AgCountry Farm Credit Services, ACA

Quarterly Report
September 30, 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 3.1% in 2019 compared to 3.3% 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 6.6% in 2018 to 6.2% in 2019 due to slowing international trade, a softening real estate market, and weaker domestic demand. India's GDP is forecast to grow 7.2% in 2019, unchanged from 2018. GDP growth of 1.5% is forecast in Japan for 2019 compared with 1.3% in 2018. Exports of technology goods from Japan, South Korea, and Taiwan have all been affected by the escalating trade tensions between the United States and China. GDP growth of 2.1% is forecast in Latin America. The Brazilian economy is forecast to grow 2.6% in 2019 due to increased consumption. Delayed by drought and a currency crisis in 2018, the Argentine economy is forecast to grow 0.1% in 2019. The Canadian forecasted economic growth rate of 1.8% for 2019 remains unchanged from 2018. In Mexico, growth is forecast at 2.4% in 2019 compared with 2.0% in 2018. Growth in Mexico remains moderate due to tighter financing conditions and domestic policy-related uncertainty. GDP growth of 1.3% is forecast for the Eurozone in 2019 compared with 1.8% in 2018.

United States economic fundamentals are expected to improve in 2019, with growth of 2.9%, unchanged from 2018. Uncertainty regarding trade policy actions under the current administration and trade retaliation continues. The unemployment rate was 3.7% in August, and the number of unemployed persons was largely unchanged at 6.0 million.

Information received since the Federal Open Market Committee (Committee) last met indicates the labor market remains strong and economic activity has been rising at a moderate rate. Job gains have been strong in recent months, and the unemployment rate has stayed low. Although growth of household spending continues to grow, business fixed investments and exports have weakened. On a 12-month basis, both overall inflation and inflation for items other than food and energy are running below 2.0%. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. In light of the implications of global developments for the economic outlook as well as muted inflation pressures, the Committee decided to lower the target range for the federal funds rate to 1.75% to 2.0%. This action supports the Committee's view that sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2.0% objective are the most likely outcomes, but uncertainties about this outlook remain. As the Committee contemplates the future path of the target range for the federal funds rate, it will continue to monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric 2.0% objective.

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 2.0% 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 forecast to increase in 2019, following a decline for farm sector profits in 2018. Net cash income for 2019 is forecast to increase by $4.3 billion to $95.7 billion, an increase of 4.7%. Net farm income is forecast at $69.4 billion in 2019, an increase of $6.3 billion or 10.0%. If realized, inflation-adjusted net farm income in 2019 would be 49.0% below its highest level of $136.1 billion in 2013 and below its historical average across 2000-2017 of $90.0 billion.

Farm cash receipts for all commodities are forecast to increase $8.6 billion or 2.3% to $381.5 billion in 2019. Total animal/animal product receipts are forecast to increase $4.6 billion or 2.6% following forecast increases in milk and cattle/calf receipts. Total crop receipts are forecast to increase $4.0 billion or 2.0% from 2018 forecast levels due to forecast increases in corn and fruit/nut receipts.

Specific Production Conditions

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

Corn: Corn production for 2019/20 is forecast at 13.8 billion bushels, a decrease of 102 million bushels from previous estimates. The decrease results from lower estimated exports and corn used for ethanol in 2018/19. Corn used for ethanol in 2019/20 is expected to decrease 25 million bushels. Forecasted ending stocks have been increased by 9 million bushels from last month due to demand falling faster than the supply. The projected 2019/20 season average farm price for corn is $3.60 per bushel.

Soybeans: United States soybean production is forecast at 3.6 billion bushels, a decrease of 47 million on a lower yield forecast of 47.9 bushels per acre. Per the United States Department of Agriculture (USDA), 2019/20 forecast season average soybean price received by producers is $8.50 per bushel.

Sugar Beets: United States beet sugar production for 2019/20 is forecast at 5.0 million short tons, raw value (STRV), a decrease from the prior month forecast of 5.2 million STRV. The decrease is primarily due to national sugar beet yield decreasing 3.5% with reductions in all major producing areas. Beet sugar production for 2018/19 has decreased 51,144 STRV to 5.0 million due to decreased estimated sucrose recovery from sliced beets and decreased production from de-sugared molasses. Ending stocks for 2018/19 are forecast at 1.7 million STRV for a stocks-to-use ratio of 14.2%. Ending stocks for 2019/20 are forecast at 1.6 million STRV for a stocks-to-use ratio of 13.5%. Imports from Mexico for 2019/20 are forecast at 956,738 metric tons, equal to the expected level of United States needs as defined in the amended suspension agreements. Projected United States sugar exports remain unchanged and deliveries for human consumption have decreased 25,000 STRV to 12.2 million STRV based on a slower than expected pace.

Wheat: All wheat production totaled 2 billion bushels in 2019, an increase of 4% from the revised 2018 total of 1.9 billion bushels. Area harvested for grain totaled 38.1 million acres, a decrease of 4.0% from the prior year. The United States yield is forecast at 51.6 bushels per acre, an increase of 4 bushels per acre from the prior year. Winter wheat totals 1.3 billion bushels, an increase of 10.0% from the prior year. Spring wheat totals 600 million bushels, a decrease of 4.0% from the prior year. Durum wheat totals 57.7 million bushels, a decrease of 26.0% from the prior year. USDA forecasts the season average wheat price received by producers is $4.80 per bushel.

Cattle: On August 9th, a fire damaged Tyson Foods' Holcomb, Kansas, beef processing plant, rendering it inoperable through 2019. This plant was estimated to have a capacity equivalent to an estimated 5% to 6% of fed cattle slaughtered weekly. The 2019 forecast for commercial beef production has decreased 90 million pounds from the prior forecast of 27 billion pounds. This decrease is primarily due to a slower expected pace of fed cattle slaughter resulting from the fire and lighter expected dressed weights in the fourth quarter. The forecast for 2020 beef production has increased by 105 million pounds to 27.7 billion as the Holcomb plant is expected return to operation by 2020 with the ability to support greater expected fed cattle slaughter. Average carcass weights are forecast higher resulting, in part, from more fed cattle in the slaughter mix. Feeder steer prices are forecast at $133 per cwt and fed steer prices are forecast at $103 per cwt in the fourth quarter.

Hogs: The USDA's Quarterly Hogs and Pigs report issued on September 27, 2019, indicated there were 77.7 million hogs and pigs on United States farms as of the beginning of September, an increase of 3.0% from the prior year. Of the 77.7 million hogs and pigs, 71.3 million were market hogs and 6.4 million were kept for breeding. The June to August 2019 pig crop was 35.3 million head, an increase of 3.0% from the prior year. Sows farrowing during this period totaled 3.2 million head, a decrease of 1.0% from 2018. The sows farrowed during this quarter represent 50% of the breeding herd. The average pigs saved per litter during this June to August timeframe was a record high of 11.1, an increase from 10.7 for the same reporting period in 2018.

Dairy: Milk production forecast for 2019 increased to 218.0 billion pounds as gains in milk per cow more than offset the shrinking milking herd. Production for 2020 has decreased with the forecast of slower growth in the size of the milking herd despite the increase in milk per cow. Milk production for 2020 is forecast at 221.2 billion pounds, a decrease of 0.2 billion pounds from previous forecasts. The all-milk price forecast for 2019 is $18.35 per cwt and $18.85 per cwt for 2020.

Ethanol: On August 9, 2019, the Environmental Protection Agency (EPA) granted 31 Small Refinery Waivers exempting smaller refineries from certain blending requirements as part of the Renewable Fuel Standard (RFS). The RFS requires 15.0 million gallon of corn-based ethanol to be blended into the fuel supply each year. The recent action taken by the EPA exempted nearly 1.4 million gallons, reducing implied demand to 13.6 million gallons of ethanol. This comes at an extremely tough time within the ethanol industry. Recent news articles have stated as much as 75% of the industry is currently experiencing negative margins. After the EPA announced its plan for the Small Refinery Waivers, 3 plants announced they were shutting down.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $7.6 billion at September 30, 2019, an increase of $311.1 million from December 31, 2018. The increase was primarily due to growth in our real estate mortgage and agribusiness portfolios.

Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2018. Adversely classified loans were 2.6% of the portfolio at September 30, 2019, and 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, Federal Agricultural Mortgage Corporation and other government agency guarantee programs are used to reduce the risk of loss. At September 30, 2019, $321.5 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 2019**	December 31 2018
Loans:		
Nonaccrual	**$ 31,308**	$ 29,490
Accruing restructured	**22,435**	503
Accruing loans 90 days or more past due	**5,273**	6,661
Total risk loans	**59,016**	36,654
Other property owned	**31**	274
Total risk assets	**$ 59,047**	$ 36,928
Total risk loans as a percentage of total loans	**0.8%**	0.5%
Nonaccrual loans as a percentage of total loans	**0.4%**	0.4%
Current nonaccrual loans as a percentage of total nonaccrual loans	**54.6%**	70.4%
Total delinquencies as a percentage of total loans	**0.3%**	0.3%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2018, but have 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 accruing restructured loans was primarily due to a loan in the agribusiness portfolio.

The decrease in accruing loans 90 days or more past due was primarily due to several customers moving from this category 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:	**September 30 2019**	December 31 2018
Allowance as a percentage of:		
Loans	**0.4%**	0.2%
Nonaccrual loans	**86.6%**	60.3%
Total risk loans	**45.9%**	48.6%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2019.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the nine months ended September 30	**2019**	2018
Net income	**$ 106,730**	$ 108,406
Return on average assets	**1.8%**	1.9%
Return on average members' equity	**8.2%**	8.9%

Changes presented in the profitability information chart relate directly to:

- changes in income discussed in this section,
- 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	**2019**	2018	**Increase (decrease) in net income**
Net interest income	**$ 145,465**	$ 146,590	**$ (1,125)**
Provision for credit losses	**11,075**	5,498	**(5,577)**
Patronage income	**30,275**	21,288	**8,987**
Other income, net	**26,177**	31,157	**(4,980)**
Operating expenses	**85,649**	85,033	**(616)**
(Benefit from) provision for income taxes	**(1,537)**	98	**1,635**
Net income	**$ 106,730**	$ 108,406	**$ (1,676)**

Changes in Net Interest Income

(in thousands) For the nine months ended September 30	**2019 vs 2018**
Changes in volume	**$ 5,844**
Changes in interest rates	**(6,224)**
Changes in nonaccrual income and other	**(745)**
Net change	**$ (1,125)**

The change in the provision for credit losses was primarily related to weaker loss given default rates within our production and intermediate-term portfolio.

Patronage Income

(in thousands) For the nine months ended September 30	**2019**	2018
Wholesale patronage:		
Cash	**$ 8,440**	$ 15,078
Stock	**13,954**	--
Pool program patronage	**7,881**	5,965
Other Farm Credit Institutions	**--**	245
Total patronage income	**$ 30,275**	$ 21,288

The increase in patronage income was primarily due to an increase in wholesale patronage. Total wholesale patronage increased primarily as a result of a higher patronage rate for the nine months ended September 30, 2019, compared to the same period of 2018. Wholesale patronage may be paid in cash or AgriBank stock. Pool program patronage is paid in cash. As discussed in our Annual Report, AgriBank will pay patronage in the form of allocated stock as necessary to meet all regulatory capital requirements, while optimizing capital throughout the District. The amount of stock patronage may vary from quarter-to-quarter as AgriBank updates its forecasts for the year, and the final amount of stock patronage will be determined at the end of the year.

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 (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 because 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 equity.

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 September 30, 2019, or December 31, 2018.

Total members' equity increased $73.3 million from December 31, 2018, primarily due to net income for the period partially offset by patronage distribution accruals. The change in accumulated other comprehensive loss is the amortization impact of prior service cost and unamortized actuarial gain/loss related to the Pension Restoration Plan. We also made an equity adjustment of our investment in Farm Credit Partners, Inc. 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:	**September 30 2019**	December 31 2018	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**18.5%**	18.2%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**18.5%**	18.2%	6.0%	2.5%*	8.5%
Total capital ratio	**18.8%**	18.5%	8.0%	2.5%*	10.5%
Permanent capital ratio	**18.5%**	18.3%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**20.6%**	20.5%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**21.7%**	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 September 30, 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

November 4, 2019

CONSOLIDATED STATEMENTS OF CONDITION

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

As of:		September 30 2019		December 31 2018
ASSETS				
Loans	**$**	**7,560,870**	$	7,249,804
Allowance for loan losses		**27,112**		17,796
Net loans		**7,533,758**		7,232,008
Investment in AgriBank, FCB		**198,832**		184,727
Accrued interest receivable		**116,245**		92,671
Premises and equipment, net		**38,101**		42,612
Other property owned		**31**		274
Assets held for lease, net		**552**		1,815
Deferred tax assets, net		**1,667**		82
Other assets		**93,805**		86,997
Total assets	**$**	**7,982,991**	$	7,641,186
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**6,100,807**	$	5,820,678
Accrued interest payable		**40,531**		38,304
Patronage distribution payable		**33,750**		42,500
Other liabilities		**31,401**		36,507
Total liabilities		**6,206,489**		5,937,989
Contingencies and commitments (Note 4)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**12,606**		12,587
Additional paid-in capital		**304,385**		304,385
Unallocated surplus		**1,463,833**		1,390,854
Accumulated other comprehensive loss		**(4,322)**		(4,629)
Total members' equity		**1,776,502**		1,703,197
Total liabilities and members' equity	**$**	**7,982,991**	$	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)

For the period ended September 30	*Three Months Ended* **2019**	*Three Months Ended* 2018	*Nine Months Ended* **2019**	*Nine Months Ended* 2018
Interest income	**$ 90,220**	$ 86,684	**$ 266,491**	$ 246,853
Interest expense	**40,587**	36,144	**121,026**	100,263
Net interest income	**49,633**	50,540	**145,465**	146,590
Provision for credit losses	**2,945**	3,057	**11,075**	5,498
Net interest income after provision for credit losses	**46,688**	47,483	**134,390**	141,092
Other income				
Patronage income	**10,822**	7,161	**30,275**	21,288
Financially related services income	**10,489**	11,239	**16,937**	17,803
Fee income	**1,979**	2,062	**5,385**	5,831
Allocated Insurance Reserve Accounts distribution	**--**	--	**1,679**	4,094
Miscellaneous income, net	**923**	1,000	**2,176**	3,429
Total other income	**24,213**	21,462	**56,452**	52,445
Operating expenses				
Salaries and employee benefits	**16,694**	16,983	**51,669**	50,975
Other operating expenses	**10,934**	11,387	**33,980**	34,058
Total operating expenses	**27,628**	28,370	**85,649**	85,033
Income before income taxes	**43,273**	40,575	**105,193**	108,504
(Benefit from) provision for income taxes	**(267)**	(3)	**(1,537)**	98
Net income	**$ 43,540**	$ 40,578	**$ 106,730**	$ 108,406
Other comprehensive income				
Employee benefit plans activity	**$ 100**	$ 117	**$ 307**	$ 351
Total other comprehensive income	**100**	117	**307**	351
Comprehensive income	**$ 43,640**	$ 40,695	**$ 107,037**	$ 108,757

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	--	--	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
Balance at December 31, 2018	$ 12,587	$ 304,385	$ 1,390,854	$ (4,629)	$ 1,703,197
Net income	**--**	**--**	**106,730**	**--**	**106,730**
Other comprehensive income	**--**	**--**	**--**	**307**	**307**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(33,751)**	**--**	**(33,751)**
Capital stock and participation certificates issued	**510**	**--**	**--**	**--**	**510**
Capital stock and participation certificates retired	**(491)**	**--**	**--**	**--**	**(491)**
Balance at September 30, 2019	**$ 12,606**	**$ 304,385**	**$ 1,463,833**	**$ (4,322)**	**$ 1,776,502**

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 nine months ended September 30, 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. All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

Leases: We are the lessee in 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 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. Operating lease ROU assets and liabilities are recognized based on the present value of lease payments over the lease term. Because 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. The length of the lease term is modified to include the option 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.

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. Upon adoption, a liability for lease obligations and a corresponding right-of-use asset is 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. We elected the 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.

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.	On October 16, 2019, the FASB voted to defer effective dates for various standards for certain entities, which includes ASU 2016-13. We have determined we qualify for the delay in the required adoption date for this standard. We are evaluating the deferral and have not yet determined if we will early adopt the standard. We have reviewed the accounting standard, selected and substantially completed development of our system, and are in the process of drafting disclosures. Significant implementation matters yet to be addressed include system 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:	**September 30, 2019**			December 31, 2018		
		Amount	%		Amount	%
Real estate mortgage	**$**	**3,207,200**	**42.4%**	$	3,079,351	42.4%
Production and intermediate-term		**2,092,931**	**27.7%**		2,049,893	28.3%
Agribusiness		**1,691,075**	**22.4%**		1,594,142	22.0%
Other		**569,664**	**7.5%**		526,418	7.3%
Total	**$**	**7,560,870**	**100.0%**	$	7,249,804	100.0%

The other category is primarily composed of energy, communications, and waste water loans.

Delinquency

Aging Analysis of Loans

(in thousands) **As of September 30, 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	**$**	**781**	**$**	**11,751**	**$**	**12,532**	**$**	**3,262,672**	**$**	**3,275,204**	**$**	**2,501**
Production and intermediate-term		**3,494**		**7,310**		**10,804**		**2,122,356**		**2,133,160**		**2,772**
Agribusiness		**--**		**41**		**41**		**1,697,563**		**1,697,604**		**--**
Other		**--**		**13**		**13**		**571,134**		**571,147**		**--**
Total	**$**	**4,275**	**$**	**19,115**	**$**	**23,390**	**$**	**7,653,725**	**$**	**7,677,115**	**$**	**5,273**

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:		September 30 2019		December 31 2018
Volume with specific allowance	**$**	**10,354**	$	14,331
Volume without specific allowance		**48,662**		22,323
Total risk loans	**$**	**59,016**	$	36,654
Total specific allowance	**$**	**4,141**	$	6,389
For the nine months ended September 30		**2019**		2018
Income on accrual risk loans	**$**	**353**	$	101
Income on nonaccrual loans		**999**		1,744
Total income on risk loans	**$**	**1,352**	$	1,845
Average risk loans	**$**	**43,088**	$	35,084

Note: Accruing loans include accrued interest receivable.

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

TDR Activity

(in thousands) Nine months ended September 30	**2019**				2018			
		Pre-modification		Post-modification		Pre-modification		Post-modification
Real estate mortgage	**$**	**--**	**$**	**--**	$	410	$	370
Production and intermediate-term		**--**		**--**		369		310
Agribusiness		**21,970**		**21,970**		3,939		3,939
Total	**$**	**21,970**	**$**	**21,970**	$	4,718	$	4,619

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 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 real estate mortgage loan category of $0.3 million and TDRs in the production and intermediate-term loan category of $0.5 million that defaulted during the nine months ended September 30, 2019, in which the modifications were within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:	September 30 2019	December 31 2018
Accrual status:		
Real estate mortgage	$ 450	$ 472
Production and intermediate-term	15	31
Agribusiness	21,970	--
Total TDRs in accrual status	$ 22,435	$ 503
Nonaccrual status:		
Real estate mortgage	$ 2,984	$ 3,200
Production and intermediate-term	375	440
Agribusiness	3,665	3,784
Total TDRs in nonaccrual status	$ 7,024	$ 7,424
Total TDRs:		
Real estate mortgage	$ 3,434	$ 3,672
Production and intermediate-term	390	471
Agribusiness	25,635	3,784
Total TDRs	$ 29,459	$ 7,927

There were no commitments to lend to borrowers whose loans have been modified in a TDR at September 30, 2019.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Nine months ended September 30	2019	2018
Balance at beginning of period	$ 17,796	$ 15,818
Provision for loan losses	10,320	5,290
Loan recoveries	172	390
Loan charge-offs	(1,176)	(737)
Balance at end of period	$ 27,112	$ 20,761

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	2019	2018
Provision for credit losses	$ 755	$ 208
As of:	September 30 2019	December 31 2018
Accrued credit losses	$ 2,818	$ 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 $9.4 million at September 30, 2019, and $7.4 million at December 31, 2018.

The investments were evaluated for impairment. No investments were impaired at September 30, 2019, or 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 September 30, 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 September 30, 2019			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$ 6,524**	**$ 6,524**
Other property owned	**--**	**--**	**33**	**33**
	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 foreclosed 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 November 4, 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.