to decline from 6.7% in 2018 to 6.2% in 2019. India's GDP is forecast to grow 7.4% in 2019 compared with growth of 7.8% in 2018. The Bank of Japan continues to provide stimulus by keeping long-term rates near zero and adding to its balance sheet. The government continues to run a primary deficit, and it has announced a temporary stimulus package to offset the short-term impact of a value-added tax hike in late 2019. This results in an economic forecast of 1.2% growth in 2019 compared with 1.3% in 2018. GDP growth of 1.7% in 2019 is forecast in Latin America. The Brazilian economy is forecast to grow 2.6% in 2019 based on increased consumption. Delayed by drought and a currency crisis in 2018, the Argentine economy is forecast to grow 0.1% in 2019. The Canadian economic growth rate is forecast to be 2.0% in 2019, down from 2.2% growth in 2018. Consumption appears to be leading growth and business spending is increasing but oil sector slowdowns are holding back growth. In Mexico, growth is forecast at 2.4% in 2019 compared with 2.1% in 2018. Growth in Mexico remains moderate, partially owing to tighter financing conditions and domestic policy-related uncertainty. GDP growth of 2.0% is forecast for the Eurozone compared with 2.0% in 2018.

U.S. economic fundamentals are expected to improve in 2019, with much stronger growth of 3.5% compared with 2.9% in 2018. Uncertainty regarding trade policy actions under the current administration and trade retaliation continues. GDP increased at an annual rate of 3.4% in the third quarter of 2018. The labor market remains robust, strengthening consumption. The unemployment rate has fallen to an almost 50-year low, despite an influx of new workers. It is estimated 75% of the approximately 200,000 jobs being added monthly are being filled by new entrants. Labor productivity is showing signs of strengthening.

Information received since the Federal Open Market Committee (Committee) met in December 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 has continued to grow, while growth of business fixed investment has moderated from its rapid pace earlier in the year. On a 12-month basis, both overall inflation and inflation for items other than food and energy remain near 2.00%. Indicators of longer-term inflation expectations are largely unchanged.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. In support of these goals, the Committee decided to maintain the target range for the federal funds rate at 2.25% to 2.50% in March 2019. The Committee continues to view sustained expansion of economic activity, strong labor and market conditions, and inflation near the Committee's symmetric 2.00% objective as the most likely outcomes. In light of global economic and financial developments and muted inflation pressures, the Committee will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate to support these outcomes.

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 maximum employment objective and its symmetric 2.00% inflation objective. 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.

Farm profitability is expected to decline in 2018, following positive growth for farm sector profits in 2017. Net cash income for 2018 is expected to fall by $8.5 billion to $93.4 billion, a decrease of 8.4%, while net farm income is estimated to be $66.3 billion in 2018, a decrease of $9.1 billion or 12.1%. If forecasts are realized, farm profitability would be the lowest in real terms since 2002. Falling net farm income is largely the result of falling commodity prices.

Farm cash receipts are forecast to remain nearly stable in 2018 at $374.9 billion. Both livestock and crop receipts are forecast to be relatively unchanged from 2017 as increases in receipts for some commodities are offset by declines in others. Production expenses are forecast to increase substantially in 2018 to $329.6 billion, an increase of $14.9 billion or 4.7%, with increases expected in fuel and oil expenditures, interest and labor costs.

Specific Production Conditions

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

Corn: According to the March 29, 2019, Prospective Plantings Report from the United States Department of Agriculture (USDA), planted acres are expected to be 92.8 million, an increase of 3.7 million acres or 4% from the prior year. Corn acres are forecast to increase or remain unchanged in 34 of the 48 estimating states. Corn stocks in all positions on March 1, 2019, totaled 8.6 billion bushels, a decrease of 3% from prior year. U.S. corn production is forecast at 14.4 million bushels for the 2018/19 season, a decrease from the 2017/18 forecast production of 14.6 million bushels. Yields are forecast at 176.4 bushels per acre compared to the 2017/18 forecast of 176.6 bushels per acre on one million fewer harvested acres. The forecast season average corn price received by producers is $3.35 to $3.75 per bushel.

Soybeans: According to the March 29, 2019, Prospective Plantings Report, soybean acres are forecast at 84.6 million acres, a decrease of 5% from prior year. Planting acreage intentions are unchanged or decreased in 26 of the 29 estimating states. Soybeans stored in all positions on March 1, 2019, totaled 2.7 billion bushels, an increase of 29% from prior year. The forecast season average soybean price received by producers is $8.10 to $9.10 per bushel.

Sugar Beets: U.S. beet sugar production for 2018/19 is forecast at 5 million short tons, raw value (STRV) an increase of 103,700 STRV from the prior forecast. The increase is due to a lower projected shrink of 5%, a decrease from 7% forecast in the prior month, along with a slight increase in projected recovery from sliced beets. Beginning stock forecasts remain unchanged at 2 million STRV.

Imports from Mexico for 2018/19 are forecast to decrease 223,635 STRV to 896,692 STRV. High-tier tariff imports are forecast to increase 10,000 STRV to 55,000 STRV. Forecast U.S. sugar exports remain unchanged in recent months at 35,000 STRV. Deliveries for human consumption remain unchanged from the prior projection of 12.1 million STRV. Ending stocks are forecast at 1.7 million STRV for a stocks-to-use ratio of 13.6%, a decrease from 14.6% in the prior forecast. Price for #16 U.S. raw sugar has been holding around $0.25 to $0.255 per pound in recent months, consistent since June 2018.

Wheat: All wheat planted area for 2019 is forecast at 45.8 million acres, a decrease of 4% from prior year. This represents the lowest all wheat planted area for the U.S. since records began in 1919. Winter wheat planted area for 2019 is forecast at 31.5 million acres, a decrease of 3% from prior year, but an increase of 1% from prior estimates. Of the total winter wheat planted acres forecast, 22.4 million acres are Hard Red Winter, 5.6 million acres are Soft Red Winter, and 3.5 million acres are White Winter. Area planted to other spring wheat is forecast at 12.8 million acres for 2019, a decrease of 3% from prior year. Of the total other spring wheat planted acres, 12.4 million acres are Hard Red Spring wheat. The intended Durum planted area for 2019 is forecast at 1.4 million acres, a decrease of 31% from the prior year. The forecast season average wheat price received by producers is $5.10 to $5.20 per bushel.

Cattle: The USDA National Agricultural Statistics Service (NASS) released its semiannual cattle report on February 28, 2019. This report provides a snapshot of the U.S. cattle inventory on January 1, 2019. The number of cattle and calves is forecast at 94.8 million head, an increase of 0.5% from prior year marking the fifth year of expansion although at a slower rate than prior year. Expansion is expected to slow further in 2019. The revised lower calf crop forecast for 2018 reduces the outlook for placements in 2019. Lower than expected placements in December will result in lower expected marketings in 2019. A reduced forecast for carcass weights also contributes to the lowered 2019 beef production forecast. Large available supplies and robust demand from key Asian markets helped U.S. beef exports reach record levels in 2018. The 2019 export forecast is unchanged from prior month.

Hogs: U.S. inventory of all hogs and pigs on March 1, 2019, was 74.3 million head, an increase of 2% from prior year although a small decrease from December 1, 2018. Breeding inventory is reported at 6.4 million head, an increase of 2% from prior year and a small increase from prior quarter. Market hog inventory is reported at 67.9 million head, an increase of 2% from prior year and a small decrease from prior quarter.

The expanded U.S. pork industry continues to struggle in March with the price implications of large hog numbers and increased volumes of pork that the hogs supply. From the beginning of this year through March 2, 2019, forecast for federally inspected hog slaughter was 22.1 million head, an increase of 821,000 head or 3.9% from prior year. The 22.1 million hogs yielded just under an estimated 4.8 billion federally inspected pounds of pork, an increase of 200 million pounds or 4.3% of pork cuts over prior year.

Greater quantities of hogs and pork continue to pressure prices for both. From the beginning of 2019 through March 1, 2019, prices of live equivalent 51% to 52% lean hogs averaged $39.63 per cwt, a 22% decrease from prior year. Greater quantities of pork cuts has decreased whole sale pork prices as well. In the first quarter of 2019, the wholesale pork carcass cutout averaged $66.06 per cwt, a decrease of more than 17% from prior year when the average was $79.64 per cwt.

Dairy: Milk production is forecast at 219.7 billion pounds for 2019, a decrease of 0.4 billion pounds from prior year. Exports for 2019 are forecast 1.0 billion pounds lower on a skim-solids milk-equivalent basis and 0.2 billion pounds lower on a milk-fat milk-equivalent basis. Forecasts for most dairy product prices have increased, with the exception of dry whey prices decreasing due to lower exports. The all-milk price forecast for 2019 is $17.00 to $17.60 per cwt, an increase from the prior forecast of $16.90 to $17.60 per cwt.

Ethanol: Stocks of ethanol remain at historically high levels. Data from the U.S. Energy Information Administration (EIA) indicated weekly ending stocks on March 15, 2019, set a new record at 24.4 million barrels. This is only the fifth time in history that ethanol stocks have risen above 24 million barrels. January was a tough month for most ethanol producers and news of shut-downs and slow-downs circled the country. Margins have improved slightly in February and March. Ethanol production for the week ending March 15, 2019, was 1.0 million barrels per day. Recent flooding throughout the Midwest is expected to slow down ethanol production in the coming weeks, but the extent is not yet known.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $7.2 billion at March 31, 2019, a decrease of $9.6 million from December 31, 2018. The decrease was primarily due to seasonality in our operating loan portfolio.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2018. Adversely classified loans increased to 3.1% of the portfolio at March 31, 2019, from 2.6% of the portfolio at December 31, 2018. 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 agency guarantee programs are used to reduce the risk of loss. At March 31, 2019, $295.6 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 2019**	December 31 2018
Loans:		
Nonaccrual	**$ 35,672**	$ 29,490
Accruing restructured	**501**	503
Accruing loans 90 days or more past due	**1,189**	6,661
Total risk loans	**37,362**	36,654
Other property owned	**274**	274
Total risk assets	**$ 37,636**	$ 36,928
Total risk loans as a percentage of total loans	**0.5%**	0.5%
Nonaccrual loans as a percentage of total loans	**0.5%**	0.4%
Current nonaccrual loans as a percentage of total nonaccrual loans	**57.0%**	70.4%
Total delinquencies as a percentage of total loans	**0.6%**	0.3%

Note: Accruing loans include accrued interest receivable.

Our risk assets have not changed significantly from December 31, 2018, and have remained at acceptable levels. 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 three customers moving to nonaccrual in our real estate portfolio during the first three months of 2019. Nonaccrual loans remained at an acceptable level at March 31, 2019, and December 31, 2018.

The decrease in accruing loans 90 days or more past due was primarily due to three customers moving to nonaccrual. 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 inherent 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 2019**	December 31 2018
Allowance as a percentage of:		
Loans	**0.3%**	0.2%
Nonaccrual loans	**58.9%**	60.3%
Total risk loans	**56.3%**	48.6%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2019.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the three months ended March 31		**2019**		2018
Net income	**$**	**29,642**	$	34,711
Return on average assets		**1.6%**		1.9%
Return on average members' equity		**6.9%**		8.7%

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		**2019**		2018		**Increase (decrease) in net income**
Net interest income	**$**	**47,501**	$	47,771	**$**	**(270)**
Provision for credit losses		**3,445**		1,338		**(2,107)**
Patronage income		**7,754**		6,922		**832**
Other income, net		**8,150**		11,162		**(3,012)**
Operating expenses		**30,379**		29,142		**(1,237)**
(Benefit from) provision for income taxes		**(61)**		664		**725**
Net income	**$**	**29,642**	$	34,711	**$**	**(5,069)**

Changes in Net Interest Income

(in thousands) For the three months ended March 31		**2019 vs 2018**
Changes in volume	**$**	**1,827**
Changes in interest rates		**(1,981)**
Changes in nonaccrual income and other		**(116)**
Net change	**$**	**(270)**

The change in the provision for credit losses was primarily related to weaker loss given default rates within our PCA portfolio.

Patronage Income

(in thousands) For the three months ended March 31		**2019**		2018
Wholesale patronage	**$**	**4,867**	$	4,749
Pool program patronage		**2,887**		1,990
Other Farm Credit Institutions		**--**		183
Total patronage income	**$**	**7,754**	$	6,922

The change in other income, net was primarily due to our share of the Allocated Insurance Reserve Accounts (AIRA) distribution received from the Farm Credit System Insurance Corporation (FCSIC) of $1.7 million in 2019, compared to $4.1 million in 2018. The AIRA was established by FCSIC when premiums collected increased the level of the Insurance Fund beyond the required 2% of insured debt. Refer to the 2018 Annual Report for additional information about the FCSIC.

The change in operating expenses was primarily related to increased salaries and benefits expense.

The change in (benefit from) provision for income taxes was primarily related to our estimate of taxable income and book tax differences.

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, 2021, 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 AgriBank profit, and
- a risk premium component, if applicable.

We were not subject to a risk premium at March 31, 2019, or December 31, 2018.

Total members' equity increased $18.4 million from December 31, 2018, 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 and an equity adjustment of our investment in FPI, Inc. also related to pension activities. Refer to Note 9 in our 2018 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 leverage. Refer to Note 7 in our 2018 Annual Report for a more complete description of these ratios.

Regulatory Capital Requirements and Ratios

As of:	**March 31 2019**	December 31 2018	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**19.1%**	18.2%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**19.1%**	18.2%	6.0%	2.5%*	8.5%
Total capital ratio	**19.3%**	18.5%	8.0%	2.5%*	10.5%
Permanent capital ratio	**19.1%**	18.3%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**21.4%**	20.5%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**22.5%**	21.3%	1.5%	N/A	1.5%

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums is being phased in over three years under the FCA capital requirements. The phase in period ends on December 31, 2019.

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.

CERTIFICATION

The undersigned have reviewed the March 31, 2019, 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

Brian S. McKay
Chief Financial Officer
AgCountry Farm Credit Services, ACA

May 6, 2019

CONSOLIDATED STATEMENTS OF CONDITION

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

As of:	March 31 2019	December 31 2018
ASSETS		
Loans	**$ 7,240,222**	$ 7,249,804
Allowance for loan losses	**21,017**	17,796
Net loans	**7,219,205**	7,232,008
Investment in AgriBank, FCB	**184,727**	184,727
Accrued interest receivable	**82,478**	92,671
Premises and equipment, net	**42,273**	42,612
Other property owned	**274**	274
Assets held for lease, net	**1,369**	1,815
Deferred tax assets, net	**147**	82
Other assets	**74,485**	86,997
Total assets	**$ 7,604,958**	$ 7,641,186
LIABILITIES		
Note payable to AgriBank, FCB	**$ 5,797,721**	$ 5,820,678
Accrued interest payable	**39,249**	38,304
Patronage distribution payable	**11,251**	42,500
Other liabilities	**35,126**	36,507
Total liabilities	**5,883,347**	5,937,989
Contingencies and commitments (Note 4)		
MEMBERS' EQUITY		
Capital stock and participation certificates	**12,509**	12,587
Additional paid-in capital	**304,385**	304,385
Unallocated surplus	**1,409,245**	1,390,854
Accumulated other comprehensive loss	**(4,528)**	(4,629)
Total members' equity	**1,721,611**	1,703,197
Total liabilities and members' equity	**$ 7,604,958**	$ 7,641,186

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	**2019**	2018
Interest income	**$ 86,793**	$ 77,856
Interest expense	**39,292**	30,085
Net interest income	**47,501**	47,771
Provision for credit losses	**3,445**	1,338
Net interest income after provision for credit losses	**44,056**	46,433
Other income		
Patronage income	**7,754**	6,922
Financially related services income	**4,161**	4,504
Fee income	**1,666**	1,972
Allocated Insurance Reserve Accounts distribution	**1,679**	4,094
Miscellaneous income, net	**644**	592
Total other income	**15,904**	18,084
Operating expenses		
Salaries and employee benefits	**18,397**	17,150
Other operating expenses	**11,982**	11,992
Total operating expenses	**30,379**	29,142
Income before income taxes	**29,581**	35,375
(Benefit from) provision for income taxes	**(61)**	664
Net income	**$ 29,642**	$ 34,711
Other comprehensive income		
Employee benefit plans activity	**$ 101**	$ 117
Total other comprehensive income	**101**	117
Comprehensive income	**$ 29,743**	$ 34,828

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, 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
Balance at December 31, 2018	$ 12,587	$ 304,385	$ 1,390,854	$ (4,629)	$ 1,703,197
Net income	**--**	**--**	**29,642**	**--**	**29,642**
Other comprehensive income	**--**	**--**	**--**	**101**	**101**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(11,251)**	**--**	**(11,251)**
Capital stock and participation certificates issued	**175**	**--**	**--**	**--**	**175**
Capital stock and participation certificates retired	**(253)**	**--**	**--**	**--**	**(253)**
Balance at March 31, 2019	**$ 12,509**	**$ 304,385**	**$ 1,409,245**	**$ (4,528)**	**$ 1,721,611**

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 Statements of Condition and Consolidated Statements of Comprehensive Income. 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, 2019, are not necessarily indicative of the results to be expected for the year ending December 31, 2019. 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, 2018 (2018 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.

Significant Accounting Policies

Leases: We are the lessee in finance and operating leases. Leases with an initial term of 12 months or less are not recorded on the balance sheet with lease expense recognized on a straight-line basis over the lease term. For finance and operating leases with terms greater than 12 months the right-of-use (ROU) assets are included in “Other assets” in the Consolidated Statements of Condition and the lease liabilities are included in “Other liabilities” in the Consolidated Statements of Condition.

The ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Finance and operating lease ROU assets and liabilities are recognized based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Operating lease expense for lease payments is recognized on a straight-line basis over the lease term. Finance lease expense is recorded on the Statement of Comprehensive Income and is allocated between interest expense and amortization expense. The portion allocated to interest expense is calculated using the effective interest method.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business. While we are a nonpublic entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements on the public business entities effective date or aligned with other System institutions, whichever is earlier.

Standard and effective date	Description	Adoption status and financial statement impact
In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02 “Leases.” In July 2018, the FASB issued ASU 2018-11 “Leases (Topic 842): Targeted Improvements.” The guidance is effective for public business entities in its first quarter of 2019 and early adoption is permitted.	The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases. When this guidance is adopted, a liability for lease obligations and a corresponding right-of-use asset will be recognized on the Consolidated Statements of Condition for all lease arrangements spanning more than 12 months. The guidance includes an optional transition method where an entity is permitted to apply the guidance as of the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings.	We adopted this guidance on January 1, 2019, using the transition guidance allowing for the application of the transition requirements on the effective date with the effects initially recognized as a cumulative effect adjustment to the opening balance of retained earnings. In addition, we elected the package of practical expedients permitted under the transition guidance, which among other things, allowed us to carry forward the historical lease classification. We also elected the hindsight practical expedient to determine the lease term for existing leases. The adoption of this guidance did not have a material impact on our financial condition, results of operations, and financial statement disclosures, and had no impact on cash flows.
In 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 have reviewed the accounting standard, selected our system, and are in the process of drafting disclosures. Significant implementation matters yet to be addressed include system development and testing, drafting of accounting policies, 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:	March 31, 2019		December 31, 2018	
	Amount	%	Amount	%
Real estate mortgage	**$ 3,064,524**	**42.4%**	$ 3,079,351	42.4%
Production and intermediate-term	**1,965,546**	**27.1%**	2,049,893	28.3%
Agribusiness	**1,672,060**	**23.1%**	1,594,142	22.0%
Other	**538,092**	**7.4%**	526,418	7.3%
Total	**$ 7,240,222**	**100.0%**	$ 7,249,804	100.0%

The other category is primarily comprised of energy, communication, agricultural export finance, and rural residential real estate related loans.

Delinquency

Aging Analysis of Loans

(in thousands) **As of March 31, 2019**	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	**$ 10,779**	**$ 11,167**	**$ 21,946**	**$ 3,088,607**	**$ 3,110,553**	**$ 763**
Production and intermediate-term	**14,511**	**4,660**	**19,171**	**1,973,632**	**1,992,803**	**426**
Agribusiness	**83**	**41**	**124**	**1,679,200**	**1,679,324**	**--**
Other	**--**	**85**	**85**	**539,935**	**540,020**	**--**
Total	**$ 25,373**	**$ 15,953**	**$ 41,326**	**$ 7,281,374**	**$ 7,322,700**	**$ 1,189**

As of December 31, 2018	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 3,651	$ 10,269	$ 13,920	$ 3,114,920	$ 3,128,840	$ 6,661
Production and intermediate-term	6,773	4,105	10,878	2,074,539	2,085,417	--
Agribusiness	225	41	266	1,600,412	1,600,678	--
Other	--	16	16	527,524	527,540	--
Total	$ 10,649	$ 14,431	$ 25,080	$ 7,317,395	$ 7,342,475	$ 6,661

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 2019**	December 31 2018
Volume with specific allowance	**$ 16,525**	$ 14,331
Volume without specific allowance	**20,837**	22,323
Total risk loans	**$ 37,362**	$ 36,654
Total specific allowance	**$ 6,245**	$ 6,389
For the three months ended March 31	**2019**	2018
Income on accrual risk loans	**$ 18**	$ 18
Income on nonaccrual loans	**278**	394
Total income on risk loans	**$ 296**	$ 412
Average risk loans	**$ 34,981**	$ 27,959

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 March 31, 2019.

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. Our recorded investment in these loans just prior to and immediately following restructuring was $55 thousand during the three months ended March 31, 2018. 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 deferral of principal.

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 2019**	December 31 2018
Accrual status:		
Real estate mortgage	**$ 479**	$ 472
Production and intermediate-term	**22**	31
Agribusiness	**--**	--
Total TDRs in accrual status	**$ 501**	$ 503
Nonaccrual status:		
Real estate mortgage	**$ 3,128**	$ 3,200
Production and intermediate-term	**368**	440
Agribusiness	**3,549**	3,784
Total TDRs in nonaccrual status	**$ 7,045**	$ 7,424
Total TDRs:		
Real estate mortgage	**$ 3,607**	$ 3,672
Production and intermediate-term	**390**	471
Agribusiness	**3,549**	3,784
Total TDRs	**$ 7,546**	$ 7,927

There were no commitments to lend to borrowers whose loans have been modified in a TDR at March 31, 2019.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Three months ended March 31	**2019**	2018
Balance at beginning of period	**$ 17,796**	$ 15,818
Provision for loan losses	**3,120**	1,630
Loan recoveries	**101**	125
Loan charge-offs	**--**	(63)
Balance at end of period	**$ 21,017**	$ 17,510

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 three months ended March 31	2019	2018
Provision for (reversal of) credit losses	**$ 325**	$ (292)
As of:	**March 31 2019**	December 31 2018
Accrued credit losses	**$ 2,387**	$ 2,062

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 $14.0 million with varying commitment end dates through November 2023. Certain commitments may have an option to extend under certain circumstances. Our investment in the RBICs are recorded in "Other assets" in the Consolidated Statements of Condition, and totaled $8.0 million at March 31, 2019, and $7.4 million at December 31, 2018.

The investments were evaluated for impairment. No investments were impaired as of March 31, 2019, and December 31, 2018.

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 2018 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, 2019, or December 31, 2018.

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 March 31, 2019			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$ 10,794**	**$ 10,794**
Other property owned	**--**	**--**	**285**	**285**
	As of December 31, 2018			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$ --	$ 8,339	$ 8,339
Other property owned	--	--	285	285

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 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 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 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 property and other matters, they are classified as Level 3.

NOTE 6: SUBSEQUENT EVENTS

We have evaluated subsequent events through May 6, 2019, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.