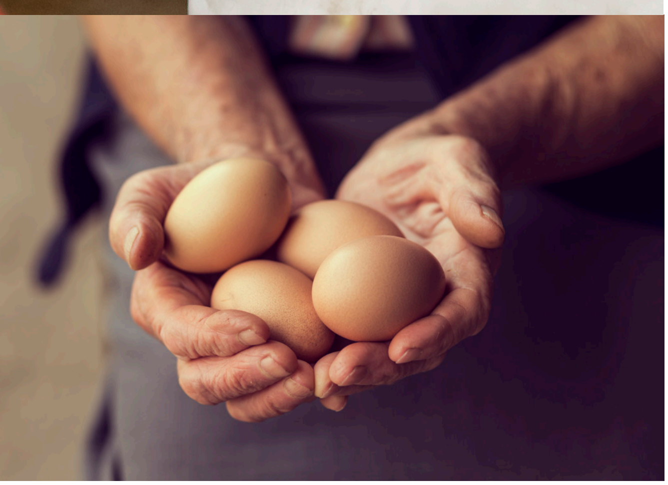
AgHeritage®
Farm Credit Services

ANNUAL REPORT 2018

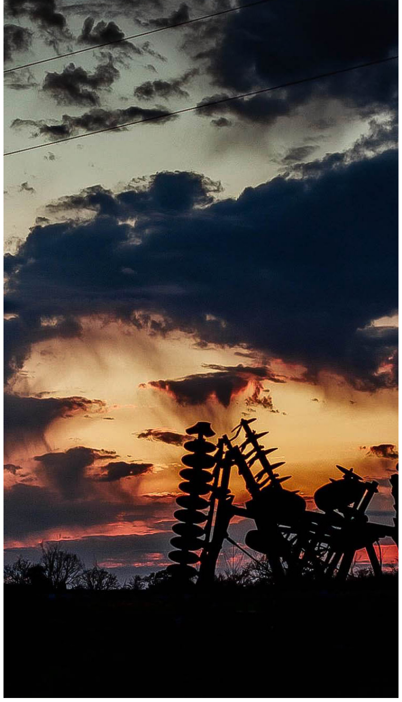


Deep Roots in Rural America

Farm Credit is a nationwide network of customer-owned financial institutions that provides loans and related financial services to U.S. farmers and ranchers, farmer-owned cooperatives, rural homebuyers, agribusinesses and rural infrastructure providers.

As customer-owned cooperatives, Farm Credit institutions are governed by the customers they serve and have a specific mission to support rural communities and agriculture – in good times and bad. Farm Credit loans help U.S. agricultural producers feed the world, rural businesses grow and the rural economy thrive. Our infrastructure lending helps bring clean water to rural families, modern telecommunications to help rural businesses compete and reliable energy to rural communities.

Farm Credit's mission remains just as vital today as it was when we made our first loan more than 100 years ago. For more information about Farm Credit and how we support rural communities and agriculture, please visit **www.farmcredit.com.**



Board of Directors

Back (L-R) *Keith Watkins, Jesse Briggs, Clay Schaefer, Scott Young*
Middle (L-R) *Mike Burkett, Chuck Culver, Michael Taylor, Jeff Rutledge, Russell Bonner*
Front (L-R) *Dwain Morris, Sandra Morgan, Jerry Burkett*

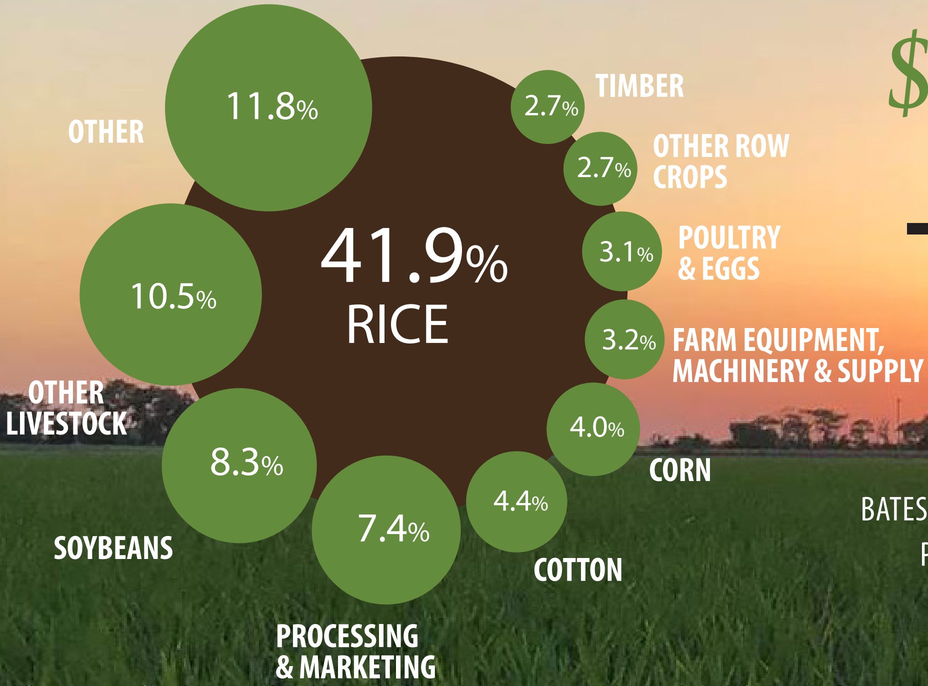
Senior Leadership

Front (L-R) *Drue Ford, SVP & CCO, Greg Cole, President & CEO, Leslie Brown, VP Human Resources*
Back (L-R) *Cole Plafcan, SVP Chief Lending & Marketing Officer, Ken Sumner, SVP & CFO*

AGHERITAGE FARM CREDIT SERVICES
at a glance

YOUR TRUSTED LENDER FOR MORE THAN 100 YEARS.

OUR PORTFOLIO



ASSETS & GROWTH

$1.4 BILLION
IN TOTAL ASSETS

9 BRANCH
LOCATIONS

BATESVILLE BRINKLEY LONOKE MCGEHEE NEWPORT
POCAHONTAS SEARCY STAR CITY STUTTGART

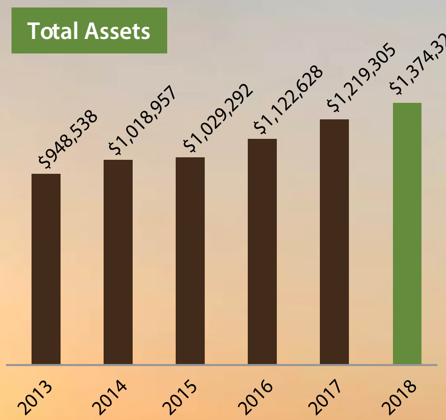
(PINE BLUFF OPENING IN 2019!)

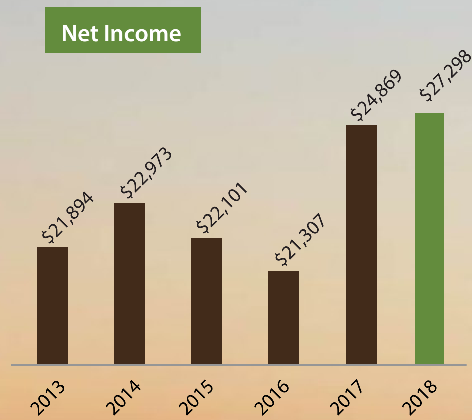
SERVING 3,031 MEMBERS ACROSS 24 COUNTIES

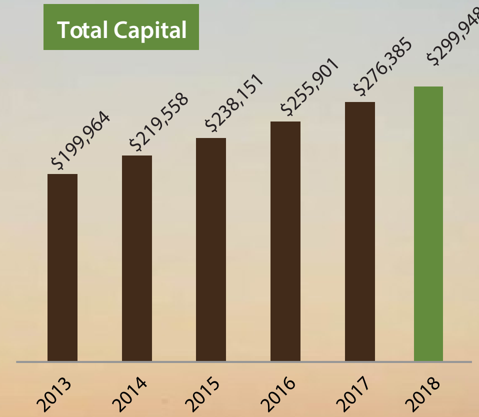
EXCEPTIONALLY STRONG

customer satisfaction and employee engagement survey results

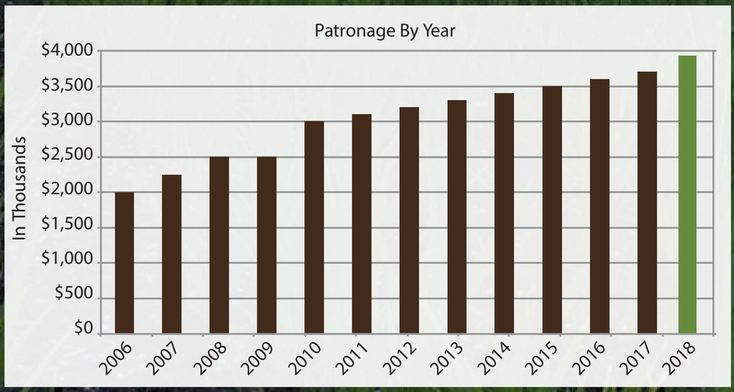
FINANCIAL HIGHLIGHTS
(IN THOUSANDS)







PATRONAGE: A PROMISE KEPT FOR 13 YEARS



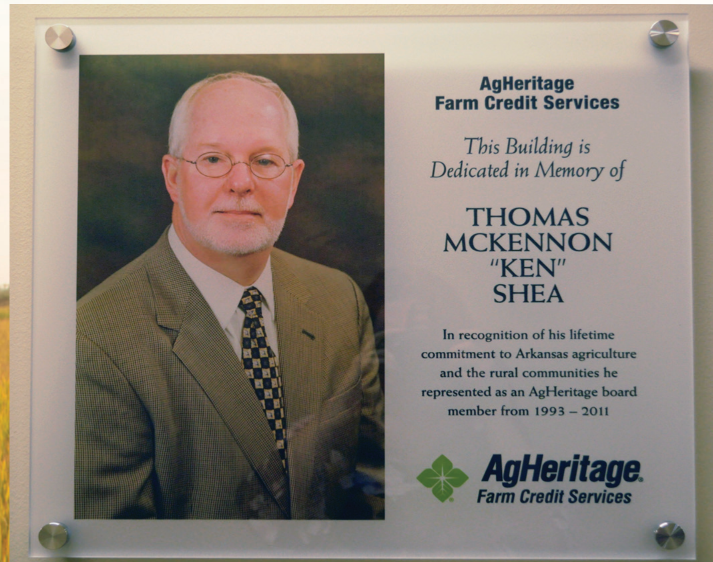
Since 2006, approximately $40 million has gone back to our customer-owners.

AgHeritage® Farm Credit Services

OUR GRAND OPENING IN MCGEHEE

The ribbon cutting for the new McGehee Branch office was held on Tuesday, October 9. “It was an honor to dedicate the building in memory of Ken Shea, who had a lifetime commitment to Arkansas agriculture and served on the AgHeritage board from 1993-2011,” said Greg Cole, President & CEO of AgHeritage. “We look forward to even further immersing our company in the McGehee community and surrounding areas.”

Greg Cole welcomes visitors to the new Branch office.



The building is dedicated to the memory of Ken Shea (pictured above), a prominent Dumas civic, agricultural and business leader. Ken's wife Debbie and daughter Sarah Helen (pictured below) were in attendance at the dedication.

This plaque adorns the front of the new building.

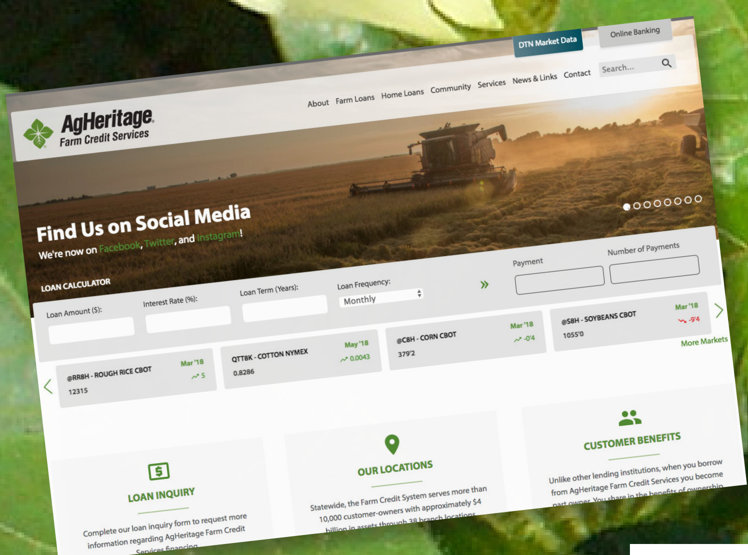
FOLLOW AGHERITAGE ONLINE!

Participate in our 2019 Photo Contest through our website and you could win one of three cash prizes! Encourage your friends and family to vote for your photo through our Facebook page.

Entries accepted 1/19/19 – 6/19/19. Voting period is 6/19/19 – 7/19/19.

The website features many helpful tools including local weather updates, commodity updates and a loan calculator. The website also shares much about the company's history, branches, the farm and home loan process and information about other services including insurance and equipment/vehicle loans.

The social media pages cover a myriad of interesting topics including special events, farmer and branch features, giveaways and agricultural industry updates.



www.agheritagefcs.com | @AgHeritageFCS

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AgHeritage Farm Credit Services, ACA

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear AgHeritage Farm Credit Services Customer-Owners,

We are pleased to report AgHeritage Farm Credit Services, ACA generated some of the strongest financial ratios in the Farm Credit System in terms of capital, efficiency ratio, asset growth and earnings while maintaining strong credit quality. The Association also continues to achieve exceptional customer satisfaction and employee engagement survey results. Your cooperative has grown to exceed $1.37 billion in assets and enjoys a strong market share position, which confirms we are achieving our vision of being the agricultural lender of choice in our local marketplace.

The Association paid $3.9 million in patronage based on 2018 earnings to eligible customer-owners in February 2019. This is part of the Board's commitment to our customer-owners in sharing the success of your cooperative. The $3.9 million represents approximately 14.3 percent of net earnings. This payout allows retention of a portion of earnings to provide for future growth and capital stability. This patronage distribution represents the thirteenth consecutive year your cooperative has distributed a portion of its annual earnings to its customer-owners. To date, AgHeritage has distributed approximately $40 million to customer-owners and plans to continue patronage distributions well into the future.

While the U.S. economy continues to perform at a robust level, the agricultural economy continues to be challenged. Last year was the fifth year in a row, with net-farm income being down approximately 50 percent from the peak in 2013. The crop sector continues to be challenged with excess world stocks, the trade war with China and quality issues with our local crops brought on by an extremely wet harvest season. The protein sector continues to experience modest profitability, with lower feed costs offsetting declining meat prices. Also, Congress passing the new Farm Bill was long and laborious. Despite the situation, your Association remains a financially strong organization. AgHeritage FCS and the Farm Credit System are well capitalized and are in a strong financial position to meet the needs of our customer-owners during turbulent times.

In 2018, the Association made a significant investment by adding more staff that will help in supporting continued growth, enhanced customer service, risk management and succession. We also made investments in a new technology system and a new office in McGhee.

The annual report provides detailed documentation supporting the financial results of the Association. We encourage you to review it carefully, and if you have questions, contact our corporate office or any branch location.

AgHeritage FCS is proud to be your lending cooperative providing both customer and stockholder value to our members. We want to thank you for allowing us to serve your credit and financial services needs today and tomorrow. We also want to thank our staff for their dedication and hard work. Serving agriculture and Rural America is not just our mission; it's our passion.

Sincerely,

Greg Cole
President & Chief Executive Officer
AgHeritage Farm Credit Services, ACA

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

AgHeritage Farm Credit Services, ACA

(dollars in thousands)

As of December 31	**2018**	2017	2016	2015	2014
Statement of Condition Data					
Loans	**$ 1,314,268**	$ 1,166,229	$ 1,073,202	$ 977,289	$ 965,083
Allowance for loan losses	**4,458**	4,404	5,307	1,520	981
Net loans	**1,309,810**	1,161,825	1,067,895	975,769	964,102
Investment in AgriBank, FCB	**27,449**	25,269	22,219	21,439	21,493
Investment securities	**1,663**	3,643	6,004	8,610	11,663
Other assets	**35,402**	28,568	26,510	23,474	21,699
Total assets	**$ 1,374,324**	$ 1,219,305	$ 1,122,628	$ 1,029,292	$ 1,018,957
Obligations with maturities of one year or less	**$ 15,979**	$ 13,780	$ 866,727	$ 791,141	$ 799,399
Obligations with maturities greater than one year	**1,058,397**	929,140	--	--	--
Total liabilities	**1,074,376**	942,920	866,727	791,141	799,399
Protected members' equity	**1**	1	1	1	1
Capital stock and participation certificates	**2,839**	2,759	2,875	2,877	2,909
Unallocated surplus	**297,588**	274,207	253,025	235,273	216,648
Accumulated other comprehensive loss	**(480)**	(582)	--	--	--
Total members' equity	**299,948**	276,385	255,901	238,151	219,558
Total liabilities and members' equity	**$ 1,374,324**	$ 1,219,305	$ 1,122,628	$ 1,029,292	$ 1,018,957

For the year ended December 31	**2018**	2017	2016	2015	2014
Statement of Income Data					
Net interest income	**$ 36,952**	$ 34,602	$ 32,259	$ 31,965	$ 30,033
Provision for credit losses	**69**	1,834	3,764	1,360	--
Other expenses, net	**9,585**	7,899	7,188	8,504	7,060
Net income	**$ 27,298**	$ 24,869	$ 21,307	$ 22,101	$ 22,973
Key Financial Ratios					
For the Year					
Return on average assets	**2.1%**	2.1%	1.9%	2.1%	2.3%
Return on average members' equity	**9.5%**	9.3%	8.6%	9.7%	11.0%
Net interest income as a percentage of average earning assets	**2.9%**	3.0%	3.0%	3.2%	3.2%
Net charge-offs (recoveries) as a percentage of average loans	**0.0%**	0.2%	(0.0%)	0.1%	0.0%
At Year End					
Members' equity as a percentage of total assets	**21.8%**	22.7%	22.8%	23.1%	21.6%
Allowance for loan losses as a percentage of loans	**0.3%**	0.4%	0.5%	0.2%	0.1%
Capital ratios effective beginning January 1, 2017:					
Common equity tier 1 ratio	**18.5%**	19.1%	N/A	N/A	N/A
Tier 1 capital ratio	**18.5%**	19.1%	N/A	N/A	N/A
Total capital ratio	**18.8%**	19.4%	N/A	N/A	N/A
Permanent capital ratio	**18.6%**	19.2%	N/A	N/A	N/A
Tier 1 leverage ratio	**19.7%**	20.8%	N/A	N/A	N/A
Capital ratios effective prior to 2017:					
Permanent capital ratio	**N/A**	N/A	20.0%	19.9%	18.9%
Total surplus ratio	**N/A**	N/A	19.8%	19.6%	18.6%
Core surplus ratio	**N/A**	N/A	19.8%	19.6%	18.6%
Net Income Distributed					
For the Year					
Patronage distributions:					
Cash	**$ 3,717**	$ 3,587	$ 3,455	$ 3,376	$ 3,289

MANAGEMENT'S DISCUSSION AND ANALYSIS

AgHeritage Farm Credit Services, ACA

The following commentary reviews the consolidated financial condition and consolidated results of operations of AgHeritage Farm Credit Services, ACA (the Association) and its subsidiaries, AgHeritage Farm Credit Services, FLCA and AgHeritage Farm Credit Services, PCA and provides additional specific information. The accompanying Consolidated Financial Statements and Notes to the Consolidated Financial Statements also contain important information about our financial condition and results of operations.

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of January 1, 2019, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank and 69 customer-owned cooperative lending institutions (associations). The System serves all 50 states, Washington D.C. and Puerto Rico. This network of financial cooperatives is owned and governed by the rural customers the System serves.

AgriBank, FCB (AgriBank), a System Farm Credit Bank, and its District associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). We are an association in the District.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System. The Farm Credit System Insurance Corporation (FCSIC) ensures the timely payment of principal and interest on Systemwide debt obligations and the retirement of protected borrower capital at par or stated value.

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

AgHeritage Farm Credit Services, ACA	AgriBank, FCB
119 East Third Street, Suite 200	30 East 7th Street, Suite 1600
Little Rock, AR 72201	St. Paul, MN 55101
(800) 299-2290	(651) 282-8800
www.AgHeritageFCS.com	www.agribank.com
	financialreporting@agribank.com

Our Annual Report is available on our website no later than 75 days after the end of the calendar year and members are provided a copy of such report no later than 90 days after the end of the calendar year. The Quarterly Reports are available on our website no later than 40 days after the end of each calendar quarter. To request free copies of our Annual or Quarterly Reports, contact us as stated above.

FORWARD-LOOKING INFORMATION

This Annual Report includes forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipate", "believe", "estimate", "may", "expect", "intend", "outlook" and similar expressions are used to identify such forward-looking statements. These statements reflect our current views with respect to future events. However, actual results may differ materially from our expectations due to a number of risks and uncertainties which may be beyond our control. These risks and uncertainties include, but are not limited to:

- Political, legal, regulatory, financial markets, international and economic conditions and developments in the United States (U.S.) and abroad
- Economic fluctuations in the agricultural and farm-related business sectors
- Unfavorable weather, disease and other adverse climatic or biological conditions that periodically occur and impact agricultural productivity and income
- Changes in U.S. government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency actions relating to events involving the U.S. government, other government-sponsored enterprises and other financial institutions
- Actions taken by the Federal Reserve System in implementing monetary policy
- Credit, interest rate and liquidity risks inherent in our lending activities
- Changes in our assumptions for determining the allowance for loan losses, other-than-temporary impairment and fair value measurements

AGRICULTURAL AND ECONOMIC CONDITIONS

For the 2017 crop we generally experienced good quality crops with above average yields. We also experienced favorable weather conditions that lead to lower input costs for the 2017 crop. Due to these favorable conditions, we observed that a large majority of our row crop borrowers experienced positive cash flows for the 2017 crop, which supported customer balance sheets going into the 2018 crop year. For the 2018 crop, we are observing that most of our customers had good yields, with a majority of them experiencing positive cash flows. While many growers experienced some quality issues in the soybean crop due to wet and warm weather conditions late in the growing season, this does not appear to have been significant for most growers. Commodity prices have been weak due to large supplies and weakness in export markets. If current commodity market conditions persist we expect to experience a modest decline in credit quality in the short term. Land values in our area are stable.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.3 billion at December 31, 2018, an increase of $148.0 million from December 31, 2017.

Components of Loans

(in thousands) As of December 31	**2018**	2017	2016
Accrual loans:			
Real estate mortgage	**$ 663,691**	$ 594,175	$ 550,293
Production and intermediate-term	**429,853**	377,397	368,519
Agribusiness	**127,456**	115,597	98,428
Other	**82,540**	71,904	45,179
Nonaccrual loans	**10,728**	7,156	10,783
Total loans	**$ 1,314,268**	$ 1,166,229	$ 1,073,202

The other category is primarily comprised of rural infrastructure and rural residential real estate loans.

The increase in total loans from December 31, 2017, was primarily due to growth in our real estate mortgage portfolio and increased commitment and greater utilization of operating loans within our production and intermediate portfolio.

We offer variable, fixed, capped, indexed and adjustable interest rate loan and lease programs to our borrowers. We determine interest margins charged on each lending program based on cost of funds, credit risk, market conditions and the need to generate sufficient earnings.

Portfolio Distribution

We are chartered to serve certain counties in Arkansas. Approximately 47.1% of our total loan portfolio was in Lonoke, Lawrence, Pulaski, Monroe, Jackson and Arkansas counties at December 31, 2018.

Agricultural Concentrations

As of December 31	**2018**	2017	2016
Rice	**41.9%**	39.9%	42.1%
Other livestock	**10.5%**	10.7%	11.1%
Soybeans	**8.3%**	8.7%	7.7%
Processing and marketing	**7.4%**	8.3%	9.0%
Poultry and eggs	**3.1%**	4.2%	3.7%
Timber	**2.7%**	4.2%	3.4%
Corn	**4.0%**	4.1%	4.3%
Other row crops	**2.7%**	3.4%	3.7%
Cotton	**4.4%**	2.1%	2.1%
Farm equipment, machinery, and supply	**3.2%**	3.8%	4.0%
Other	**11.8%**	10.6%	8.9%
Total	**100.0%**	100.0%	100.0%

Commodities are based on the borrower’s primary intended commodity at the time of loan origination and may change due to borrower business decisions as a result of changes in weather, prices, input costs and other circumstances.

Our production and intermediate-term loan portfolio exhibits some seasonality relating to patterns of operating loans made to crop producers. These loans are normally at their lowest levels following the harvest and then increase in the spring and throughout the rest of the year as borrowers fund operating needs.

Portfolio Credit Quality

The credit quality of our portfolio improved from December 31, 2017. Adversely classified loans decreased to 3.6% of the portfolio at December 31, 2018, from 4.1% 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 agency guarantee programs are used to reduce the risk of loss. At December 31, 2018, $18.4 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands)

As of December 31		**2018**		2017		2016
Loans:						
Nonaccrual	**$**	**10,728**	$	7,156	$	10,783
Accruing restructured		**--**		--		--
Accruing loans 90 days or more past due		**368**		--		--
Total risk loans		**11,096**		7,156		10,783
Other property owned		**--**		--		--
Total risk assets	**$**	**11,096**	$	7,156	$	10,783
Total risk loans as a percentage of total loans		**0.8%**		0.6%		1.0%
Nonaccrual loans as a percentage of total loans		**0.8%**		0.6%		1.0%
Current nonaccrual loans as a percentage of total nonaccrual loans		**64.4%**		62.1%		61.6%
Total delinquencies as a percentage of total loans		**0.6%**		0.7%		0.6%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2017, 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 nonaccrual loans was primarily due to several real estate mortgage and production and intermediate-term loans that were transferred to nonaccrual status during the year ended December 31, 2018. The increase was primarily offset, in part, by two real estate mortgage loans that returned to accruing status during the year ended December, 31, 2018, and were in nonaccrual status as of December 31, 2017. Nonaccrual loans remained at an acceptable level at December 31, 2018, 2017 and 2016.

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 the 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 December 31	**2018**	2017	2016
Allowance as a percentage of:			
Loans	**0.3%**	0.4%	0.5%
Nonaccrual loans	**41.6%**	61.5%	49.2%
Total risk loans	**40.2%**	61.5%	49.2%
Net charge-offs (recoveries) as a percentage of average loans	**0.0%**	0.2%	(0.0%)
Adverse assets to risk funds	**17.2%**	19.1%	10.8%

Note: Risk funds includes permanent capital and allowance for loan losses.

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

Additional loan information is included in Notes 3, 10, 11 and 12 to the accompanying Consolidated Financial Statements.

INVESTMENT SECURITIES

In addition to loans, we held investment securities. Investment securities totaled $1.7 million, $3.6 million and $6.0 million at December 31, 2018, 2017 and 2016, respectively. Our investment securities consisted of loans guaranteed by the Small Business Administration.

The investment portfolio is evaluated for other-than-temporary impairment. For the years ended December 31, 2018, 2017 and 2016, we have not recognized any impairment on our investment portfolio.

Additional investment securities information is included in Note 5 to the accompanying Consolidated Financial Statements.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands)

For the year ended December 31	2018	2017	2016
Net income	**$ 27,298**	$ 24,869	$ 21,307
Return on average assets	**2.1%**	2.1%	1.9%
Return on average members' equity	**9.5%**	9.3%	8.6%

Changes in the chart above relate directly to:

- Changes in income discussed below
- Changes in assets discussed in the Loan Portfolio and Investment Securities sections
- Changes in capital discussed in the Capital Adequacy section

Changes in Significant Components of Net Income

	For the year ended December 31			Increase (decrease) in net income	
(in thousands)	**2018**	2017	2016	**2018 vs 2017**	2017 vs 2016
Net interest income	**$ 36,952**	$ 34,602	$ 32,259	**$ 2,350**	$ 2,343
Provision for credit losses	**69**	1,834	3,764	**1,765**	1,930
Patronage income	**6,344**	5,816	3,900	**528**	1,916
Other income, net	**2,910**	2,206	2,751	**704**	(545)
Operating expenses	**17,965**	14,156	13,621	**(3,809)**	(535)
Provision for income taxes	**874**	1,765	218	**891**	(1,547)
Net income	**$ 27,298**	$ 24,869	$ 21,307	**$ 2,429**	$ 3,562

Net Interest Income

Changes in Net Interest Income

(in thousands)

For the year ended December 31	2018 vs 2017	2017 vs 2016
Changes in volume	**$ 3,032**	$ 3,035
Changes in interest rates	**(1,015)**	(689)
Changes in nonaccrual income and other	**333**	(3)
Net change	**$ 2,350**	$ 2,343

Net interest income included income on nonaccrual loans that totaled $709 thousand, $376 thousand and $379 thousand in 2018, 2017 and 2016, respectively. Nonaccrual income is recognized when received in cash, collection of the recorded investment is fully expected and prior charge-offs have been recovered.

Net interest margin (net interest income as a percentage of average earning assets) was 2.9%, 3.0% and 3.0% in 2018, 2017 and 2016, respectively. Our net interest margin is sensitive to interest rate changes and competition.

Provision for Credit Losses

The fluctuation in the provision for credit losses was related to our estimate of losses in our portfolio for the applicable years. Additional discussion is included in Note 3 to the accompanying Consolidated Financial Statements.

Patronage Income

We may receive patronage from AgriBank and other Farm Credit Institutions. Patronage distributions from AgriBank and other Farm Credit Institutions are declared solely at the discretion of each institution's Board of Directors.

Patronage Income

(in thousands)

For the year ended December 31	2018	2017	2016
Wholesale patronage	**$ 5,503**	$ 4,850	$ 2,927
Pool program patronage	**711**	823	877
Other Farm Credit Institutions	**130**	143	96
Total patronage income	**$ 6,344**	$ 5,816	$ 3,900

Wholesale patronage income is based on the average balance of our note payable to AgriBank. The patronage rates were 54.1 basis points, 52.1 basis points and 25.6 basis points in 2018, 2017 and 2016, respectively. The increase in the patronage rate in 2017 was primarily due to a change in AgriBank's capital plan effective July 1, 2017. The capital plan was modified to pay out 100% of net earnings beginning in 2017. Previously, 50% of net earnings was paid. See the Relationship with AgriBank section for further discussion on patronage income.

We have participated in a pool program in which we sell participation interests in certain loans to AgriBank. As part of this program, we received patronage income in an amount that approximated the net earnings of the loans. Net earnings represents the net interest income associated with these loans adjusted for certain fees and costs specific to the related loans as well as adjustments deemed appropriate by AgriBank related to the credit performance of the loans, as applicable. The patronage recorded in 2018 included $21 thousand of our share of distributions from the Allocated Insurance Reserve Accounts (AIRA) related to the participations sold to AgriBank. The AIRA was established by the FCSIC when premiums collected increased the level of the Insurance Fund beyond the required secured base amount of 2.0% of insured debt. There were no AIRA distributions in 2017 or 2016.

Other Income, Net

The change in other income, net was primarily due to financially related services income, fee income, Allocated Insurance Reserve Accounts distribution and miscellaneous (loss) income, net.

The increase in Allocated Insurance Reserve Accounts was due to our share of distributions from AIRA of $686 thousand in 2018. The AIRA was established by the FCSIC when premiums collected increased the level of the Insurance Fund beyond the required secured base amount of 2.0% of insured debt. There were no AIRA distributions in 2017 or 2016.

Operating Expenses

Components of Operating Expenses

(dollars in thousands)

For the year ended December 31	**2018**	2017	2016
Salaries and employee benefits	**$ 9,244**	$ 8,125	$ 7,978
Purchased and vendor services	**1,998**	1,316	1,336
Communications	**251**	275	270
Occupancy and equipment	**829**	745	690
Advertising and promotion	**449**	425	380
Examination	**414**	388	355
Farm Credit System insurance	**944**	1,431	1,467
Other	**3,836**	1,451	1,145
Total operating expenses	**$ 17,965**	$ 14,156	$ 13,621
Operating rate	**1.4%**	1.2%	1.3%

Salaries and employee benefits expense increased primarily due to an increase in number of full-time positions and annual merit compensation increases.

The Farm Credit System insurance expense decreased in 2018 primarily due to a lower premium rate charged by FCSIC on accrual loans from 15 basis points in 2017 to 9 basis points in 2018. The FCSIC has announced premiums will remain unchanged at 9 basis points for 2019.The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time.

Other operating expenses increased primarily due to a loss recognized during the year ended December 31, 2018, related to the settlement of a lawsuit in which the Association was a defendant. Refer to Note 11 for additional discussion.

Provision for Income Taxes

The variance in provision for income taxes was related to our estimate of taxes based on taxable income. Patronage distributions to members reduced our tax liability in 2018, 2017 and 2016. Additional discussion is included in Note 8 to the accompanying Consolidated Financial Statements.

FUNDING AND LIQUIDITY

We borrow from AgriBank, under a note payable, in the form of a line of credit, as described in Note 6 to the accompanying Consolidated Financial Statements. This line of credit is our primary source of liquidity and is used to fund operations and meet current obligations. At December 31, 2018, we had $180.9 million available under our line of credit. We generally apply excess cash to this line of credit.

Note Payable Information

(dollars in thousands)

For the year ended December 31	**2018**	2017	2016
Average balance	**$ 1,018,740**	$ 933,693	$ 845,554
Average interest rate	**2.6%**	2.1%	1.9%

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.

CAPITAL ADEQUACY

Total members' equity was $299.9 million, $276.4 million and $255.9 million at December 31, 2018, 2017 and 2016, respectively. Total members' equity increased $23.6 million from December 31, 2017, primarily due to net income for the year, 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. Additional Pension Restoration Plan information is included in Note 9 to the accompanying Consolidated Financial Statements.

Effective January 1, 2017, the 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.

Regulatory Capital Requirements and Ratios

As of December 31	**2018**	2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**18.5%**	19.1%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**18.5%**	19.1%	6.0%	2.5%*	8.5%
Total capital ratio	**18.8%**	19.4%	8.0%	2.5%*	10.5%
Permanent capital ratio	**18.6%**	19.2%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**19.7%**	20.8%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**20.3%**	21.4%	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.

Our capital plan is designed to maintain an adequate amount of surplus and allowance for loan losses which represents our reserve for adversity prior to impairment of stock. We manage our capital to allow us to meet member needs and protect member interests, both now and in the future.

Additional discussion of these regulatory ratios is included in Note 7 to the accompanying Consolidated Financial Statements.

Capital ratios are directly impacted by changes in capital, assets and off-balance sheet commitments. Refer to the Loan Portfolio and the Investment Securities sections for further discussion of the changes in assets. Additional members' equity information is included in Note 7 to the accompanying Consolidated Financial Statements. Refer to Note 7 in our Annual Report for the year ended December 31, 2016, for a more complete description of the ratios effective as of December 31, 2016. We were in compliance with the minimum required capital ratios as of December 31, 2016.

In addition to these regulatory requirements, we establish an optimum total capital target range. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. Our optimum total capital target is 14% to 20%, as defined in our 2019 capital plan.

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. We do not foresee any events that would result in this prohibition in 2019.

RELATIONSHIP WITH AGRIBANK

Borrowing

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement (GFA), as discussed in Note 6 to the accompanying Consolidated Financial Statements, governs this lending relationship.

The components of cost of funds under the GFA include:

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

In the periods presented, we were not subject to the risk premium component. Certain factors may impact our cost of funds, which primarily include market interest rate changes impacting marginal cost of debt as well as changes to pricing methodologies impacting the spread components described above.

The marginal cost of debt approach simulates matching the cost of underlying debt with similar terms as the anticipated terms of our loans to borrowers. This approach substantially protects us from market interest rate risk. We may occasionally engage in funding strategies that result in limited interest rate risk with approval by AgriBank's Asset/Liability Committee.

Investment

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing distributed AgriBank surplus. As of December 31, 2018, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable, with an additional amount required on association growth in excess of a targeted growth rate, if the District is also growing above a targeted growth rate.

We are also required to hold additional investment in AgriBank based on contractual agreement under a pool program**.**

Patronage

AgriBank's 2018 capital plan is intended to provide for adequate capital at AgriBank under capital regulations as well as to create a path to long-term capital optimization within the AgriBank District. The plan optimizes capital at AgriBank by distributing available AgriBank earnings in the form of patronage, either cash or stock. The plan is designed to maintain capital adequacy such that sufficient earnings will be retained in the form of unallocated retained earnings and allocated stock to meet the leverage ratio target and other regulatory or policy constraints prior to any cash patronage distributions.

We receive the following types of discretionary patronage from AgriBank:

- Wholesale patronage which includes:
    - Patronage on our note payable with AgriBank
    - Equalization patronage based on our excess stock in AgriBank
- Pool program patronage based on the net earnings of loan participation interests sold to AgriBank

Beginning in 2017, wholesale patronage income earned may be paid in cash and AgriBank stock. Wholesale patronage income for 2018, 2017 and 2016 was paid in cash. All pool program patronage distributions were paid in cash.

Purchased Services

We purchase various services from AgriBank, including SunStream Business Services, a division of AgriBank. The services include certain financial and retail systems, financial reporting services, tax reporting services, technology services and insurance services.

The total cost of services we purchased from AgriBank was $771 thousand, $599 thousand and $547 thousand in 2018, 2017 and 2016, respectively.

Impact on Members' Investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our members' investment.

OTHER RELATIONSHIPS AND PROGRAMS

Relationships with Other Farm Credit Institutions

AgCountry CFG: We participate as a preferred partner in AgCountry CFG, formerly FCS Commercial Finance Group, alliance with certain other Farm Credit associations to better meet the financial needs of agricultural producers and agribusiness operations. AgCountry CFG is directed by representatives from participating associations. The income, expense, and credit risks are allocated based on each association's participation interest of the AgCountry CFG volume. Each association determines its commitment for new volume opportunities based on its capacity and preferences. We had $130.2 million, $92.8 million and $54.4 million of AgCountry CFG volume at December 31, 2018, 2017 and 2016, respectively. We also had $52.4 million of available commitment on AgCountry CFG loans at December 31, 2018.

CentRic Technology Collaboration: We participate in CentRic Technology Collaboration (CTC) with certain other AgriBank District associations. The CTC facilitates the development and maintenance of certain retail technology systems essential to providing credit and other services to our members. The CTC operations are governed by representatives of each participating association. The expenses of CTC are allocated to each of the participating associations based on an agreed upon formula. The systems developed are owned by each of the participating associations.

Farm Credit Leasing Services Corporation: We have an agreement with Farm Credit Leasing Services Corporation (FCL), a System service corporation, which specializes in leasing products and provides industry expertise. Leases are originated and serviced by FCL and we purchase a participation interest in the cash flows of the transaction. This arrangement provides our members with a broad selection of product offerings and enhanced lease expertise.

CoBank, ACB: We have a relationship with CoBank, ACB (CoBank), a System bank, which involves purchasing or selling participation interests in loans. As part of this relationship, our equity investment in CoBank was $370 thousand at December 31, 2018, 2017 and 2016.

Farm Credit Foundations: We have a relationship with Farm Credit Foundations (Foundations), a System service corporation, which involves purchasing human resource information systems and benefit, payroll and workforce management services. As of December 31, 2018, 2017 and 2016, our investment in Foundations was $13 thousand. The total cost of services we purchased from Foundations was $95 thousand, $100 thousand and $91 thousand in 2018, 2017 and 2016, respectively.

Programs

Farm Cash Management: We offer Farm Cash Management to our members. Farm Cash Management links members' revolving lines of credit with an AgriBank investment bond to optimize members' use of funds.

REGULATORY MATTERS

Investment Securities Eligibility

In May 2018, the FCA Board approved a final rule to revise the requirements governing the eligibility of investment securities for System banks and associations. The new regulation revises the eligibility purpose, type and amount of investments that a System association may hold. The regulation was effective January 1, 2019. The impact of the regulation has not been material to our financial statements.

REPORT OF MANAGEMENT

AgHeritage Farm Credit Services, ACA

We prepare the Consolidated Financial Statements of AgHeritage Farm Credit Services, ACA (the Association) and are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Consolidated Financial Statements, in our opinion, fairly present the financial condition of the Association. Other financial information included in the Annual Report is consistent with that in the Consolidated Financial Statements.

To meet our responsibility for reliable financial information, we depend on accounting and internal control systems designed to provide reasonable, but not absolute assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the benefits derived when designing accounting and internal control systems. Financial operations audits are performed to monitor compliance. PricewaterhouseCoopers LLP, our independent auditors, audit the Consolidated Financial Statements. They also consider internal controls to the extent necessary to design audit procedures that comply with auditing standards generally accepted in the United States of America. The Farm Credit Administration also performs examinations for safety and soundness as well as compliance with applicable laws and regulations.

The Board of Directors has overall responsibility for our system of internal control and financial reporting. The Board of Directors and its Audit Committee consults regularly with us and meets periodically with the independent auditors and other auditors to review the scope and results of their work. The independent auditors have direct access to the Board of Directors, which is composed solely of directors who are not officers or employees of the Association.

The undersigned certify we have reviewed the Association's Annual Report, which has been prepared 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.

Dwain Morris
Chairperson of the Board
AgHeritage Farm Credit Services, ACA

Gregory W. Cole
President and Chief Executive Officer
AgHeritage Farm Credit Services, ACA

Kenneth L. Sumner
Senior Vice President and Chief Financial Officer
AgHeritage Farm Credit Services, ACA

March 14, 2019

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

AgHeritage Farm Credit Services, ACA

The AgHeritage Farm Credit Services, ACA (the Association) principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2018. In making the assessment, management used the 2013 framework in Internal Control — Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2018, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2018.

Greg Cole

Gregory W. Cole
President and Chief Executive Officer
AgHeritage Farm Credit Services, ACA

Ken Sumner

Kenneth L. Sumner
Senior Vice President and Chief Financial Officer
AgHeritage Farm Credit Services, ACA

March 14, 2019

REPORT OF AUDIT COMMITTEE
AgHeritage Farm Credit Services, ACA

The Consolidated Financial Statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of a subset of the Board of Directors of AgHeritage Farm Credit Services, ACA (the Association). The Audit Committee oversees the scope of the Association's internal audit program, the approval, and independence of PricewaterhouseCoopers LLP (PwC) as independent auditors, the adequacy of the Association's system of internal controls and procedures and the adequacy of management's actions with respect to recommendations arising from those auditing activities. The Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

Management is responsible for internal controls and the preparation of the Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the Consolidated Financial Statements in accordance with auditing standards generally accepted in the United States of America and to issue their report based on their audit. The Audit Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Audit Committee reviewed and discussed the audited Consolidated Financial Statements for the year ended December 31, 2018, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards AU-C 260, *The Auditor's Communication with Those Charged with Governance*, and both PwC and the internal auditors directly provided reports on any significant matters to the Audit Committee.

The Audit Committee had discussions with and received written disclosures from PwC confirming its independence. The Audit Committee also reviewed the non-audit services provided by PwC, if any, and concluded these services were not incompatible with maintaining PwC's independence. The Audit Committee discussed with management and PwC any other matters and received any assurances from them as the Audit Committee deemed appropriate.

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended that the Board of Directors include the audited Consolidated Financial Statements in the Annual Report for the year ended December 31, 2018.

Sandra Morgan

Sandra Morgan
Chairperson of the Audit Committee
AgHeritage Farm Credit Services, ACA

Additional Audit Committee members:
Russell Bonner
Jerry Burkett
Jeff Rutledge
Michael D. Taylor

March 14, 2019

pwc

Report of Independent Auditors

To the Board of Directors of AgHeritage Farm Credit Services, ACA,

We have audited the accompanying Consolidated Financial Statements of AgHeritage Farm Credit Services, ACA and its subsidiaries (the Association), which comprise the consolidated statements of condition as of December 31, 2018, 2017, and 2016, and the related consolidated statements of comprehensive income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the Consolidated Financial Statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Association's preparation and fair presentation of the Consolidated Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of AgHeritage Farm Credit Services, ACA and its subsidiaries as of December 31, 2018, 2017, and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 14, 2019

PricewaterhouseCoopers LLP, 45 South Seventh Street, Suite 3400, Minneapolis, MN 55402
T: (612) 596 6000, www.pwc.com/us

CONSOLIDATED STATEMENTS OF CONDITION

AgHeritage Farm Credit Services, ACA

(in thousands)

As of December 31		**2018**		2017		2016
ASSETS						
Loans	**$**	**1,314,268**	$	1,166,229	$	1,073,202
Allowance for loan losses		**4,458**		4,404		5,307
Net loans		**1,309,810**		1,161,825		1,067,895
Investment in AgriBank, FCB		**27,449**		25,269		22,219
Investment securities		**1,663**		3,643		6,004
Accrued interest receivable		**24,547**		20,814		19,070
Deferred tax assets, net		**317**		228		1,302
Other assets		**10,538**		7,526		6,138
Total assets	**$**	**1,374,324**	$	1,219,305	$	1,122,628
LIABILITIES						
Note payable to AgriBank, FCB	**$**	**1,058,397**	$	929,140	$	855,257
Accrued interest payable		**7,659**		5,232		4,171
Patronage distribution payable		**3,900**		3,700		3,600
Other liabilities		**4,420**		4,848		3,699
Total liabilities		**1,074,376**		942,920		866,727
Contingencies and commitments (Note 11)						
MEMBERS' EQUITY						
Protected members' equity		**1**		1		1
Capital stock and participation certificates		**2,839**		2,759		2,875
Unallocated surplus		**297,588**		274,207		253,025
Accumulated other comprehensive loss		**(480)**		(582)		--
Total members' equity		**299,948**		276,385		255,901
Total liabilities and members' equity	**$**	**1,374,324**	$	1,219,305	$	1,122,628

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

AgHeritage Farm Credit Services, ACA

(in thousands)

For the year ended December 31	2018	2017	2016
Interest income	**$ 63,532**	$ 54,446	$ 48,200
Interest expense	**26,580**	19,844	15,941
Net interest income	**36,952**	34,602	32,259
Provision for credit losses	**69**	1,834	3,764
Net interest income after provision for credit losses	**36,883**	32,768	28,495
Other income			
Patronage income	**6,344**	5,816	3,900
Financially related services income	**277**	303	326
Fee income	**1,819**	1,822	2,254
Allocated Insurance Reserve Accounts distribution	**686**	--	--
Miscellaneous (loss) income, net	**128**	81	171
Total other income	**9,254**	8,022	6,651
Operating expenses			
Salaries and employee benefits	**9,244**	8,125	7,978
Other operating expenses	**8,721**	6,031	5,643
Total operating expenses	**17,965**	14,156	13,621
Income before income taxes	**28,172**	26,634	21,525
Provision for income taxes	**874**	1,765	218
Net income	**$ 27,298**	$ 24,869	$ 21,307
Other comprehensive income			
Employee benefit plans activity	**$ 102**	$ --	$ --
Total other comprehensive income	**102**	--	--
Comprehensive income	**$ 27,400**	$ 24,869	$ 21,307

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

AgHeritage Farm Credit Services, ACA

(in thousands)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance as of December 31, 2015	$ 1	$ 2,877	$ 235,273	$ --	$ 238,151
Net income	--	--	21,307	--	21,307
Unallocated surplus designated for patronage distributions	--	--	(3,555)	--	(3,555)
Capital stock and participation certificates issued	--	206	--	--	206
Capital stock and participation certificates retired	--	(208)	--	--	(208)
Balance as of December 31, 2016	1	2,875	253,025	--	255,901
Net income	--	--	24,869	--	24,869
Other comprehensive loss and other	--	--	--	(582)	(582)
Unallocated surplus designated for patronage distributions	--	--	(3,687)	--	(3,687)
Capital stock and participation certificates issued	--	246	--	--	246
Capital stock and participation certificates retired	--	(362)	--	--	(362)
Balance as of December 31, 2017	1	2,759	274,207	(582)	276,385
Net income	**--**	**--**	**27,298**	**--**	**27,298**
Other comprehensive income	**--**	**--**	**--**	**102**	**102**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(3,917)**	**--**	**(3,917)**
Capital stock and participation certificates issued	**--**	**252**	**--**	**--**	**252**
Capital stock and participation certificates retired	**--**	**(172)**	**--**	**--**	**(172)**
Balance as of December 31, 2018	**$ 1**	**$ 2,839**	**$ 297,588**	**$ (480)**	**$ 299,948**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

AgHeritage Farm Credit Services, ACA

(in thousands)

For the year ended December 31	2018	2017	2016
Cash flows from operating activities			
Net income	**$ 27,298**	$ 24,869	$ 21,307
Depreciation on premises and equipment	**366**	323	305
Loss on sale of premises and equipment, net	**(60)**	(64)	(108)
Amortization of premiums on loans and investment securities	**13**	37	84
Provision for credit losses	**69**	1,834	3,764
Loss on other property owned, net	**--**	32	18
Changes in operating assets and liabilities:			
Increase in accrued interest receivable	**(3,759)**	(2,181)	(745)
Increase in other assets	**(1,594)**	(269)	(2,238)
Increase in accrued interest payable	**2,427**	1,061	675
(Decrease) increase in other liabilities	**(326)**	567	352
Net cash provided by operating activities	**24,434**	26,209	23,414
Cash flows from investing activities			
Increase in loans, net	**(147,858)**	(95,851)	(96,067)
Purchases of investment in AgriBank, FCB, net	**(2,180)**	(3,050)	(780)
Decrease in investment securities, net	**1,980**	2,355	2,491
Proceeds from sales of other property owned	**--**	622	409
Purchases of premises and equipment, net	**(1,814)**	(304)	(349)
Net cash used in investing activities	**(149,872)**	(96,228)	(94,296)
Cash flows from financing activities			
Increase in note payable to AgriBank, FCB, net	**129,257**	73,883	74,459
Patronage distributions paid	**(3,717)**	(3,587)	(3,455)
Capital stock and participation certificates retired, net	**(102)**	(277)	(122)
Net cash provided by financing activities	**125,438**	70,019	70,882
Net change in cash	**--**	--	--
Cash at beginning of year	**--**	--	--
Cash at end of year	**$ --**	$ --	$ --
Supplemental schedule of non-cash activities			
Stock financed by loan activities	**$ 239**	$ 226	$ 186
Stock applied against loan principal	**57**	65	66
Interest transferred to loans	**27**	437	99
Loans transferred to other property owned	**--**	654	427
Patronage distributions payable to members	**3,900**	3,700	3,600
Increase (decrease) in members' equity from employee benefits	**102**	(582)	--
Supplemental information			
Interest paid	**$ 24,153**	$ 18,783	$ 15,266
Taxes paid, net	**1,041**	249	1,444

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AgHeritage Farm Credit Services, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

Farm Credit System and District

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of January 1, 2019, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank and 69 customer-owned cooperative lending institutions (associations). AgriBank, FCB (AgriBank), a System Farm Credit Bank, and its District associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). At January 1, 2019, the District consisted of 14 Agricultural Credit Associations (ACA) that each have wholly-owned Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries.

FLCAs are authorized to originate long-term real estate mortgage loans. PCAs are authorized to originate short-term and intermediate-term loans. ACAs are authorized to originate long-term real estate mortgage loans and short-term and intermediate-term loans either directly or through their subsidiaries. Associations are authorized to provide lease financing options for agricultural purposes and are also authorized to purchase and hold certain types of investments. AgriBank provides funding to all associations chartered within the District.

Associations are authorized to provide, either directly or in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers may include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related service businesses. In addition, associations can participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a System lending institution, but have operations that are functionally similar to the activities of eligible borrowers.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System banks and associations. We are examined by the FCA, and certain association actions are subject to the prior approval of the FCA and/or AgriBank.

The Farm Credit Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used to ensure the timely payment of principal and interest on Farm Credit Systemwide debt obligations, to ensure the retirement of protected borrower capital at par or stated value and for other specified purposes.

At the discretion of the FCSIC, the Insurance Fund is also available to provide assistance to certain troubled System institutions and for the operating expenses of the FCSIC. Each System bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2.0% of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. This percentage of aggregate obligations can be changed by the FCSIC, at its sole discretion, to a percentage it determines to be actuarially sound. The basis for assessing premiums is debt outstanding, with adjustments made for nonaccrual loans and impaired investment securities, which are assessed a surcharge, while guaranteed loans and investment securities are deductions from the premium base. AgriBank, in turn, assesses premiums to District associations each year based on similar factors.

Association

AgHeritage Farm Credit Services, ACA (the Association) and its subsidiaries, AgHeritage Farm Credit Services, FLCA and AgHeritage Farm Credit Services, PCA (subsidiaries) are lending institutions of the System. We are a customer-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Arkansas, Ashley, Bradley, Chicot, Cleburne, Cleveland, Desha, Drew, Fulton, Independence, Izard, Jackson, Jefferson, Lawrence, Lincoln, Lonoke, Monroe, Prairie, Pulaski, Randolph, Sharp, Stone, White and Woodruff in the state of Arkansas.

We borrow from AgriBank and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries.

We offer credit life, term life, credit disability, crop hail and multi-peril crop insurance to borrowers and those eligible to borrow. We also offer fee appraisals to our members.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Reporting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. Preparing financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Principles of Consolidation

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

Significant Accounting Policies

Loans: Loans are carried at their principal amount outstanding net of any unearned income, cumulative charge-offs, unamortized deferred fees and costs on originated loans and unamortized premiums or discounts on purchased loans. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Origination fees, net of related costs, are deferred and recognized over the life of the loan as an adjustment to net interest income. The net amount of loan fees and related origination costs are not material to the Consolidated Financial Statements taken as a whole.

Generally we place loans in nonaccrual status when principal or interest is delinquent for 90 days or more (unless the loan is well secured and in the process of collection) or circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status, we reverse current year accrued interest to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment of the loan, unless the net realizable value is less than the recorded investment in the loan, then it is charged-off against the allowance for loan losses. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior charge-offs. In these circumstances interest is credited to income when cash is received. Loans are charged-off at the time they are determined to be uncollectible. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, the borrower has demonstrated payment performance and the loan is not classified as doubtful or loss.

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 formally restructured loan for regulatory purposes. 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 troubled debt restructurings are considered risk loans (as defined below).

Loans that are sold as participations are transferred as entire financial assets, groups of entire financial assets or participating interests in the loans. The transfers of such assets or participating interests are structured such that control over the transferred assets or participating interests have been surrendered and that all of the conditions have been met to be accounted for as a sale.

Allowance for Loan Losses: The allowance for loan losses is our best estimate of the amount of losses on loans inherent in our portfolio as of the date of the financial statements. 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.

Loans in our portfolio that are considered impaired are analyzed individually to establish a specific allowance. A loan is impaired when it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. We generally measure impairment based on the net realizable value of the collateral. Risk loans include nonaccrual loans, accruing restructured loans and accruing loans 90 days or more past due. All risk loans are considered to be impaired loans.

We record a specific allowance to reduce the carrying amount of the risk loan by the amount the recorded investment exceeds the net realizable value of collateral. When we deem a loan to be uncollectible, we charge the loan principal and prior year(s) accrued interest against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses.

An allowance is recorded for probable and estimable credit losses as of the financial statement date for loans that are not individually assessed as impaired. We use a two-dimensional loan risk rating model that incorporates a 14-point rating scale to identify and track the probability of borrower default and a separate 6-point scale addressing the loss severity. The combination of estimated default probability and loss severity is the primary basis for recognition and measurement of loan collectability of these pools of loans. These estimated losses may be adjusted for relevant current environmental factors.

Changes in the allowance for loan losses consist of provision activity, recorded in "Provision for credit losses" in the Consolidated Statements of Comprehensive Income, recoveries and charge-offs.

Investment in AgriBank: Our stock investment in AgriBank is on a cost plus allocated equities basis.

Investment Securities: We are authorized to purchase and hold certain types of investments. If we have the positive intent and ability to hold these investments to maturity, they have been classified as held-to-maturity and are carried at cost adjusted for the amortization of premiums and accretion of discounts. If an investment is determined to be other-than-temporarily impaired, the carrying value of the security is written down to fair value. The impairment loss is separated into credit related and non-credit related components. The credit related component is expensed through "Miscellaneous (loss) income, net" in the Consolidated Statements of Comprehensive Income in the period of impairment. The non-credit related component is recognized in other comprehensive income. Purchased premiums and discounts are amortized or accreted using the straight-line method, which approximates the interest method, over the terms of the respective securities. Realized gains and losses are determined using specific identification method and are recognized in current operations.

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation and is included in "Other assets" in the Consolidated Statements of Condition. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets. Gains or losses on disposition are included in "Miscellaneous (loss) income, net" in the Consolidated Statements of Comprehensive Income. Depreciation and maintenance and repair expenses are included in "Other operating expenses" in the Consolidated Statements of Comprehensive Income, and improvements are capitalized.

Post-Employment Benefit Plans: The District has various post-employment benefit plans in which our employees participate. Expenses related to these plans, except for the AgriBank District Pension Restoration Plan, are included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income.

Certain employees participate in the AgriBank District Retirement Plan. The plan is comprised of two benefit formulas. At their option, employees hired prior to October 1, 2001, are on the cash balance formula or on the final average pay formula. Benefits eligible employees hired between October 1, 2001, and December 31, 2006, are on the cash balance formula. Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. The AgriBank District Retirement Plan utilizes the "Projected Unit Credit" actuarial method for financial reporting and funding purposes.

Certain employees also participate in the AgriBank District Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits. Beginning in 2017, the pension liability attributable to the Pension Restoration Plan at the Association and the related accumulated other comprehensive loss are included in the Statements of Condition. The components of net periodic cost other than the service cost component, are included in the line item “Other operating expenses” on the Statements of Comprehensive Income. Service costs are included in the line item “Salaries and employee benefits” on the Statements of Comprehensive Income.

We also provide certain health insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated cost of these benefits is accrued during the employees’ active service period.

The defined contribution plan allows eligible employees to save for their retirement either pre-tax, post-tax, or both, with an employer match on a percentage of the employee’s contributions. We provide benefits under this plan for those employees that do not participate in the AgriBank District Retirement Plan in the form of a fixed percentage of salary contribution in addition to the employer match. Employer contributions are expensed when incurred.

Certain employees also participate in the Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the Internal Revenue Service (IRS), are either a Chief Executive Officer or President of a participating employer, or have previously elected pre-tax deferrals in 2006 under predecessor nonqualified deferred compensation plans. Under this plan the employee may defer a portion of his/her salary, bonus and other compensation. Additionally, the plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the retirement savings plan if it were not for certain IRS limitations.

Income Taxes: The ACA and PCA accrue federal and state income taxes. Deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance. The expected future tax consequences of uncertain income tax positions are accrued.

The FLCA is exempt from federal and other taxes to the extent provided in the Farm Credit Act.

Patronage Program: We accrue patronage distributions according to a prescribed formula approved by the Board of Directors. Generally, we pay the accrued patronage during the first quarter after year end.

Off-Balance Sheet Credit Exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. Any reserve for unfunded lending commitments and unexercised letters of credit is based on management’s best estimate of losses inherent in these instruments, but the commitments have not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement are utilized in determining a reserve, if needed. Based on our assessment, any reserve is recorded in “Other liabilities” in the Consolidated Statements of Condition and a corresponding loss is recorded in “Provision for credit losses” in the Consolidated Statements of Comprehensive Income.

Cash: For purposes of reporting cash flow, cash includes cash on hand.

Fair Value Measurement: The accounting guidance describes three levels of inputs that may be used to measure fair value.

Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, quoted prices that are not current or principal market information that is not released publicly
- Inputs that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates
- Inputs derived principally from or corroborated by observable market data by correlation or other means

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity’s own judgments about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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 May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09 “Revenue from Contracts with Customers." This guidance was effective for public business entities on January 1, 2018.	The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this guidance. The guidance sets forth the requirement for new and enhanced disclosures.	We adopted this guidance on January 1, 2018, using the modified retrospective approach. The majority of the Association’s revenues are not subject to the new guidance. The adoption of the guidance did not have a material impact on the financial condition, results of operations, equity or cash flows.
In March 2017, the FASB issued ASU 2017-07 “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost.” This guidance was effective for public business entities on January 1, 2018.	This guidance requires that an employer disaggregate the service cost component from the other components of net benefit cost. Specifically, the guidance requires non-service cost components of net benefit cost to be recognized in a non-operating income line item of the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization.	We adopted this guidance on January 1, 2018. The adoption of the guidance did not impact our financial condition or cash flows, but did result in an immaterial change to the classification of certain items in the results of operations. The components of net periodic benefit cost other than the service cost component are included in other operating expenses line item on the Statements of Comprehensive Income. As the change in classification was immaterial, there were no retroactive adjustments to the Statements of Comprehensive Income. There were no material changes to the financial statement disclosures.
In January 2016, the FASB issued ASU 2016-01 “Recognition and Measurement of Financial Assets and Financial Liabilities.” This guidance was effective for public business entities on January 1, 2018.	The guidance is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments address certain aspects of recognition, measurement, presentation and disclosure of financial statements.	We adopted this guidance on January 1, 2018. The adoption of this guidance did not impact our financial condition, results of operations or cash flows but did impact our fair value disclosures.
In February 2016, the FASB issued ASU 2016-02 “Leases.” In July 2018, the FASB issued ASU 2018-11 “Leases (Topic 842): Targeted Improvements.” The guidance is effective for public 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, by recognizing the cumulative effect of initially applying the new standard to the opening balance of retained earnings. The adoption of this guidance impacted the financial condition, results of operations and financial statement disclosures and had no impact on cash flows. We recorded a right of use asset and a lease liability of $1.2 million at implementation.
In August 2018, the FASB issued ASU 2018-15 “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract.” The guidance is effective for our first quarter of 2020 and early adoption is permitted.	The guidance clarifies that implementation costs incurred in a hosting arrangement that is a service contract should be accounted for in the same manner as implementation costs incurred to develop or obtain internal-use software.	We are in the process of reviewing the accounting standard. Based on our preliminary review and analysis, this new guidance is not expected to have a material impact on our financial condition, results of operations, cash flows and financial statement disclosures.
In June 2016, the FASB issued ASU 2016-13 “Financial Instruments – Credit Losses.” This guidance is effective for public business entities for non-U.S. Securities Exchange Commission filers for the first quarter of 2021 and early adoption is permitted.	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	We have no plans to early adopt this guidance. We are in the process of reviewing the standard. Significant implementation matters yet to be addressed include system selection, drafting of accounting policies and disclosures and designing processes and controls. We are currently unable to estimate the impact on the financial statements.

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)	**2018**		2017		2016	
As of December 31	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 670,347**	**51.0%**	$ 599,124	51.4%	$ 556,800	51.9%
Production and intermediate-term	**433,209**	**33.0%**	379,154	32.5%	372,673	34.7%
Agribusiness	**127,456**	**9.7%**	115,597	9.9%	98,428	9.2%
Other	**83,256**	**6.3%**	72,354	6.2%	45,301	4.2%
Total	**$ 1,314,268**	**100.0%**	$ 1,166,229	100.0%	$ 1,073,202	100.0%

The other category is primarily comprised of rural infrastructure and rural residential real estate loans.

Portfolio Concentrations

Concentrations exist when there are amounts loaned to multiple borrowers engaged in similar activities, which could cause them to be similarly impacted by economic conditions. We lend primarily within agricultural industries. As of December 31, 2018, volume plus commitments to our ten largest borrowers totaled an amount equal to 10.2% of total loans and commitments.

Total loans plus any unfunded commitments represent a proportionate maximum potential credit risk. However, substantial portions of our lending activities are collateralized. Accordingly, the credit risk associated with lending activities is less than the recorded loan principal. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock. Long-term real estate loans are secured by the first liens on the underlying real property.

Participations

We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume or comply with the limitation of the FCA Regulations or General Financing Agreement (GFA) with AgriBank.

Participations Purchased and Sold

	AgriBank Participations		Other Farm Credit Institutions Participations		Total Participations	
(in thousands) **As of December 31, 2018**	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	**$ --**	**$ (21,242)**	**$ 47,729**	**$ (25,177)**	**$ 47,729**	**$ (46,419)**
Production and intermediate-term	**--**	**--**	**37,037**	**(14,255)**	**37,037**	**(14,255)**
Agribusiness	**--**	**(12,500)**	**111,615**	**(44,578)**	**111,615**	**(57,078)**
Other	**--**	**(256)**	**43,350**	**--**	**43,350**	**(256)**
Total	**$ --**	**$ (33,998)**	**$ 239,731**	**$ (84,010)**	**$ 239,731**	**$ (118,008)**

	AgriBank Participations		Other Farm Credit Institutions Participations		Total Participations	
As of December 31, 2017	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (27,356)	$ 39,956	$ (33,219)	$ 39,956	$ (60,575)
Production and intermediate-term	--	--	32,892	(15,761)	32,892	(15,761)
Agribusiness	--	(8,735)	96,614	(27,792)	96,614	(36,527)
Other	--	(283)	34,710	--	34,710	(283)
Total	$ --	$ (36,374)	$ 204,172	$ (76,772)	$ 204,172	$ (113,146)

	AgriBank Participations		Other Farm Credit Institutions Participations		Total Participations	
As of December 31, 2016	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (30,793)	$ 38,174	$ (28,278)	$ 38,174	$ (59,071)
Production and intermediate-term	--	--	24,043	(11,645)	24,043	(11,645)
Agribusiness	--	(12,671)	84,779	(34,468)	84,779	(47,139)
Other	--	(324)	16,443	--	16,443	(324)
Total	$ --	$ (43,788)	$ 163,439	$ (74,391)	$ 163,439	$ (118,179)

Information in the preceding chart excludes loans entered into under our mission related investment authority.

Credit Quality and Delinquency

We utilize the FCA Uniform Classification System to categorize loans into five credit quality categories. The categories are:

- Acceptable – loans are non-criticized loans representing the highest quality. They are expected to be fully collectible. This category is further differentiated into various probabilities of default.
- Other assets especially mentioned (Special Mention) – loans are currently collectible but exhibit some potential weakness. These loans involve increased credit risk, but not to the point of justifying a substandard classification.
- Substandard – loans exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan.
- Doubtful – loans exhibit similar weaknesses as substandard loans. Doubtful loans have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable.
- Loss – loans are considered uncollectible.

We had no loans categorized as loss at December 31, 2018, 2017 or 2016.

Credit Quality of Loans

(dollars in thousands)	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2018	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 649,236**	**95.2%**	**$ 4,960**	**0.7%**	**$ 28,255**	**4.1%**	**$ 682,451**	**100.0%**
Production and intermediate-term	**413,116**	**92.9%**	**14,177**	**3.2%**	**17,403**	**3.9%**	**444,696**	**100.0%**
Agribusiness	**124,553**	**97.3%**	**2,696**	**2.1%**	**807**	**0.6%**	**128,056**	**100.0%**
Other	**79,948**	**95.8%**	**2,355**	**2.8%**	**1,204**	**1.4%**	**83,507**	**100.0%**
Total	**$ 1,266,853**	**94.6%**	**$ 24,188**	**1.8%**	**$ 47,669**	**3.6%**	**$ 1,338,710**	**100.0%**

	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2017	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 559,372	91.8%	$ 19,714	3.2%	$ 30,789	5.0%	$ 609,875	100.0%
Production and intermediate-term	347,960	89.6%	22,826	5.9%	17,437	4.5%	388,223	100.0%
Agribusiness	116,183	100.0%	--	--	--	--	116,183	100.0%
Other	70,641	97.3%	1,155	1.6%	790	1.1%	72,586	100.0%
Total	$ 1,094,156	92.2%	$ 43,695	3.7%	$ 49,016	4.1%	$ 1,186,867	100.0%

	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2016	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 542,893	95.8%	$ 11,252	2.0%	$ 12,324	2.2%	$ 566,469	100.0%
Production and intermediate-term	346,885	91.0%	21,115	5.5%	13,232	3.5%	381,232	100.0%
Agribusiness	98,865	100.0%	--	--	--	--	98,865	100.0%
Other	44,583	98.0%	603	1.3%	301	0.7%	45,487	100.0%
Total	$ 1,033,226	94.6%	$ 32,970	3.0%	$ 25,857	2.4%	$ 1,092,053	100.0%

Note: Accruing loans include accrued interest receivable.

Aging Analysis of Loans

(in thousands) **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	**$ 1,729**	**$ 615**	**$ 2,344**	**$ 680,107**	**$ 682,451**	**$ --**
Production and intermediate-term	**1,809**	**2,602**	**4,411**	**440,285**	**444,696**	**--**
Agribusiness	**--**	**--**	**--**	**128,056**	**128,056**	**--**
Other	**802**	**718**	**1,520**	**81,987**	**83,507**	**368**
Total	**$ 4,340**	**$ 3,935**	**$ 8,275**	**$ 1,330,435**	**$ 1,338,710**	**$ 368**

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	$ 3,835	$ 599	$ 4,434	$ 605,441	$ 609,875	$ --
Production and intermediate-term	750	1,170	1,920	386,303	388,223	--
Agribusiness	--	--	--	116,183	116,183	--
Other	1,477	73	1,550	71,036	72,586	--
Total	$ 6,062	$ 1,842	$ 7,904	$ 1,178,963	$ 1,186,867	$ --

As of December 31, 2016	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	$ 988	$ 1,062	$ 2,050	$ 564,419	$ 566,469	$ --
Production and intermediate-term	515	2,865	3,380	377,852	381,232	--
Agribusiness	--	--	--	98,865	98,865	--
Other	1,079	19	1,098	44,389	45,487	--
Total	$ 2,582	$ 3,946	$ 6,528	$ 1,085,525	$ 1,092,053	$ --

Note: Accruing loans include accrued interest receivable.

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. Interest income recognized and cash payments received on nonaccrual risk loans are applied as described in Note 2.

Risk Loan Information

(in thousands)

As of December 31	**2018**	2017	2016
Nonaccrual loans:			
Current as to principal and interest	**$ 6,907**	$ 4,441	$ 6,637
Past due	**3,821**	2,715	4,146
Total nonaccrual loans	**10,728**	7,156	10,783
Accruing loans 90 days or more past due	**368**	--	--
Total risk loans	**$ 11,096**	$ 7,156	$ 10,783
Volume with specific allowance	**$ 1,638**	$ 159	$ 3,727
Volume without specific allowance	**9,458**	6,997	7,056
Total risk loans	**$ 11,096**	$ 7,156	$ 10,783
Total specific allowance	**$ 323**	$ 110	$ 2,755
For the year ended December 31	**2018**	2017	2016
Income on accrual risk loans	**$ 8**	$ --	$ 5
Income on nonaccrual loans	**709**	376	379
Total income on risk loans	**$ 717**	$ 376	$ 384
Average risk loans	**$ 7,826**	$ 7,947	$ 7,490

Note: Accruing loans include accrued interest receivable.

Nonaccrual Loans by Loan Type

(in thousands)

As of December 31	**2018**	2017	2016
Real estate mortgage	**$ 6,656**	$ 4,949	$ 6,506
Production and intermediate-term	**3,356**	1,757	4,155
Other	**716**	450	122
Total	**$ 10,728**	$ 7,156	$ 10,783

Additional Impaired Loan Information by Loan Type

(in thousands)	As of December 31, 2018 Recorded Investment	As of December 31, 2018 Unpaid Principal Balance	As of December 31, 2018 Related Allowance	For the year ended December 31, 2018 Average Impaired Loans	For the year ended December 31, 2018 Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	**$ 254**	**$ 249**	**$ 16**	**$ 199**	**$ --**
Production and intermediate-term	**1,384**	**4,246**	**307**	**822**	**--**
Other	**--**	**--**	**--**	**--**	**--**
Total	**$ 1,638**	**$ 4,495**	**$ 323**	**$ 1,021**	**$ --**
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	**$ 6,403**	**$ 6,703**	**$ --**	**$ 5,001**	**$ 276**
Production and intermediate-term	**1,972**	**2,383**	**--**	**1,172**	**424**
Other	**1,083**	**1,194**	**--**	**632**	**17**
Total	**$ 9,458**	**$ 10,280**	**$ --**	**$ 6,805**	**$ 717**
Total impaired loans:					
Real estate mortgage	**$ 6,657**	**$ 6,952**	**$ 16**	**$ 5,200**	**$ 276**
Production and intermediate-term	**3,356**	**6,629**	**307**	**1,994**	**424**
Other	**1,083**	**1,194**	**--**	**632**	**17**
Total	**$ 11,096**	**$ 14,775**	**$ 323**	**$ 7,826**	**$ 717**

	As of December 31, 2017 Recorded Investment	As of December 31, 2017 Unpaid Principal Balance	As of December 31, 2017 Related Allowance	For the year ended December 31, 2017 Average Impaired Loans	For the year ended December 31, 2017 Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ --	$ --	$ --	$ --	$ --
Production and intermediate-term	159	2,843	110	238	--
Other	--	--	--	--	--
Total	$ 159	$ 2,843	$ 110	$ 238	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 4,949	$ 5,360	$ --	$ 5,180	$ 146
Production and intermediate-term	1,598	2,172	--	2,390	221
Other	450	540	--	139	9
Total	$ 6,997	$ 8,072	$ --	$ 7,709	$ 376
Total impaired loans:					
Real estate mortgage	$ 4,949	$ 5,360	$ --	$ 5,180	$ 146
Production and intermediate-term	1,757	5,015	110	2,628	221
Other	450	540	--	139	9
Total	$ 7,156	$ 10,915	$ 110	$ 7,947	$ 376

	As of December 31, 2016			For the year ended December 31, 2016	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 805	$ 807	$ 22	$ 549	$ --
Production and intermediate-term	2,922	3,077	2,733	1,922	--
Other	--	--	--	--	--
Total	$ 3,727	$ 3,884	$ 2,755	$ 2,471	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 5,702	$ 5,905	$ --	$ 3,886	$ 194
Production and intermediate-term	1,232	1,596	--	811	131
Other	122	198	--	322	59
Total	$ 7,056	$ 7,699	$ --	$ 5,019	$ 384
Total impaired loans:					
Real estate mortgage	$ 6,507	$ 6,712	$ 22	$ 4,435	$ 194
Production and intermediate-term	4,154	4,673	2,733	2,733	131
Other	122	198	--	322	59
Total	$ 10,783	$ 11,583	$ 2,755	$ 7,490	$ 384

The recorded investment in the loan is the unpaid principal amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges and acquisition costs and may also reflect a previous direct charge-off of the investment.

Unpaid principal balance represents the contractual principal balance of the loan.

We did not have any material commitments to lend additional money to borrowers whose loans were classified as risk loans at December 31, 2018.

Troubled Debt Restructurings (TDRs)

Included within our loans are TDRs. These loans have been modified by granting a concession in order to maximize the collection of amounts due when a borrower is experiencing financial difficulties. All risk loans, including TDRs, are analyzed within our allowance for loan losses.

TDR Activity

(in thousands)

For the year ended December 31	**2018**		2017		2016	
	Pre-modification	Post-modification	Pre-modification	Post-modification	Pre-modification	Post-modification
Production and intermediate-term	**--**	**--**	109	109	6	6
Other	**283**	**279**	--	--	--	--
Total	**$ 283**	**$ 279**	$ 109	$ 109	$ 6	$ 6

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 and acquisition costs and may also reflect a previous direct charge-off of the investment.

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

There were no TDRs that defaulted during the years ended December 31, 2018, 2017 or 2016 in which the modification was within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of December 31	2018	2017	2016
Nonaccrual status:			
Production and intermediate-term	**41**	85	8
Other	**266**	9	19
Total TDRs in nonaccrual status	**$ 307**	$ 94	$ 27
Total TDRs:			
Production and intermediate-term	**41**	85	8
Other	**266**	9	19
Total TDRs	**$ 307**	$ 94	$ 27

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

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) For the year ended December 31	2018	2017	2016
Balance at beginning of year	**$ 4,404**	$ 5,307	$ 1,520
Provision for loan losses	**76**	1,722	3,764
Loan recoveries	**25**	78	114
Loan charge-offs	**(47)**	(2,703)	(91)
Balance at end of year	**$ 4,458**	$ 4,404	$ 5,307

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 (reversal of) 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 year ended December 31	2018	2017	2016
(Reversal of) provision for credit losses	**$ (7)**	$ 112	$ --
As of December 31	**2018**	2017	2016
Accrued credit losses	**$ 105**	$ 112	$ --

Changes in Allowance for Loan Losses and Year End Recorded Investments by Loan Type

(in thousands)	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2017	**$ 1,133**	**$ 2,821**	**$ 275**	**$ 175**	**$ 4,404**
Provision for (reversal of) loan losses	**267**	**(387)**	**156**	**40**	**76**
Loan recoveries	**7**	**16**	**--**	**2**	**25**
Loan charge-offs	**(3)**	**(29)**	**--**	**(15)**	**(47)**
Balance as of December 31, 2018	**$ 1,404**	**$ 2,421**	**$ 431**	**$ 202**	**$ 4,458**
Ending balance: individually evaluated for impairment	**$ 16**	**$ 307**	**$ --**	**$ --**	**$ 323**
Ending balance: collectively evaluated for impairment	**$ 1,388**	**$ 2,114**	**$ 431**	**$ 202**	**$ 4,135**
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2018	**$ 682,451**	**$ 444,696**	**$ 128,056**	**$ 83,507**	**$ 1,338,710**
Ending balance: individually evaluated for impairment	**$ 6,657**	**$ 3,356**	**$ --**	**$ 1,083**	**$ 11,096**
Ending balance: collectively evaluated for impairment	**$ 675,794**	**$ 441,340**	**$ 128,056**	**$ 82,424**	**$ 1,327,614**

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2016	$ 532	$ 4,497	$ 141	$ 137	$ 5,307
Provision for loan losses	615	932	134	41	1,722
Loan recoveries	29	49	--	--	78
Loan charge-offs	(43)	(2,657)	--	(3)	(2,703)
Balance as of December 31, 2017	$ 1,133	$ 2,821	$ 275	$ 175	$ 4,404
Ending balance: individually evaluated for impairment	$ --	$ 110	$ --	$ --	$ 110
Ending balance: collectively evaluated for impairment	$ 1,133	$ 2,711	$ 275	$ 175	$ 4,294
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2017	$ 609,875	$ 388,223	$ 116,183	$ 72,586	$ 1,186,867
Ending balance: individually evaluated for impairment	$ 4,949	$ 1,757	$ --	$ 450	$ 7,156
Ending balance: collectively evaluated for impairment	$ 604,926	$ 386,466	$ 116,183	$ 72,136	$ 1,179,711

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2015	$ 354	$ 1,076	$ 57	$ 33	$ 1,520
Provision for loan losses	170	3,407	84	103	3,764
Loan recoveries	18	95	--	1	114
Loan charge-offs	(10)	(81)	--	--	(91)
Balance as of December 31, 2016	$ 532	$ 4,497	$ 141	$ 137	$ 5,307
Ending balance: individually evaluated for impairment	$ 22	$ 2,733	$ --	$ --	$ 2,755
Ending balance: collectively evaluated for impairment	$ 510	$ 1,764	$ 141	$ 137	$ 2,552
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2016	$ 566,469	$ 381,232	$ 98,865	$ 45,487	$ 1,092,053
Ending balance: individually evaluated for impairment	$ 6,507	$ 4,154	$ --	$ 122	$ 10,783
Ending balance: collectively evaluated for impairment	$ 559,962	$ 377,078	$ 98,865	$ 45,365	$ 1,081,270

The recorded investment in the loan is the unpaid principal amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges and acquisition costs and may also reflect a previous direct charge-off of the investment.

NOTE 4: INVESTMENT IN AGRIBANK

As of December 31, 2018, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable, with an additional amount required on association growth in excess of a targeted growth rate, if the District is also growing above a targeted growth rate.

We are also required to hold AgriBank stock related to our participation in a pool program. Generally, this program requires us to hold 8.0% of the balance of loans in the program.

Investment in AgriBank

(in thousands)

As of December 31	**2018**	2017	2016
Required stock investment	**$ 27,449**	$ 23,920	$ 22,219
Purchased excess stock investment	**--**	1,349	--
Total investment	**$ 27,449**	$ 25,269	$ 22,219

Excess stock investment is recorded when the required investment in AgriBank is lower than our total investment.

NOTE 5: INVESTMENT SECURITIES

We held investment securities of $1.7 million, $3.6 million and $6.0 million at December 31, 2018, 2017 and 2016, respectively. Our investment securities consisted of securities containing loans fully guaranteed by the Small Business Administration (SBA).

The investment securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. For the years ended December 31, 2018, 2017 and 2016, we have not recognized any impairment on our investment portfolio.

Additional Investment Securities Information

(dollars in thousands) As of December 31	2018	2017	2016
Amortized cost	**$ 1,663**	$ 3,643	$ 6,004
Unrealized gains	**58**	142	270
Fair value	**$ 1,721**	$ 3,785	$ 6,274
Weighted average yield	**5.2%**	4.3%	2.3%

Investment income is recorded in "Interest income" in the Consolidated Statements of Comprehensive Income and totaled $72 thousand, $178 thousand and $149 thousand in 2018, 2017 and 2016, respectively.

NOTE 6: NOTE PAYABLE TO AGRIBANK

Our note payable to AgriBank represents borrowings, in the form of a line of credit, to fund our loan portfolio. The line of credit is governed by a GFA and our assets serve as collateral.

Note Payable Information

(dollars in thousands) As of December 31	2018	2017	2016
Line of credit	**$ 1,300,000**	$ 1,300,000	$ 1,100,000
Outstanding principal under the line of credit	**1,058,397**	929,140	855,257
Interest rate	**2.8%**	2.3%	2.0%

Our note payable matures May 31, 2020, at which time the note will be renegotiated.

The GFA provides for limitations on our ability to borrow funds based on specified factors or formulas relating primarily to outstanding balances, credit quality and financial condition. Additionally, we have requirements to maintain and effective program of internal controls over financial reporting. At December 31, 2018, and throughout the year, we were not declared in default under any GFA covenants or provisions.

NOTE 7: MEMBERS' EQUITY

Capitalization Requirements

In accordance with the Farm Credit Act, each borrower is required to invest in us as a condition of obtaining a loan. As authorized by the Agricultural Credit Act and our capital bylaws, the Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2.0% of the customer's total loan(s) or one thousand dollars, whichever is less. The purchase of one participation certificate is required of all non-stockholder customers who purchase financial services. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The borrower acquires ownership of the capital stock at the time the loan or lease is made. The aggregate par value of the stock is added to the principal amount of the related obligation. We retain a first lien on the stock or participation certificates owned by customers.

Protection Mechanisms

Under the Farm Credit Act, certain borrower equity is protected. We are required to retire protected borrower equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock and participation certificates that were outstanding as of January 6, 1988, or were issued prior to October 6, 1988, as a requirement for obtaining a loan. If we were to be unable to retire protected borrower equity at par value or stated value, the FCSIC would provide the amounts needed to retire this equity.

Regulatory Capitalization Requirements

Regulatory Capital Requirements and Ratios

As of December 31	**2018**	2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**18.5%**	19.1%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**18.5%**	19.1%	6.0%	2.5%*	8.5%
Total capital ratio	**18.8%**	19.4%	8.0%	2.5%*	10.5%
Permanent capital ratio	**18.6%**	19.2%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**19.7%**	20.8%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**20.3%**	21.4%	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.

Effective January 1, 2017, the regulatory capital requirements for Farm Credit System banks and associations were modified. These regulations replaced existing core surplus and total surplus ratios with common equity tier 1, tier 1 capital and total capital risk-based capital ratios. These regulations also added a tier 1 leverage ratio and an unallocated retained earnings and equivalents (UREE) leverage ratio. The permanent capital ratio continues to remain in effect, with some modifications, to align with these regulations.

Risk-adjusted assets have been defined by the FCA Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes effective January 1, 2017, which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments with terms at origination of less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the inclusion of the allowance for loan losses as a deduction to risk-adjusted assets for the permanent capital ratio.

These ratios are based on a three-month average daily balance in accordance with FCA Regulations and are calculated as follows (not all items below may be applicable to our Association):

- Common equity tier 1 ratio is statutory minimum purchased member stock, other required member stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to retirement, unallocated retained earnings as regulatorily prescribed, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required member stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for credit losses subject to certain limitations, less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings as regulatorily prescribed, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain allocated and purchased investments in other System institutions divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings as regulatorily prescribed, paid-in capital, allocated surplus not subject to retirement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

Effective January 1, 2017, the regulatory capital requirements allow for allotment agreements for only the permanent capital ratio and, as such, any stock in excess of our AgriBank required investment was not included in the common equity tier 1, tier 1 capital, total capital or leverage ratios. We had no allocated excess stock at December 31, 2018, or 2017.

Refer to Note 7 in our 2016 Annual Report for a more complete description of the ratios effective as of December 31, 2016. We were in compliance with the minimum required capital ratios as of December 31, 2016.

Description of Equities

The following represents information regarding classes and number of shares of stock and participation certificates outstanding. All shares and participation certificates are stated at a $5.00 par value.

	Number of Shares		
As of December 31	**2018**	2017	2016
Class A common stock (protected)	**199**	199	199
Class C common stock (at-risk)	**545,205**	530,129	554,998
Participation certificates (at-risk)	**22,578**	21,670	19,938

Under our bylaws, we are also authorized to issue Class B common stock and Class D common stock. Each of these classes of stock is at-risk and nonvoting. Class B common stock has a $5.00 par value per share and the Class D common stock has a $1,000 par value per share. Currently, no stock of these classes has been issued.

Only holders of Class C common stock have voting rights. Our bylaws do not prohibit us from paying dividends on any classes of stock. However, no dividends have been declared to date.

Our bylaws generally permit stock and participation certificates to be retired at the discretion of our Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2018, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

In the event of our liquidation or dissolution, according to our bylaws, any remaining assets after payment or retirement of all liabilities will be distributed in the following order of priority:

- first, pro rata to holders of common stock and participation certificates
- second, any remaining assets of the Association after such distribution shall be distributed to present and former patrons on a patronage basis, to the extent practicable

Any impairment of capital stock shall be treated as impairing all shares of common stock and participations certificates pro rata; however, protected stock will be retired at par value regardless of impairment.

All classes of stock are transferable to other customers who are eligible to hold such classes of stock. Transfers of stock are only allowed when we meet minimum regulatory capital requirements.

Patronage Distributions

We accrued patronage distributions of $3.9 million, $3.7 million and $3.6 million at December 31, 2018, 2017 and 2016, respectively. Generally, the patronage distributions are paid in cash during the first quarter after year end. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements.

The FCA Regulations prohibit patronage distributions to the extent they would reduce our permanent capital ratio below the minimum permanent capital adequacy standards. Additionally, effective January 1, 2017, patronage distributions may be restricted or prohibited without prior FCA approval if capital ratios fall below the total requirements, including the buffer amounts.

NOTE 8: INCOME TAXES

The Tax Cuts and Jobs Act (the Act) was enacted in December of 2017. This Act contained various tax law changes, including a federal statutory tax rate change to 21% from 34%, effective January 1, 2018. Because deferred tax assets and liabilities are expected to be recognized in the Association’s tax return in a future year, when the new statutory tax rate would be applicable, the deferred tax assets and liabilities as of December 31, 2017, were valued using a blended federal/state effective tax rate based on the new federal statutory tax rate. The effect of this revaluation was recognized in our provision for income taxes for the year ended December 31, 2017.

Provision for Income Taxes

Provision for Income Taxes

(dollars in thousands)

For the year ended December 31		2018		2017		2016
Current:						
Federal	**$**	**722**	$	563	$	1,078
State		**241**		128		212
Total current	**$**	**963**	$	691	$	1,290
Deferred:						
Federal	**$**	**(67)**	$	920	$	(890)
State		**(22)**		154		(182)
Total deferred		**(89)**		1,074		(1,072)
Provision for income taxes	**$**	**874**	$	1,765	$	218
Effective tax rate		**3.1%**		6.6%		1.0%

Reconciliation of Taxes at Federal Statutory Rate to Provision for Income Taxes

(in thousands)

For the year ended December 31		2018		2017		2016
Federal tax at statutory rates	**$**	**5,916**	$	9,056	$	7,318
State tax, net		**171**		178		20
Patronage distributions		**(819)**		(1,258)		(1,224)
Effect of non-taxable entity		**(4,398)**		(6,385)		(5,939)
Change in statutory tax rates due to the Tax Cuts and Jobs Act		**--**		165		--
Other		**4**		9		43
Provision for income taxes	**$**	**874**	$	1,765	$	218

Deferred Income Taxes

Tax laws require certain items to be included in our tax returns at different times than the items are reflected on our Consolidated Statements of Comprehensive Income. Some of these items are temporary differences that will reverse over time. We record the tax effect of temporary differences as deferred tax assets and liabilities netted on our Consolidated Statements of Condition.

Deferred Tax Assets and Liabilities

(in thousands)

As of December 31		2018		2017		2016
Allowance for loan losses	**$**	**695**	$	800	$	1,814
Postretirement benefit accrual		**135**		138		202
Accrued incentive		**156**		104		178
Accrued patronage income not received		**--**		(217)		(179)
AgriBank 2002 allocated stock		**(165)**		(165)		(243)
Accrued pension asset		**(249)**		(192)		(184)
Depreciation		**(108)**		(96)		(79)
Other liabilities		**(147)**		(144)		(207)
Deferred tax assets, net	**$**	**317**	$	228	$	1,302
Gross deferred tax assets	**$**	**986**	$	1,042	$	2,194
Gross deferred tax liabilities	**$**	**(669)**	$	(814)	$	(892)

A valuation allowance for the deferred tax assets was not necessary at December 31, 2018, 2017 or 2016.

We have not provided for deferred income taxes on patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. Our total permanent investment in AgriBank is $9.6 million. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $236.8 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

Our income tax returns are subject to review by various United States taxing authorities. We record accruals for items that we believe may be challenged by these taxing authorities. However, we had no uncertain income tax positions at December 31, 2018. In addition, we believe we are no longer subject to income tax examinations for years prior to 2015.

NOTE 9: EMPLOYEE BENEFIT PLANS

Pension and Post-Employment Benefit Plans

Complete financial information for the pension and post-employment benefit plans may be found in the AgriBank 2018 Annual Report.

The Farm Credit Foundations Plan Sponsor and Trust Committees provide oversight of the benefit plans. These governance committees are comprised of elected or appointed representatives (senior leadership and/or Board of Director members) from the participating organizations. The Plan Sponsor Committee is responsible for employer decisions regarding all benefit plans including retirement benefits. These decisions could include plan design changes, vendor changes, determination of employer subsidies (if any) and termination of specific benefit plans. Any action to change or terminate the retirement plan can only occur at the direction of the AgriBank District participating employers. The Trust Committee is responsible for fiduciary and plan administrative functions.

Pension Plan: Certain employees participate in the AgriBank District Retirement Plan, a District-wide multi-employer defined benefit retirement plan. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan's termination is contingent on the sufficiency of the plan's net assets to provide benefits at that time. This plan is noncontributory and covers certain eligible District employees. The assets, liabilities and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if we choose to stop participating in the plan, we may be required to pay an amount based on the underfunded status of the plan. Because of the nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee transfers to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

AgriBank District Retirement Plan Information

(in thousands) As of December 31		**2018**		2017		2016
Unfunded liability	**$**	**274,450**	$	352,516	$	374,305
Projected benefit obligation		**1,272,063**		1,371,013		1,269,625
Fair value of plan assets		**997,613**		1,018,497		895,320
Accumulated benefit obligation		**1,125,682**		1,184,550		1,096,913

For the year ended December 31		**2018**		2017		2016
Total plan expense	**$**	**51,900**	$	44,730	$	53,139
Our allocated share of plan expenses		**697**		665		772
Contributions by participating employers		**90,000**		90,000		90,000
Our allocated share of contributions		**1,187**		1,273		1,258

The unfunded liability reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these Consolidated Financial Statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The accumulated benefit obligation is the actuarial present value of the benefits attributed to employee service rendered before the measurement date and based on current employee service and compensation. The funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. We recognize our proportional share of expense and contribute a proportional share of funding. Our allocated share of plan expenses is included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income.

Benefits paid to participants in the District were $68.6 million in 2018. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total District employer contributions expected to be paid into the pension plan during 2019 is $90.0 million. Our allocated share of these pension contributions is expected to be $1.3 million. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the District financial statements.

Nonqualified Retirement Plan: We also participate in the District-wide nonqualified defined benefit Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits.

Pension Restoration Plan Information

(in thousands)

As of December 31		2018		2017		2016
Our unfunded liability	**$**	**921**	$	890	$	195
Projected benefit obligation for the Combined District		**41,205**		37,190		28,514
Accumulated benefit obligation for the Combined District		**33,215**		29,844		22,778

For the year ended December 31		2018		2017		2016
Total plan expense	**$**	**4,899**	$	8,336	$	5,767
Our allocated share of plan expenses		**133**		113		73

The nonqualified plan is funded as the benefits are paid; therefore, there are no assets in the plan and the unfunded liability is equal to the projected benefit obligation. Beginning in 2017, the recognition of the unfunded liability includes the impact of prior service cost and unamortized gain/loss. The increase in the liability was offset against accumulated other comprehensive loss and had no impact to net income. The amount of the pension benefits funding status is subject to many variables including interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their participants in the plan. Our allocated share of the components of net periodic benefit cost other than the service cost component, are included in “Other operating expenses” in the Consolidated Statements of Comprehensive Income. Service costs related to the plan are included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income. The Pension Restoration Plan is unfunded. We have a Rabbi Trust to fund our future liability under this plan. The balance in the Rabbi Trust fund was $199 thousand at December 31, 2018, and $32 thousand at December 31, 2017, and 2016. A Rabbi Trust is a trust created for the purpose of supporting the nonqualified benefit obligation of employers to their employees.

Retiree Medical Plans: District employers also provide certain health insurance benefits to eligible retired employees according to the terms of the benefit plans. The anticipated costs of these benefits are accrued during the period of the employee’s active status.

Retiree Medical Plan Information

(in thousands)

For the year ended December 31		2018		2017		2016
Postretirement benefit expense	**$**	**8**	$	36	$	41
Our cash contributions		**36**		34		39

Postretirement benefit costs are included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income. Our cash contributions are equal to the benefits paid.

Defined Contribution Plans

We participate in a District-wide defined contribution plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2.0% and 50 cents on the dollar on the next 4.0% on both pre-tax and post-tax contributions. The maximum employer match is 4.0%. For employees hired after December 31, 2006, we contribute 3.0% of the employee’s compensation and will match employee contributions dollar for dollar up to a maximum of 6.0% on both pre-tax and post-tax contributions. The maximum employer contribution is 9.0%.

We also participate in a District-wide Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the IRS, are either a Chief Executive Officer or President of a participating employer, or have previously elected pre-tax deferrals in 2006 under predecessor nonqualified deferred compensation plans. Under this plan the employee may defer a portion of his/her salary, bonus and other compensation. Additionally, the plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the defined contribution plan if it were not for certain IRS limitations.

Employer contribution expenses for the defined contribution plan, included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income, were $349 thousand, $286 thousand and $248 thousand in 2018, 2017 and 2016, respectively. These expenses were equal to our cash contributions for each year.

NOTE 10: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members and other organizations with which such persons may be associated. Such transactions may be subject to special approval requirements contained in the FCA Regulations and are made on the same terms, including interest rates, amortization schedules and collateral, as those prevailing at the time for comparable transactions with other persons. In our opinion, none of these loans outstanding at December 31, 2018, involved more than a normal risk of collectability.

Related Party Loans Information

(in thousands) As of December 31	**2018**	2017	2016
Total related party loans	**$ 15,564**	$ 13,982	$ 14,707
For the year ended December 31	**2018**	2017	2016
Advances to related parties	**$ 13,419**	$ 15,539	$ 16,669
Repayments by related parties	**11,513**	19,031	16,741

The related parties can be different each year end primarily due to changes in the composition of the Board of Directors and the mix of organizations with which such persons may be associated. Advances and repayments on loans in the preceding chart are related to those considered related parties at year end.

As discussed in Note 6, we borrow from AgriBank, in the form of a line of credit, to fund our loan portfolio. All interest expense as shown on the Consolidated Statements of Comprehensive Income was paid to AgriBank. Total patronage received from AgriBank was $6.2 million, $5.7 million and $3.8 million in 2018, 2017 and 2016, respectively. Refer to Note 3 for information on participations sold to AgriBank and Note 4 for stock investment in AgriBank information.

We purchase various services from AgriBank, including SunStream Business Services, a division of AgriBank FCB. The services include certain financial and retail systems, financial reporting services, tax reporting services, technology services and insurance services. The total cost of services we purchased from AgriBank was $771 thousand, $599 thousand and $547 thousand in 2018, 2017 and 2016, respectively.

We also purchase human resource information systems and benefit, payroll and workforce management services from Farm Credit Foundations (Foundations). As of December 31, 2018, 2017 and 2016, our investment in Foundations was $13 thousand. The total cost of services purchased from Foundations was $95 thousand, $100 thousand and $91 thousand in 2018, 2017 and 2016, respectively.

NOTE 11: CONTINGENCIES AND COMMITMENTS

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

During the year ended December 31, 2018, we recognized litigation settlement expense of $2.0 million related to the settlement of a lawsuit in which the Association was a defendant. As this lawsuit has been settled, we expect no further losses related to this matter.

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk that may be recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2018, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $340.2 million. Additionally, we had $1.1 million of issued standby letters of credit as of December 31, 2018.

Commitments to extend credit and letters of credit generally have fixed expiration dates or other termination clauses, and we may require payment of a fee. If commitments to extend credit and letters of credit remain unfulfilled or have not expired, they may have credit risk not recognized in the financial statements. Many of the commitments to extend credit and letters of credit will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Certain letters of credit may have recourse provisions that would enable us to recover from third parties amounts paid under guarantees, thereby limiting our maximum potential exposure. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers, and we apply the same credit policies. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on management's credit evaluation of the borrower.

NOTE 12: 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 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 December 31, 2018, 2017 or 2016.

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 December 31, 2018	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	**$ --**	**$ --**	**$ 1,381**	**$ 1,381**

As of December 31, 2017	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ --	$ 51	$ 51

As of December 31, 2016	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ 1,021	$ --	$ 1,021

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 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.

NOTE 13: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 14, 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 2018 Consolidated Financial Statements or disclosure in the Notes to Consolidated Financial Statements.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

AgHeritage Farm Credit Services, ACA
(Unaudited)

Description of Business

General information regarding the business is incorporated herein by reference from Note 1 to the Consolidated Financial Statements in this Annual Report.

The description of significant business developments, if any, is incorporated herein by reference from the Management's Discussion and Analysis section of this Annual Report.

Description of Property

Property Information

Location	Description	Usage
Little Rock	Leased	Headquarters
Batesville	Leased	Branch
Brinkley	Owned	Branch
Lonoke	Owned	Branch
McGehee	Owned	Branch
Newport	Owned	Branch
Pine Bluff	Leased	Branch
Pocahontas	Owned	Branch
Searcy	Owned	Branch
Star City	Owned	Branch
Stuttgart	Owned	Branch

Legal Proceedings

Information regarding legal proceedings is discussed in Note 11 to the Consolidated Financial Statements in this Annual Report. We were not subject to any enforcement actions as of December 31, 2018.

Additional Regulatory Capital Disclosure

Regulatory Capital Ratios Pursuant to FCA Regulation 620.5

As of December 31	2013	2012
Permanent capital ratio	18.1%	17.9%
Total surplus ratio	17.8%	17.5%
Core surplus ratio	17.8%	17.5%

Refer to the Consolidated Five-Year Summary of Selected Financial Data at the beginning of this Annual Report for capital ratio calculations for the past five years.

Description of Capital Structure

Information regarding our capital structure is discussed in Note 7 to the Consolidated Financial Statements in this Annual Report.

Description of Liabilities

Information regarding liabilities is discussed in Notes 6, 7, 8, 9 and 11 to the Consolidated Financial Statements in this Annual Report. All debt and other liabilities in the financial statements are uninsured.

Selected Financial Data

The Consolidated Five-Year Summary of Selected Financial Data is presented at the beginning of this Annual Report.

Management's Discussion and Analysis

Information regarding any material aspects of our financial condition, changes in financial condition and results of operations are discussed in the Management's Discussion and Analysis section of this Annual Report.

Board of Directors

Our Board of Directors is organized into the following committees to carry out Board responsibilities:

The **Audit Committee** oversees financial reporting, the adequacy of our internal control systems, the scope of the Association's internal audit program, the independence of the outside auditors and the processes for monitoring compliance with laws and regulations. The Audit Committee also oversees the adequacy of management's actions with respect to recommendations arising from auditing activities.

The **Finance Committee** monitors our financial and capital planning, asset/liability management and funding and investment activities. Committee members serve as a resource to the Board by maintaining a more in-depth knowledge of our financial activities.

The **Executive Committee** addresses issues of Board governance and the Board's continuing efforts to strengthen and renew the Board, administers a process for maintaining and periodically reviewing board policies and administers a planning process focused upon achieving our mission and maintaining a viable, competitive institution. The committee is authorized to take action on behalf of the Board on matters requiring board approval between normally scheduled board meetings, when necessary. Such authorization is to be reviewed and acted upon at the next board meeting.

The **Human Resources Committee** oversees and provides overall direction and/or recommendations for compensation, benefits and human resource performance management programs.

The **Member Relations Committee** provides direction on the Association's agriculture public policy position at the local, state and national level. Committee members serve as a resource for maintaining high quality member relations/involvement programs, board involvement of market and customer needs and in developing programs to attract young and beginning and next generation farmers.

Board of Directors as of December 31, 2018, including business experience during the last five years

Name	Term	Principal occupation and other business affiliations
Dwain Morris Chairperson Service Began: 1991	2018-2022	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** President: 4-D Farms Board member of Randolph County Farm Bureau
Jerry Burkett Vice Chairperson Service Began: 2002	2017-2021	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Board member of Arkansas County Farm Bureau
Russell Bonner Service Began: 2006	2018-2022	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Board member of New Peoples Gin Company, cotton ginning
Jesse Briggs Service Began: October 2017	2018-2020	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Board member of Farelly Lake Levee District
Mike Burkett Service Began: 2006	2017-2021	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Board member of Woodruff County Farm Bureau
Ray C. "Chuck" Culver III Outside Director Service Began: 1992	2016-2020	**Principal Occupation:** Director of External Relations, Division of Agriculture at the University of Arkansas System
Sandra Morgan Outside Director Service Began: 2015	2018-2022	**Principal Occupation:** Vice President and Chief Financial Officer at Riceland Foods, Inc.

Name	Term	Principal Occupation and Other Affiliations
Jeff Rutledge	2018-2019	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Board member of Arkansas Ag Council Board member of Arkansas Waterways Commission Board member of Jackson County Farm Bureau Board member of Newport Levee Board Board member of Newport School Board Board member of USA Rice Council Board member of USA Rice Federation Chairman of Arkansas Rice Council Board
Service Began: July 2017		President of Arkansas Rice Federation Board
Clay Schaefer	2015-2019	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Board member of Riceland Foods, Inc.
Service Began: 2011		Board member of Tri-County Farmers Association
Michael D. Taylor	2016-2020	**Principal Occupation:** Self-employed grain farmer and natural gas development General Partner: RIO Vista Farms **Other Affiliations:** Manager: Wood Family Mineral Development, LLC, involved in natural gas
Service Began: 2001		Board member of White County Farm Bureau
Keith Watkins	2016-2020	**Principal Occupation:** Self-employed grain and cattle farmer **Other Affiliations:**
Service Began: 2008		Board member of Riceland Foods, Inc.
Scott Young	2017-2021	**Principal Occupation:** Self-employed grain and timber farmer Partner in Dogwood Farms President and shareholder in Jim Young Farms, Inc. **Other Affiliations:**
Service Began: 2013		Board member of Ashley County Farm Bureau

Pursuant to our bylaws, directors are paid a reasonable amount for attendance at board meetings, committee meetings or other special assignments. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or assignments. Our Board of Directors has adopted a rate of $600 per day. Board members also receive a $4,000 annual retainer fee, except for the Board Chairperson and Vice Chairperson, who receive a retainer fee of $7,000 and $5,500, respectively, for their additional duties as Board Chairperson and Vice Chairperson.

Information regarding compensation paid to each director who served during 2018 follows:

	Number of Days Served: Board Meetings	Number of Days Served: Other Official Activities	Compensation Paid for Service on a Board Committee	Name of Committee	Total Compensation Paid in 2018
Russell Bonner	9.5	9.0	$ 600	Audit($300), Finance($300)	$ 15,200
Jesse Briggs	5.5	5.0	-		10,300
Jerry Burkett	9.5	22.0	300	Finance($300)	24,500
Mike Burkett	9.5	1.0	100	HR($100)	10,400
Ray C. "Chuck" Culver III	8.5	0.0	-		9,100
Sandra Morgan	9.0	4.5	500	Audit($400), HR($100)	12,300
Dwain Morris	9.5	27.5	400	Audit($300), HR($100)	29,400
Jeff Rutledge	9.5	12.0	300	Audit($300)	16,900
Clay Schaefer	9.5	8.0	100	HR($100)	14,800
Micahel D. Taylor	9.5	8.0	600	Audit($300), Finance($300)	14,800
Keith Watkins	9.5	4.0	-		12,100
Scott Young	9.5	9.5	100	HR ($100)	15,500
Total	108.5	110.5	$ 3,000		$ 185,300

Senior Officers

Senior Officers as of December 31, 2018, including business experience during the last five years

Name and Position	Business experience and other business affiliations
Gregory W. Cole President/Chief Executive Officer	**Business experience:** President/Chief Executive Officer since April 2008 **Other business affiliations:** Board Member of Arkansas Agriculture Foundation, an organization that promotes awareness of agriculture in Arkansas
Kenneth L. Sumner SVP/Chief Financial Officer	**Business experience:** SVP/Chief Financial Officer since August 2009 **Other business affiliations:** Board Treasurer of Wade Knox Child Advocacy Center, a local charity Treasurer of Arkansas Waterfowl Association, a not-for-profit organization that raises funds to support local charities and to provide outdoor opportunities for children who would not have the opportunity otherwise
Drue Ford SVP/Chief Credit Officer	**Business experience:** SVP/Chief Credit Officer since October 2006
Cole Plafcan SVP/Chief Lending and Marketing Officer	**Business experience:** SVP/Chief Lending and Marketing Officer since March 2017 VP of Lending and Branch Manager from 1999 to March 2017
Leslie J. Brown VP/Human Resources	**Business experience:** VP/Human Resources since February 2015 Administrator of Benefits and Compensation at major insurance company prior to February 2015 **Other business affiliations:** Treasurer of Arkansas Compensation Association, which provides information and leadership to compensation professionals

Senior Officer Compensation

Compensation Risk Management: We believe the design and governance of our senior officer compensation program is consistent with the highest standards of risk management and provides total compensation that promotes our mission to ensure a safe, sound and dependable source of credit and related services for agriculture and rural America. Our compensation philosophy aims to provide a competitive total rewards package that will enable us to attract and retain highly qualified officers with the requisite expertise and skills while achieving desired business results aligned with the best interests of our members. The design of our senior officer compensation program supports our risk management goals through a set of checks and balances, including (1) a balanced mix of base and variable pay, (2) a balanced use of performance measures that are risk-adjusted where appropriate and (3) a pay-for-performance process that allocates individual awards based on both results and how those results were achieved.

Elements of Compensation: The CEO, senior officer and highly compensated individuals are compensated with a mix of direct cash and long-term incentives, as well as retirement plans generally available to all employees. Our Board of Directors determines the appropriate balance of short-term and long-term incentives, while keeping in mind their responsibilities to our members. Base salary and short-term incentives are intended to be competitive with annual compensation for comparable positions at peer organizations.

Base Salary: The CEO, senior officer and highly compensated individuals base salaries reflect the employee's experience and level of responsibility. Compensation plans for all employees, except the CEO, are subject to review and approval by the Human Resources Committee of our Board of Directors. Information is accumulated regarding competitive market conditions and used in assessing adequate compensation for all employees. CEO salary is reviewed and approved by the Board of Directors.

Short-term Incentives: The short-term incentive plan available only to the CEO and senior officers is paid annually based on performance criteria approved by our Human Resources Committee of the Board of Directors. The criteria related to the overall association performance include return on assets, loan volume, capital ratios, surplus, operating rate, credit quality, credit administration, adverse assets to risk funds, borrower concentration and customer satisfaction. Additional criteria related to personal performance include attainment of personal objectives and overall performance rating. We calculate the incentives after the end of the plan year (the plan year is the calendar year) and pay out the incentives within 60 days of year-end. There were no material amendments to the plan during the last fiscal year.

Highly compensated employees' short-term incentive plan is based on an adjusted pre-tax net income and the employee's individual performance. Individual performance includes a variety of objectives, including credit quality, fees, growth and job competencies. There were no material changes to the plan during the last fiscal year.

Other incentives: We have a retention incentive available to all employees, including the CEO, senior officers and highly compensated individuals. The incentive is paid with an annual component and a long-term component, subject to the participant's employment after three years. Eligibility to participate in this incentive program includes the employee's most recent performance as well as specialized knowledge and strategic role of his/her position. Due to the retention nature of this incentive, it is reported in the Compensation Table in the period paid. In addition, we have a sales incentive plan that is available to all full-time branch employees. The incentives are paid for sales of insurance and leasing products, are paid monthly and are subject to the cap set by FCA.

Retirement Plans: We have various post-employment benefit plans which are generally available to all association employees, including the CEO, senior officers and highly compensated individuals, based on dates of service to the association and are not otherwise differentiated by position, unless specifically stated. Information regarding the post-employment benefit plans is included in Notes 2 and 9 to the accompanying Consolidated Financial Statements.

Other Components of Compensation: Additionally, compensation associated with any company-paid vehicles, group term life insurance premiums, disability insurance premiums or other on-the-spot incentives such as gift cards, may be made available to the CEO, senior officers and highly compensated individuals based on job criteria or similar plans available to all employees.

Compensation to the CEO, Senior Officers, and Highly Compensated Individuals

(in thousands) Name	Year	Salary	Bonus	Deferred/ Perquisites	Other	Total
Gregory W. Cole, CEO	**2018**	**$ 397**	**$ 198**	**$ 5**	**$ 111**	**$ 711**
Gregory W. Cole, CEO	2017	331	165	4	539	1,039
Gregory W. Cole, CEO	2016	312	156	4	294	766
Aggregate Number of Senior Officers and Highly Compensated Individuals, excluding CEO						
Five	**2018**	**$ 730**	**$ 280**	**$ 16**	**$ 131**	**$ 1,157**
Five	2017	694	256	17	154	1,121
Five*	2016	650	190	18	408	1,266

*Includes compensation for a departure of a senior officer in September 2016.

The amount in the "Other" category in the preceding table primarily includes:

- Employer match on defined contribution plans available to all employees.
- Changes in the value of pension benefits. The change in value of the pension benefits is defined as the change in the vested portion of the present value of the accumulated benefit obligation from December 31 of the prior year to December 31 of the most recent year for the District-wide Pension Plan and the Pension Restoration Plan, as applicable, as disclosed in Note 9 to the Consolidated Financial Statements in this Annual Report. This change in value does not represent cash payments made by the Association during the year, but rather is an estimate of the change in the Association's future obligations under the pension plans. The change in the value of the pension benefits is highly sensitive to discount rates used to value the plan liabilities to participants.

No tax reimbursements are made to the CEO, senior officer, and highly compensated individuals.

The value of the pension benefits from December 31, 2017 to December 31, 2018, changed primarily due to interest cost, accumulation of an additional year of credited service by plan participants, and changes in actuarial assumptions.

Members may request information on the compensation to the individuals included in the preceding table during 2018.

Pension Benefits Attributable to the CEO, Senior Officers, and Highly Compensated Individuals

(dollars in thousands) **2018** Name	Plan	Years of Credited Service	Present Value of Accumulated Benefits	Payments Made During the Reporting Period
Gregory W. Cole, CEO	AgriBank District Retirement Plan	**35.8**	**$ 2,349**	**$ --**
	AgriBank District Pension Restoration Plan	**35.8**	**507**	**--**
Aggregate Number of Senior Officers and Highly Compensated Individuals, excluding CEO				
Three	AgriBank District Retirement Plan	**18.6**	**$ 628**	**$ --**

The change in composition of the aggregate senior officer and highly compensated individuals can have a significant impact on the calculation of the accumulated pension benefits.

Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. Therefore, any employee starting employment with the AgriBank District after that date is not eligible to be in the plan.

The AgriBank District Pension Restoration Plan restores retirement benefits to certain highly compensated employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits. Not all senior officers or highly compensated employees are eligible to participate in this plan.

Transactions with Senior Officers and Directors

Information regarding related party transactions is discussed in Note 10 to the Consolidated Financial Statements in this Annual Report.

Travel, Subsistence and Other Related Expenses

Directors and senior officers are reimbursed for reasonable travel, subsistence and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at:

119 East Third Street, Suite 200
Little Rock, AR 72201
(800) 299-2290
www.AgHeritageFCS.com

The total directors' travel, subsistence and other related expenses were $131 thousand, $111 thousand and $99 thousand in 2018, 2017 and 2016, respectively.

Involvement in Certain Legal Proceedings

No events occurred during the past five years that are material to evaluating the ability or integrity of any person who served as a director or senior officer on January 1, 2019, or at any time during 2018.

Member Privacy

The FCA Regulations protect members' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our Association or our members not normally contained in published reports or press releases.

Relationship with Qualified Public Accountant

There were no changes in independent auditors since the last Annual Report to members and we are in agreement with the opinion expressed by the independent auditors. The total financial statement audit fees paid during 2018 were $64 thousand for audit services. Our engagement letter commits to reimbursing the external auditor for reasonable out-of-pocket expenses as incurred for travel.

Financial Statements

The Report of Management, Report on Internal Control Over Financial Reporting, Report of Audit Committee, Report of Independent Auditors, Consolidated Financial Statements and Notes to Consolidated Financial Statements are presented prior to this portion of the Consolidated Financial Statements in this Annual Report.

Young, Beginning and Small Farmers and Ranchers

Information regarding credit and services to young, beginning and small farmers and ranchers and producers or harvesters of aquatic products is discussed in an addendum to this Annual Report.

YOUNG, BEGINNING AND SMALL FARMERS AND RANCHERS

AgHeritage Farm Credit Services, ACA

(Unaudited)

We have specific programs in place to serve the credit and related needs of young, beginning and small farmers and ranchers in our territory. The definitions of young, beginning and small farmers and ranchers follow:

- Young: A farmer, rancher or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.
- Beginning: A farmer, rancher or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the loan transaction date.
- Small: A farmer, rancher or producer or harvester of aquatic products who normally generates less than $250 thousand in annual gross sales of agricultural or aquatic products.

Demographics

We have compared counts of our YBS borrowers against the 2012 Ag Census data. The census reports at a county level the age, years on farm and gross receipts. Some of the census categories are not perfect comparisons for our YBS reporting methodology. The Census' Small comparison is most similar, as the census counts the population of farms with sales less than $250 thousand. The Young category is the next best comparison by reporting operations with primary operator less than 35 years of age, while YBS parameters include those 35 years of age or less. Finally, the Beginning category is least similar. The census does not quantify years of experience, but it does report principal operator with years on present farm into a category of Less than 10 Years. While not an exact comparison for YBS beginning category, it is used as the best comparison available. Finally, the two disparate populations pose another analysis challenge. The census measures the total population regardless of borrowing characteristics, while we operate within a sub-group of the census based on farmers who both finance their operation and who finance with AgHeritage Farm Credit Services, ACA.

The following chart compares our 2018 YBS customers to the 2012 Ag Census:

Total Farms	Census < 10 Years	AgHeritage Beginning	% of Census Category
12,882	2,592	1,878	72.5%
	Census <35 Years Old	**AgHeritage Young**	
	834	986	118.2%
	Census Sales <$250k	**AgHeritage Small**	
	10,949	1,848	16.9%

The 2012 Ag Census trend shows a decline from the 2007 Ag Census in the number of Young, Beginning and Small farms in the AgHeritage territory. The 1997-2012 trend showed small annual increases over the previous Ag Census for Small Farms in 2002 and 2007 (7% and 3%) but a 13% decline in 2012. Beginning had increases over the previous Ag Census in 2002 and 2007 (7% and 8%) but a large decline (75%) in 2012. For Small farms, there were also increases from the prior Ag Census in 2002 and 2007 (7% and 3%) with a drop in the 2012 Ag Census (13%).

The AgHeritage trend in Young borrowers for 2003 – 2018 was steady annual increases of 1- 20% through 2012. Starting in 2013 the number of Young borrowers began to decrease between 4-9% per year with a 7.6% decrease in 2016. 2017 saw a 1% increase in Young borrowers followed by a slight 0.4% decrease in 2018. Beginning borrowers also increased in most years from 2003 – 2014, with increases ranging from 1-19% annually. In 2015 through 2017, Beginning borrowers decreased 4.6%, 6.6% and 2.2%, respectively. In 2018, Beginning borrowers increased 1.6%. Small borrower numbers have been more volatile, ranging from slight decreases (≤ 3%) in most early years, except for a 13% decrease in 2006 to a 15% increase in 2009. The most recent period, 2013-2017, saw decreases ranging from 1.3% to 9.5%. 2018 saw a 6.4% increase in Small borrowers.

Mission Statement

Management and the Board of Directors feel that it is strategically important to support and develop YBS programs. Our YBS Farmer Program mission is to develop and implement programs to attract Young, Beginning and Small and next generation farmers and to strive to reach numeric goals for YBS customers.

Quantitative Goals

(dollars in thousands)	2019		2020		2021		2022		2023	
	# Loans	Volume	# Loans	Volume	# Loans	Volume	# Loans	Volume	# Loans	Volume
Young	1,000	$220,000	1,010	$222,000	1,020	$224,000	1,030	$226,000	1,040	$228,000
Beginning	1,900	$435,000	1,925	$440,000	1,950	$445,000	1,975	$450,000	2,000	$455,000
Small	1,800	$175,000	1,810	$176,000	1,820	$177,000	1,830	$178,000	1,840	$179,000

Qualitative Goals

The following related services were offered to YBS farmers during 2018:

- crop insurance, both hail and multi-peril
- life insurance
- fee real estate appraisal services
- equipment and facility leasing

We made use of federal loan guarantee programs in providing loans and leases to YBS farmers. We maintain a Preferred Lender Program designation with Farm Service Agency.

Outreach Programs

In addition to loans made to YBS and Next Generation borrowers, our annual YBS reports have consistently shown active participation in a variety of YBS outreach efforts. These efforts include both staff time and monetary sponsorship through the following:

We encourage the use of Young and Beginning farmer programs like those offered by the Farm Service Agency and the Cooperative Extension Service.

We continue to sponsor an annual scholarship program for college bound or current college students with one winner from each branch office.

We continue to sponsor and participate in the annual Arkansas State University (ASU) Ag Business Conference and the University of Arkansas (UA) – Division of Agriculture's Women in Ag Conference.

We support the Arkansas Farm Family of the Year program. We have enjoyed having members each year who are honored at the local and state level by the Farm Family of the Year program. Implicit in the Farm Family of the Year is the next generation of farming. The honored families are typically multi-generational and include members who frequently fit within our YBS and Next Generation Farmer parameters.

In 2016 AgHeritage began co-hosting a biennial Arkansas State-wide FCS Young Beginning Farmer Conference. This is a joint effort among all Arkansas Farm Credit associations. The conference was designed to provide attendees the opportunity to network with their peers and experienced professionals in finance, credit and economics. State and national expert speakers cover topics that impact young producers, including the current economic outlook, strategic business planning and financial and risk management.

We sponsor and/or participate in a variety of other Young, Beginning and Small outreach activities including:

- AgHeritage and other Arkansas Farm Credit Associations sponsor, support and participate in various Arkansas Grown activities. Arkansas Grown is an initiative of the Arkansas Department of Agriculture including:
  - Garden Program contest for Arkansas school gardens
  - Local Conversations brings together stakeholders to improve the quality of food reaching consumers
  - Arkansas Grown Magazine
  - Farmers Market Promotion Program
  - Farm2Home
- ASU Student Leadership Conference
- Cooperative Extension Farm Safety Day
- Arkansas Women in Agriculture – sponsorship and attendance of conference and Annie's Project
- University Agriculture Department Scholarship Fundraisers – UA and ASU
- National Black Growers Council – speaker at National Black Growers Council Annual Meeting and sponsorship/participation at the local National Black Growers Council Model Field Day
- Arkansas Farm Family of the Year Program
- Yearly contributions to FFA and 4-H
- AgHeritage Next Generation Farmer Program
- AgHeritage Farm Credit Services Customer Scholarship Program / University Scholarship / Ken Shea Scholarship
- Junior Livestock Auction: State Fair Belt Buckle Sponsorship and Sale of Champions Sponsorship; Local Fair Livestock Sponsorships
- County Extension Meeting Sponsorships: Crop Production, Marketing, Beef, etc.

- Exhibit/Sponsorships/Attendance:
  - Arkansas Farm Bureau Annual Convention
  - Arkansas Foundation for Agriculture
  - Agricultural Council of Arkansas
  - Midsouth Gin Show
  - Arkansas Cattlemen's Conference; Local Conference
  - Arkansas Agricultural Aviation Association
  - Poultry Festival
  - USA Rice Outlook Conference
  - Crossett Rodeo Arena Sponsorship
  - Black Rock Technical College Foundation Scholarship Golf Tournament
  - Arkansas Soybean Association Annual Meeting
  - Arkansas Rice Council/Producers Annual Meeting
  - Mid-South Chapter of the American Society of Farm Managers and Rural Appraisers
  - Various local county fair associations: Belt Buckle Award sponsor
  - Various rural community sports league sponsorships
  - Farm appreciation lunches

Safety and Soundness of the Program

We will limit the amount of risk classified loans that meet the Next Generation Farmer and/or YBS qualifications. The amount of volume for either will not exceed 25% of the Association's risk funds. This limit is cumulative and not to be exceeded at any point.

The credit quality guidelines and quarterly monitoring ensure that credit offered to the YBS and Next Generation Farmer groups is provided in a safe and sound manner within our risk-bearing capacity.

FUNDS HELD PROGRAM

AgHeritage Farm Credit Services, ACA
(Unaudited)

AgHeritage Farm Credit Services, ACA (the Association), offers a Funds Held Program ("Funds Held") that provides for customers to make advance payments on designated real estate and intermediate-term loans. The following terms and conditions apply to all Funds Held unless the loan agreement or related documents, between the Association and customer, provide for other limitations.

Payment Application: Loan payments received by the Association before the loan has been billed will be placed into Funds Held upon request and applied against the next installment due. Loan payments received after the loan has been billed will be directly applied to the installment due on the loan and related charges, if any. Any Funds Held deposit greater than 10% of the original commitment amount is considered to be a prepayment of the loan.

When a loan installment becomes due, amounts in Funds Held for the loan will be automatically applied toward the installment on the due date. Any accrued interest on Funds Held will be applied first. If the balance in Funds Held does not fully satisfy the entire installment, the customer must pay the difference by the installment due date.

Account Maximum: The amount in Funds Held may not exceed the unpaid principal balance of the customer's eligible loans or the unpaid principal balance of each eligible loan. However, the amount in Funds Held may not exceed 10% of the term loan's original commitment if the loan contains a prepayment penalty.

Interest Rate: Interest will accrue on Funds Held at a simple rate of interest that may be changed by the Association from time to time based upon the current interest rate environment. The interest rate may never exceed the interest rate charged on the related loan. Interest rates are currently reported on each customer's loan statement.

Withdrawals: Amounts in Funds Held may be withdrawn under the following conditions, depending on the customer's loan program:

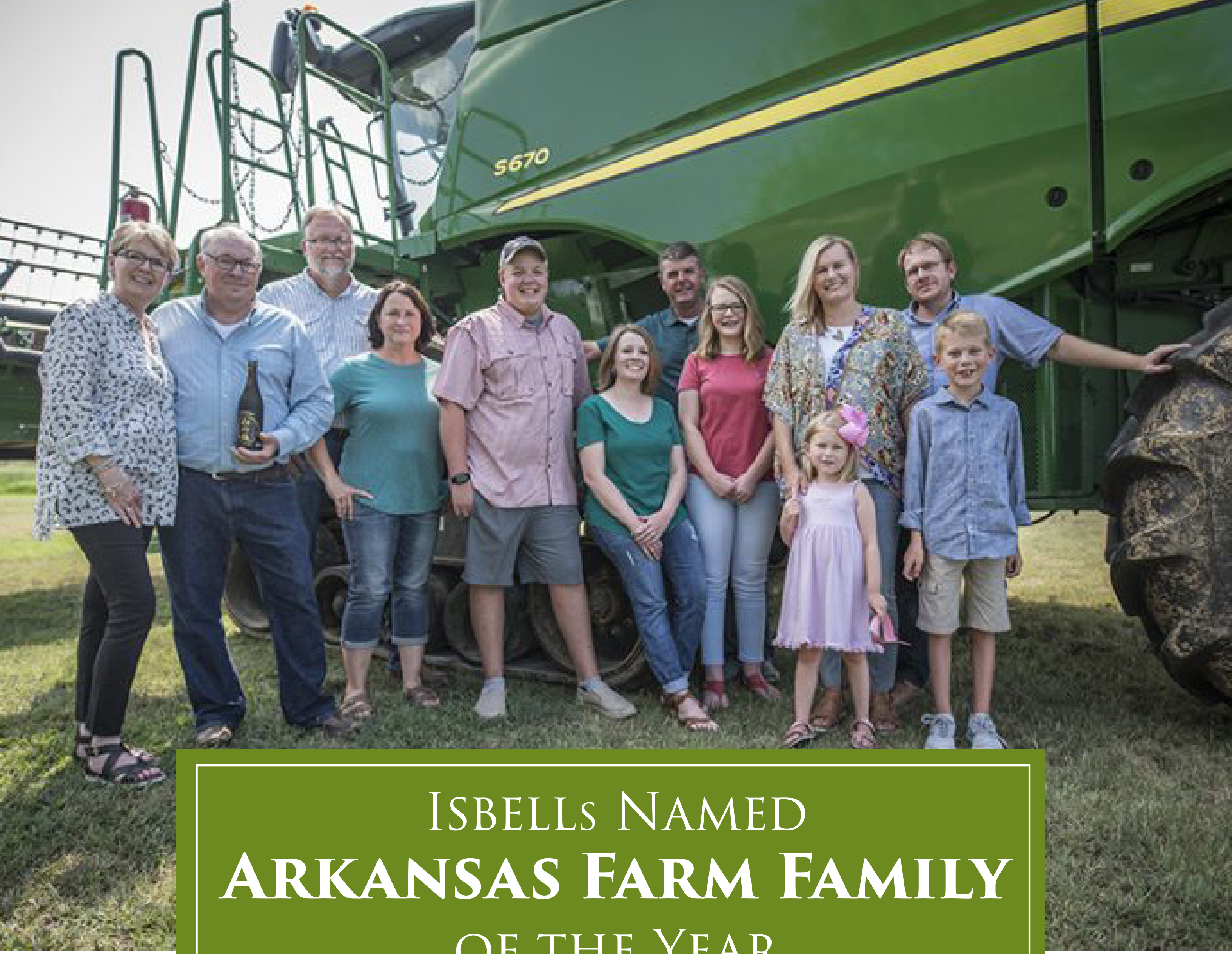
- Customers can withdraw funds up to three times per month upon the approval of the loan officer after receipt of a written customer request. Withdrawals must be for an eligible purpose under the Funds Held program.

- Customers required to assign income to their loan, such as poultry and dairy assignments, may withdraw amounts in excess of their next installment.

Association Options: In the event of default on any loan or if Funds Held exceeds the maximum limit as established above or if the Association discontinues the Funds Held program, the Association may apply funds in the account to the unpaid loan balance and other amounts due and shall return any excess funds to the customer.

Uninsured Account: Funds Held is not a depository account and is not insured. In the event of Association liquidation, customers having balances in Funds Held shall be notified according to FCA Regulations.

Questions: Please direct any questions regarding Funds Held to AgHeritage Farm Credit Services, ACA.



ISBELLS NAMED **ARKANSAS FARM FAMILY** OF THE YEAR

Congratulations to Chris and Judy Isbell of Humnoke for their recent recognition as the Arkansas Farm Family of the Year.

The Isbell Family has been growing rice in Lonoke County for more than 70 years. Their current operation, Zero Grade Farms, includes partners Chris and Judy Isbell, their daughter Whitney Jones and her husband Jeremy, their son Mark and his wife Marda and their nephew Shane Isbell and his wife Lisa.

Located east of England, Zero Grade Farms consists of 3,000 acres of rice, including Japanese varieties that are dedicated for the production of sake, a Japanese rice wine. These varieties are then marketed to both domestic and international sake brewers.

Sponsored by Arkansas Farm Bureau, the Electric Cooperatives of Arkansas, AgHeritage Farm Credit Services, Farm Credit Services of Western Arkansas and Farm Credit Midsouth, the program is in its 71st year of recognizing farm families across the state.

Harvesting Memories & Life Lessons

Holloway Family Farm Spans Four Generations

By: Ashley Wimberley

Upon meeting Pat Holloway at home on her farm in Griffithville (population 225), I quickly took note of her gentle nature and soft voice. However, after a few minutes of visiting – I knew not to mistake her softness for any lack of strength.

"I was raised on a family farm about 15 miles from here in the Oak Prairie community," she said. "By the time I was 10, I was helping watch the other five kids, helping in the garden or doing whatever else needed to be done.

"My grandparents, the Orliceks, first owned the farm," she said. "My dad grew up loving the land and graduated from Des Arc High School, then joined the Marines. He was an agricultural teacher in Michigan for a couple of years until my grandparents, who were getting older, called and asked him if he wanted to come home and run the farm. We accepted the offer and moved back to Arkansas."

After a hometown ballgame some years later, Pat met an older local boy who was also the child of an area farmer. His name was Jimmy Holloway.

The couple transitioned from sharing Cokes at the dairy bar to getting married after she graduated high school in 1969. To begin their new life, it was only natural the newlyweds would turn to farming.

> "We worked long and hard hours together on our 'Holloway Farm dream'," Pat reminisces.

Pat said the kind of partnership she and Jimmy forged helped create their success. "My grandmother always taught us the father was the head of a family, leading, and the mother was the glue, holding the family together. I believe if both the wife and husband know everything about the farm, about the budget and where they money is going, it maintains an understanding between the two and keeps all of the pressure from being on one person," she said.

This solid partnership paid off, as the Holloways were named in 1989 the Prairie County Farm Family of the Year and the Arkansas East Central District Farm Family of the Year.

"In 2005, I lost Jimmy to cancer," Pat said. "Both sons had graduated from college and received degrees, and Mark was back with us farming. We were put in a position to decide to either continue the family farm or forget it and do something else."

Ultimately, they decided to go for it – for one year she said, just to see how it went. Pat says the first call she made was to AgHeritage Farm Credit Services, the financial lender she and Jimmy had used for years, to discuss financing for their continuing operation.

AgHeritage Senior Ag Consumer Lending Officer Darlene Crawford recalls the day Pat and Mark came to her office. "I told Pat she was just as much as customer to us as Jimmy was. She did it all on the farm, too. She thought we were taking a big leap of faith, but we weren't. She and Mark had all of the abilities and qualities to run the farm, and we knew it."
"I had signed for loans with Jimmy in the past, but it just felt different," Pat explained. "I just appreciated AgHeritage's confidence in us. "

Now, nearly 13 years after Pat and Mark committed to one more year running the farms – they are still hard at it. Tim, who is currently a mechanical engineer in Atlanta, has also decided to return home to work on the family farm in coming months.

When asked what Jimmy would say to her, Mark and Tim today, she quickly responded with a grin, "He'd say I told you not to farm."

Then she added, "No really, he'd be tickled."

And, no doubt, proud to see his family carrying on his core principles of faith, farm and family.

Melvin ‘Skip’ Hula Jr.

RICE FARMER OF THE YEAR AWARD

Melvin “Skip” Hula Jr. is a fourth-generation rice producer from Hazen, Arkansas. He vividly remembers the excitement of riding in the truck with his dad while taking the last load of grain to the dryer late in the evening during harvest. He fell in love with growing rice as a youngster and knew farming was the life for which he was destined.

“When I was 14 years old, daddy gave me my first rice field to water,” Hula says. “I quickly learned short cuts weren’t the best way to do things.”

PHOTOS BY CARROLL SMITH

Melvin “Skip” Hula Jr. and his wife, Cathy, reside in Hazen, Arkansas.

After graduating high school and declining numerous academic and athletic college scholarships, he joined the family operation in 1976, started farming some ground on his own in 1978, and bought out his father in 1979. Today, Hula grows 1,500 acres of rice and 1,800 acres of soybeans in partnership with his nephew, Joe Sabbatini, in Prairie County, Arkansas.

This year, at the suggestion of his crop consultant, Virgil Moore, he planted PVL01 — the first Provisia Rice variety released by Horizon Ag — in a couple of fields where red rice had built up herbicide resistance. The fields had been in rice for multiple years because deer ate the soybeans.

“Provisia herbicide did a great job of controlling red rice and pigweed,” Hula says. “Having a different herbicide mode of action will help keep rice farming sustainable.”

Many describe Hula as having the mind of an engineer and the heart of a farmer. He constantly thinks outside of the box for new ways to make farming more efficient, not just for himself, but for the farming community as a whole. Hula has engineered and built several implements that he uses himself and sells to other farmers. In 1980, he created Hula Manufacturing Inc. as a better way to produce them.

The first one he designed is called the Levee Hog because he was tired of the levees washing out on the hillside farms where he planted rice. The Levee Hog, which works in all types of soil, is pulled behind a tractor and squeezes the levee together while pulling it. The next implement he created is known as the Gate-A-Minute — a machine used to put in levee gates in dry and muddy ground without using a shovel. Hula also designed an 80-foot land leveler that farmers use to help row irrigate more efficiently, especially on hillside ground. His latest invention is a self-contained rice drainer that eliminates the physical labor involved in draining a rice field. Hula has also built his own combine parts that extend the life of the machine six to seven times more than that of a factory combine.

Because the Hula-Sabbatini Farm is located within the Grand Prairie “critical water area,” Hula looks for ways to irrigate more efficiently. In a support letter submitted on Hula’s behalf, Prairie County CEA-Staff Chair Brent Griffin says, “Skip has used and continues to use U.S. Department of Agriculture/Corps of Engineers financial programs to construct on-farm surface water impoundments either through EQIP or the White River Irrigation District. This has allowed for construction of several ‘pit’ ditches and above-ground reservoirs to capture and re-capture water during the growing season.

“Once harvest is complete, Skip and Joe repair existing rice levees to capture winter rains to provide wildlife habitat for migrating ducks and geese. During the early spring, the remaining water is drained and pumped back into above-ground reservoirs in preparation for spring and summer irrigation.”

Hula also designed a method for measuring gallons per minute for each hole size in collapsible poly tubing to match the flow rate for row length. He created a cinching program to control water flow rates. Hula believes one of the keys to farming success is innovative technology, such as auto-steer and GPS that is installed on all of his equipment. He also uses a sophisticated drone system that includes a DJI Inspire 1 to monitor his fields. He says the drone, which can fly up to 55 mph if necessary, saves a lot of time and physical manpower.

On a personal note, Cole Plafcan, with AgHeritage Farm Credit Services, describes Hula as a “man’s man, genuine and kind. He is a good farmer and a man of high character, integrity, family and faith.”

In recognition of his innovative production practices, environmental stewardship and commitment to the U.S. rice industry, it is a pleasure to name Melvin “Skip” Hula Jr. the 2018 Rice Farmer of the Year.

Marvin Hare Jr.

RICE LIFETIME ACHIEVEMENT AWARD

Marvin Hare Jr., a third-generation farmer from Newport, Arkansas, just completed his 52nd crop. Through the years, he has worked tirelessly to diversify, grow and improve his operation; serve the U.S. rice industry; and promote valuable rice research on both the local and national level.

Today, Hare farms 6,000 acres of mostly long-grain rice, soybeans and corn with his daughter and son-in-law, Jennifer and Greg James. The family also continues to grow, clean and export natto soybeans to Japan. Hare developed this specialty crop — which commands a premium price — in the early 1980s to help overcome the adversity of the farm crisis. All of the crops are dried and stored in on-farm grain bins.

Hare has always been a firm believer in producing more grain with fewer inputs and protecting natural resources. To conserve water, he began filling in the above-ground canals that moved water across his farm in the 1970s. He then installed underground pipe and began precision leveling his rice fields. Although the farm located between the White and Cache River basins is not in a critical groundwater area, Hare built a 6-acre reservoir that holds 20 million gallons of water and two tailwater recovery systems that service 1,095 acres of rice and soybeans.


PHOTOS BY CARROLL SMITH

Marvin Hare Jr. and his wife, Lynne, reside in Newport, Arkansas.

Always the visionary, Hare recognized the synergy among rice fields, duck habitat and the joy of family being together during duck hunts. This motivated him to adopt practices on the farm to improve habitat conservation. His operation now includes annually flooding more than 1,800 acres to serve as rest and feeding areas for thousands of migratory birds on their trip to and from the Canadian prairies.

Hare is a long-time advocate for the University of Arkansas Division of Agriculture Research and Extension and has been a member of the Arkansas Rice Research and Promotion Board for the past 20 years. He also served as board chairman in 2015.

"Helping to direct research that benefits Arkansas rice farmers has been one of the most satisfying experiences in my career," he says. "Another achievement that ranks high on my list is serving as chairman of the USA Rice Foundation, which works to fund research for all six rice-producing states. Currently, the foundation's corporate members make voluntary contributions to support activities. We also are working to secure research grants and other private and public donations to supplement our revenue."

In a support letter submitted by several University of Arkansas Division of Agriculture personnel on Hare's behalf, Drs. Mark Cochran, Rick Roeder and Rick Cartwright say Hare "recognizes the value of independent evaluations of new technologies and the role of demonstration plots to the decisions that farmers make to adopt new practices and technologies. He has been so active with our teams we often think of him as a research partner.

"His visionary support of the University of Arkansas Division of Agriculture varietal development has helped Arkansas rice farmers continually increase rice yields, which recent studies have shown resulted in more than $1 billion in additional rice farm gate revenues between 1983 and 2016."

When asked to "look into his crystal ball," Hare predicts "the future of U.S. rice will be bright and exciting. For example, we are working to increase the domestic market for rice, and researchers are developing better varieties, finding more efficient ways to irrigate and fine-tuning conservation practices. And the technology we have today is mind-boggling."

While spending time with his family and tilling the land they have owned for more than 100 years, this Arkansas producer, innovator, research advocate, businessman and leader has garnered the respect of the entire U.S. rice industry.

It is an honor to name Marvin Hare Jr. as the recipient of the 2018 Rice Lifetime Achievement Award.

50 YEARS OF FLYING

James Hartley opened Hartley Flying Service Inc., now in its 50th year of business, at the Stuttgart Municipal Airport, providing Grand Prairie-area farmers with seeding, fertilizing, and herbicide and insecticide spraying services.

> *"We were flying Grumman AgCat biplanes in 1968," remembers James. "We started off with four AgCats…now we have four Air Tractor 802s."*

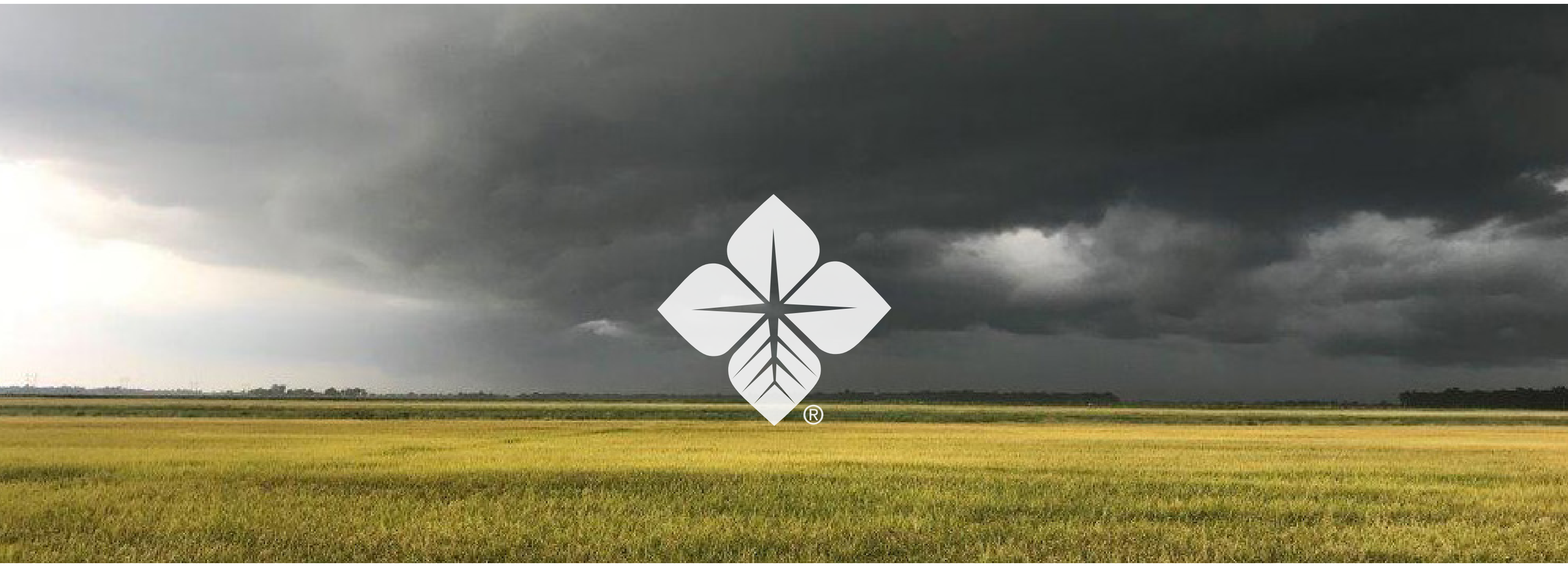
Sons Todd Hartley and Cole Hartley are also part of the family business. Todd started flying in 1980, and Cole in 1996. A third brother, Michael, used to fly, but left the business after walking away from a plane crash. "He took it as a sign," says Cole.

Hartley Flying Service has four pilots; brothers Todd and Cole, plus two hired pilots. The service covers Arkansas, Prairie, Lonoke and Monroe Counties, as well as parts of Jefferson and Pulaski Counties. The bulk of the work is seasonal, starting in March and ending in late summer, and takes dedication. The workdays are long during peak season; the Hartleys and the other two pilots arrive at the hangar two hours before sunrise and work till about three hours after dusk.

Hartley Flying Service Inc. has been a dedicated customer-owner of AgHeritage Farm Credit Services since March 2004. "As airplanes have gotten bigger, they've also gotten more expensive," says Todd. "A top-quality aircraft will go for $1.5 million or more. That's not pocket change," he laughed. "You can't just go pick one up and hope to pay it off inside a year. You'd want to finance it out over a longer period of time." At the time the Hartleys were trying to finance aircraft, the local banks were not interested in providing longer-term financing options. AgHeritage stepped up. "They offered a program to lock in an interest rate for a longer term, up to 10 years if we wanted. Obviously that was very attractive to people in our business."

The support of AgHeritage was also helpful in rebuilding after a surprise tornado flattened the office and hangar in October 2004. "It came up at lunchtime, and that's why no one was hurt," recalls Cole. "We were all in town getting lunch, but it destroyed all the buildings and damaged the airplanes." Despite the setback, the Hartleys rebuilt in time to fly the 2005 season.

James Hartley has over 20,000 air hours and has been retired from flying for some time, but still maintains a presence at the flying service which bears his family name as much as his health allows. Todd and Cole have over 25,000 and 15,000 air hours each, respectively. "Flying is a young man's game, for sure," says Todd. "It's hard on your body." Still, he says, they love flying and the service they provide to Grand Prairie farmers. "It's kind of neat to come to work and do something you really enjoy doing."



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