Farm Credit Southeast Missouri, ACA

Quarterly Report
March 31, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Southeast Missouri, ACA and its subsidiaries Farm Credit Southeast Missouri, FLCA and Farm Credit Southeast Missouri, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2018 (2018 Annual Report).

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

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FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2018 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

Land Values: The average benchmark farm land value change in 2018 was 1.6%, compared to 0.2% and 2.1% in 2017 and 2016, respectively. The more moderate land value changes the past three years are indicative of lower commodity prices.

Commodity Prices: Grain prices continue to be depressed due to global trade issues. Most recently, corn prices were negatively impacted by the March 29, 2019, United States Department of Agriculture market report which predicted a greater supply than demand for corn in 2019 due to an anticipated increase in acres planted in corn and a lack of demand from China and other trade partners.

Crop Conditions: Above average rainfall contributed to a very wet first quarter which delayed field work and early planting in much of the area. Corn planting has now begun, and it is anticipated that farmers will get caught up soon and the early wet conditions will not significantly impact this year's crop production.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $633.4 million at March 31, 2019, a decrease of $37.3 million from December 31, 2018. The decrease was primarily due to normal seasonal loan repayments.

Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2018. Adversely classified loans increased slightly to 0.8% of the portfolio at March 31, 2019, from 0.7% of the portfolio at December 31, 2018. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, Federal Agricultural Mortgage Corporation and other government agency guarantee programs are used to reduce the risk of loss. At March 31, 2019, $62.8 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:		**March 31** **2019**		December 31 2018
Loans:				
Nonaccrual	**$**	**354**	$	386
Accruing restructured		**403**		415
Accruing loans 90 days or more past due		**1,716**		1,358
Total risk loans		**2,473**		2,159
Other property owned		**--**		--
Total risk assets	**$**	**2,473**	$	2,159
Total risk loans as a percentage of total loans		**0.4%**		0.3%
Nonaccrual loans as a percentage of total loans		**0.1%**		0.1%
Current nonaccrual loans as a percentage of total nonaccrual loans		**99.7%**		96.9%
Total delinquencies as a percentage of total loans		**1.1%**		0.6%

Note: Accruing loans include accrued interest receivable.

Our risk assets have not changed significantly from December 31, 2018, and have remained at acceptable levels. Total risk loans as a percentage of total loans were well within our established risk management guidelines. Despite the increase in risk assets, total risk loans as a percentage of total loans were well within our established risk management guidelines.

The increase in accruing loans 90 days or more past due was primarily due to two local credits that have repayment plans in place. Our accounting policy requires loans past due 90 days or more to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, accruing loans 90 days or more past due were eligible to remain in accruing status.

The increase in total delinquencies as a percentage of total loans was primarily due to an increase in performing mortgage and commercial loans 30 to 89 days past due.

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans inherent in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Allowance Coverage Ratios

As of:	**March 31** **2019**	December 31 2018
Allowance as a percentage of:		
Loans	**0.1%**	0.1%
Nonaccrual loans	**169.8%**	136.3%
Total risk loans	**24.3%**	24.4%

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

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the three months ended March 31		**2019**		2018
Net income	**$**	**3,068**	$	3,061
Return on average assets		**1.8%**		2.0%
Return on average members' equity		**8.0%**		8.5%

Changes in the chart above relate directly to:

- Changes in income discussed below
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Funding, Liquidity, and Capital section

Changes in Significant Components of Net Income

(in thousands) For the three months ended March 31	2019	2018	Increase (decrease) in net income
Net interest income	**$ 4,982**	$ 4,575	**$ 407**
Provision for (reversal of) credit losses	**74**	(24)	**(98)**
Patronage income	**434**	391	**43**
Other income, net	**230**	419	**(189)**
Operating expenses	**2,483**	2,318	**(165)**
Provision for income taxes	**21**	30	**9**
Net income	**$ 3,068**	$ 3,061	**$ 7**

Changes in Net Interest Income

(in thousands) For the three months ended March 31	2019 vs 2018
Changes in volume	**$ 428**
Changes in interest rates	**12**
Changes in nonaccrual income and other	**(33)**
Net change	**$ 407**

The change in the provision for (reversal of) credit losses was related to an increase in the general allowance of our PCA portfolio in the first quarter of 2019.

The change in other income, net was primarily due to our share of the Allocated Insurance Reserve Accounts (AIRA) distribution received from the Farm Credit System Insurance Corporation (FCSIC) of $141 thousand in 2019, compared to $352 thousand in 2018. The AIRA was established by FCSIC when premiums collected increased the level of the Insurance Fund beyond the required 2% of insured debt. Refer to the 2018 Annual Report for additional information about the FCSIC.

The change in operating expenses was primarily related to an increase in salaries and benefits expense due to an increase in staffing, a portion of which is a temporary increase attributed to succession planning. This was partially offset by a decrease in purchased and vendor services expense due to timing differences.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable matures on June 30, 2020, at which time the note will be renegotiated. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from unallocated surplus.

The components of cost of funds associated with our note payable include:

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

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

Total members' equity increased $1.5 million from December 31, 2018, primarily due to net income for the period partially offset by patronage distribution accruals.

The Farm Credit Administration (FCA) Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 7 in our 2018 Annual Report for a more complete description of these ratios.

Regulatory Capital Requirements and Ratios

As of:	**March 31 2019**	December 31 2018	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**21.0%**	20.1%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**21.0%**	20.1%	6.0%	2.5%*	8.5%
Total capital ratio	**21.1%**	20.1%	8.0%	2.5%*	10.5%
Permanent capital ratio	**21.0%**	20.1%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**21.3%**	19.7%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**21.3%**	19.7%	1.5%	N/A	1.5%

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

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section.

CERTIFICATION

The undersigned have reviewed the March 31, 2019, Quarterly Report of Farm Credit Southeast Missouri, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Markel D. Yarbro
Chairperson of the Board
Farm Credit Southeast Missouri, ACA

Robert E. Smith
President / Chief Executive Officer
Farm Credit Southeast Missouri, ACA

Vernon D. Griffith
Executive Vice President / Chief Financial Officer
Farm Credit Southeast Missouri, ACA

May 8, 2019

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Southeast Missouri, ACA
(in thousands)
(Unaudited)

As of:		**March 31 2019**		December 31 2018
ASSETS				
Loans	**$**	**633,424**	$	670,743
Allowance for loan losses		**601**		526
Net loans		**632,823**		670,217
Investment in AgriBank, FCB		**13,106**		13,106
Investment securities		**11,414**		801
Accrued interest receivable		**11,329**		14,438
Deferred tax assets, net		**33**		54
Other assets		**5,894**		6,857
Total assets	**$**	**674,599**	$	705,473
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**514,450**	$	540,118
Accrued interest payable		**3,651**		3,957
Patronage distribution payable		**1,500**		7,100
Other liabilities		**1,257**		2,014
Total liabilities		**520,858**		553,189
Contingencies and commitments (Note 4)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**1,622**		1,733
Unallocated surplus		**152,119**		150,551
Total members' equity		**153,741**		152,284
Total liabilities and members' equity	**$**	**674,599**	$	705,473

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

CONSOLIDATED STATEMENTS OF INCOME

Farm Credit Southeast Missouri, ACA
(in thousands)
(Unaudited)

	Three Months Ended	
For the period ended March 31	**2019**	2018
Interest income	**$ 8,633**	$ 7,278
Interest expense	**3,651**	2,703
Net interest income	**4,982**	4,575
Provision for (reversal of) credit losses	**74**	(24)
Net interest income after provision for (reversal of) credit losses	**4,908**	4,599
Other income		
Patronage income	**434**	391
Financially related services income	**92**	94
Fee (expense) income, net	**(11)**	(20)
Allocated Insurance Reserve Accounts distribution	**141**	352
Miscellaneous income (loss), net	**8**	(7)
Total other income	**664**	810
Operating expenses		
Salaries and employee benefits	**1,575**	1,399
Other operating expenses	**908**	919
Total operating expenses	**2,483**	2,318
Income before income taxes	**3,089**	3,091
Provision for income taxes	**21**	30
Net income	**$ 3,068**	$ 3,061

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Southeast Missouri, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2017	$ 1,713	$ 141,714	$ 143,427
Net income	--	3,061	3,061
Unallocated surplus designated for patronage distributions	--	(1,491)	(1,491)
Capital stock and participation certificates issued	31	--	31
Capital stock and participation certificates retired	(32)	--	(32)
Balance at March 31, 2018	$ 1,712	$ 143,284	$ 144,996
Balance at December 31, 2018	$ 1,733	$ 150,551	$ 152,284
Net income	**--**	**3,068**	**3,068**
Unallocated surplus designated for patronage distributions	**--**	**(1,500)**	**(1,500)**
Capital stock and participation certificates issued	**28**	**--**	**28**
Capital stock and participation certificates retired	**(139)**	**--**	**(139)**
Balance at March 31, 2019	**$ 1,622**	**$ 152,119**	**$ 153,741**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim Consolidated Statements of Condition and Consolidated Statements of Income. Our accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the three months ended March 31, 2019, are not necessarily indicative of the results to be expected for the year ending December 31, 2019. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2018 (2018 Annual Report).

The Consolidated Financial Statements present the consolidated financial results of Farm Credit Southeast Missouri, ACA (the Association) and its subsidiaries Farm Credit Southeast Missouri, FLCA and Farm Credit Southeast Missouri, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

Recently Issued or Adopted Accounting Pronouncements

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

Standard and effective date	Description	Adoption status and financial statement impact
In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02 “Leases.” In July 2018, the FASB issued ASU 2018-11 “Leases (Topic 842): Targeted Improvements.” The guidance is effective for public business entities in its first quarter of 2019 and early adoption is permitted.	The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases. When this guidance is adopted, a liability for lease obligations and a corresponding right-of-use asset will be recognized on the Consolidated Statements of Condition for all lease arrangements spanning more than 12 months. The guidance includes an optional transition method where an entity is permitted to apply the guidance as of the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings.	We adopted this guidance on January 1, 2019. The adoption of this guidance did not have a material impact on our financial condition, results of operations, and financial statement disclosures, and had no impact on cash flows.
In June 2016, the FASB issued ASU 2016-13 “Financial Instruments – Credit Losses.” This guidance is effective for public business entities for non-U.S. Securities Exchange Commission filers for the first quarter of 2021 and early adoption is permitted.	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	We have no plans to early adopt this guidance. We have reviewed the accounting standard, selected our system, and are in the process of drafting disclosures. Significant implementation matters yet to be addressed include system development and testing, drafting of accounting policies, and designing processes and controls. We are currently unable to estimate the impact on the financial statements.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:		**March 31, 2019**			December 31, 2018	
		Amount	%		Amount	%
Real estate mortgage	**$**	**376,143**	**59.4%**	$	376,639	56.1%
Production and intermediate-term		**205,711**	**32.5%**		239,875	35.8%
Agribusiness		**9,486**	**1.5%**		7,136	1.1%
Other		**42,084**	**6.6%**		47,093	7.0%
Total	**$**	**633,424**	**100.0%**	$	670,743	100.0%

The other category is primarily composed of certain assets originated under the mission related investment authority as well as rural residential real estate loans.

Delinquency

Aging Analysis of Loans

(in thousands) **As of March 31, 2019**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$ 1,608**	**$ 330**	**$ 1,938**	**$ 380,475**	**$ 382,413**	**$ 330**
Production and intermediate-term	**1,325**	**10**	**1,335**	**208,956**	**210,291**	**10**
Agribusiness	**--**	**--**	**--**	**9,587**	**9,587**	**--**
Other	**2,164**	**1,376**	**3,540**	**38,844**	**42,384**	**1,376**
Total	**$ 5,097**	**$ 1,716**	**$ 6,813**	**$ 637,862**	**$ 644,675**	**$ 1,716**

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	$ 499	$ 12	$ 511	$ 383,777	$ 384,288	$ --
Production and intermediate-term	128	--	128	246,143	246,271	--
Agribusiness	--	--	--	7,206	7,206	--
Other	2,097	1,358	3,455	43,955	47,410	1,358
Total	$ 2,724	$ 1,370	$ 4,094	$ 681,081	$ 685,175	$ 1,358

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.

Risk Loan Information

(in thousands) As of:	**March 31 2019**	December 31 2018
Volume with specific allowance	**$ --**	$ --
Volume without specific allowance	**2,473**	2,159
Total risk loans	**$ 2,473**	$ 2,159
Total specific allowance	**$ --**	$ --
For the three months ended March 31	**2019**	2018
Income on accrual risk loans	**$ 32**	$ 44
Income on nonaccrual loans	**30**	63
Total income on risk loans	**$ 62**	$ 107
Average risk loans	**$ 2,483**	$ 5,643

Note: Accruing loans include accrued interest receivable.

Troubled Debt Restructurings (TDRs)

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

There were no TDRs that occurred during the three months ended March 31, 2019, or 2018. There were no TDRs that defaulted during the three months ended March 31, 2019, or 2018 in which the modification was within twelve months of the respective reporting period.

TDRs outstanding in the real estate mortgage loan category totaled $403 thousand and $415 thousand, all of which were in accrual status at March 31, 2019, and December 31, 2018.

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

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Three months ended March 31		2019		2018
Balance at beginning of period	**$**	**526**	$	534
Provision for (reversal of) loan losses		**74**		(114)
Loan recoveries		**1**		73
Loan charge-offs		**--**		(1)
Balance at end of period	**$**	**601**	$	492

The "Provision for (reversal of) credit losses" in the Consolidated Statements of Income includes a provision for (reversal of) loan losses as presented in the previous chart, as well as a provision for credit loss reserve on unfunded commitments. The accrued credit loss reserve on unfunded commitments are recorded in "Other liabilities" in the Consolidated Statements of Condition.

Credit Loss Information on Unfunded Commitments

(in thousands) For the three months ended March 31		2019		2018
Provision for credit losses	**$**	**--**	$	90
As of:		**March 31 2019**		December 31 2018
Accrued credit loss reserve	**$**	**90**	$	90

NOTE 3: INVESTMENT SECURITIES

We held investment securities of $11.4 million at March 31, 2019, and $801 thousand at December 31, 2018. 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. No investments within the portfolio were impaired as of March 31, 2019, and December 31, 2018.

Additional Investment Securities Information

(dollars in thousands) As of:		March 31 2019		December 31 2018
Amortized cost	**$**	**11,414**	$	801
Unrealized gains		**148**		21
Unrealized losses		**(106)**		--
Fair value	**$**	**11,456**	$	822
Weighted average yield		**2.9%**		4.3%

Investment income is recorded in "Interest income" in the Consolidated Statements of Income and totaled $41 thousand and $14 thousand for the three months ended March 31, 2019, and 2018, respectively.

NOTE 4: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

NOTE 5: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 in our 2018 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring or non-recurring basis at March 31, 2019, or December 31, 2018.

NOTE 6: SUBSEQUENT EVENTS

We have evaluated subsequent events through May 8, 2019, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.