MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Unaudited)

The following discussion summarizes the financial position and results of operations of High Plains Farm Credit, ACA for the nine months ended September 30, 2018, with comparisons to prior periods. You should read these comments along with the accompanying financial statements and footnotes and the 2017 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

High Plains Farm Credit's annual and quarterly reports to stockholders are available on the Association's website, HighPlainsFarmCredit.com or can be obtained free of charge by contacting the Association's headquarters at (620) 285-6978. Annual reports are available 75 days after year-end and quarterly reports are available 40 days after each calendar quarter end. The financial condition and results of operations of CoBank, ACB (CoBank), materially affect the risk associated with stockholder investments in High Plains Farm Credit, ACA. Stockholders of High Plains Farm Credit, ACA may obtain copies of CoBank's financial statements free of charge by visiting CoBank's website, CoBank.com or by contacting us at our Larned headquarters office located at 605 Main, Larned, KS 67550-0067 or by calling us at (620) 285-6978.

Effective October 1, 2017, Farm Credit of Ness City, FLCA was merged into High Plains Farm Credit, ACA. The merger united two strong Associations with deep Kansas roots, into a financial institution of greater capital, capacity and human resources to better serve Kansas agriculture. The merged association continues to conduct business as High Plains Farm Credit, ACA with headquarters located in Larned, KS. Kevin Swayne is President and Chief Executive Officer of the continuing Association. For purposes of the management discussion and analysis, unless otherwise noted, reference to "the Association" represents High Plains Farm Credit from a current, historic and future perspective. Beginning October 1, 2017 our financial position, results of operations, cash flows and related metrics include the effects of the merger. Upon the closing of the merger, we acquired assets at fair value of $343.3 million and assumed liabilities at fair value of $273.2 million, thus net assets increased by $70.1 million.

CURRENT MARKET CONDITIONS

The U.S. drought monitor indicates conditions in our territory are categorized as "normal". Timely rains throughout the latter part of the summer growing season have been beneficial to crop production and grazing conditions. Currently, across the state, corn is nearly 29 percent harvested with many expecting the second largest harvest in history. Corn condition is rated 39 percent good and 13 percent excellent. Soybean condition is rated 38 percent good and 5 percent excellent with harvest 6 percent complete. Sorghum condition is 47 percent good and 11 percent excellent as 35 percent is rated mature and 6 percent harvested. Winter wheat is progressing with 14 percent planted and with 3 percent emerged. All cash grain prices and soybean prices are lower compared to the second quarter due to plentiful stock supplies.

The cattle market has fluctuated since last quarter as fat cattle prices closed the quarter roughly 12% lower, while feeder cattle prices have been steady. Profitability is mixed depending on cattle and class. Feed yards remain full while slaughter continues to keep feed yards current as we move into the winter months.

The real estate market continues to be reflective of poor grain prices as certain classes of crop ground have trended lower. Demand for top quality crop ground ranges from steady to strong while average to poor quality is lower. Pasture ground continues to hold steady. Buyers continue to be traditional farmers and ranchers.

LOAN PORTFOLIO

The loan portfolio consists of agricultural real estate loans, agricultural production operating loans and intermediate-term loans. Loans outstanding at September 30, 2018, totaled $1.12 billion, an increase of $63.2 million (5.98%) from loans of $1.06 billion at December 31, 2017. The increase is primarily due to new loans originated, advances and purchased in excess of loan pay-offs and pay-downs.

Advance conditional payments totaled $6.2 million at September 30, 2018, a decrease of $454 thousand (6.86%), from $6.6 million at December 31, 2017. The advance conditional payment accounts are impacted by seasonal conditions. Typically, stockholders utilize these accounts as they find themselves with excess cash.

RESULTS OF OPERATIONS

Beginning October 1, 2017, results of operations and related metrics include the effects of the merger. Results presented prior to October 1, do not reflect the impact of the merger.

High Plains Farm Credit posted strong financial results for the nine-month period ending September 30, 2018. Net income for the nine months ended September 30, 2018, was $21.2 million, an increase of $10.5 million (98.90%) from the same period ended one year ago. The increase is primarily attributed to an increase in loan volume and efficiencies gained from the merger with Farm Credit of Ness City.

Net interest income for the nine months ended September 30, 2018, was $22.7 million, an increase of $8.4 million (59.03%) compared with the nine months ended September 30, 2017. Net interest income, as compared to September 30, 2017, increased primarily due to additional loan volume, largely acquired from the merger.

The provision for credit losses for the nine months ended September 30, 2018, was $322 thousand, a decrease of $465 thousand (59.09%) from the same period ended one year ago. While there has been some expected credit deterioration in the loan portfolio due to the adverse agricultural economic conditions in our region, the overall risk profile has remained relatively stable leading to a lower provision in the current period compared to the same period ended one year ago.

Noninterest income increased $2.9 million during the first nine months of 2018 compared with the first nine months of 2017 due, in part, to the allocated premium refund of $755 thousand from the Farm Credit System Insurance Corporation (FCSIC). This was our portion of excess funds above the secure base amount in the FCSIC Allocated Insurance Reserve Accounts. Refer to Note 1 in the 2017 Annual Report to Shareholders for additional information about FCSIC. Patronage refunds from Farm Credit Institutions increased $1.8 million year-to-date, compared to one year ago. The increase is primarily attributed to a one-time, special patronage received from CoBank, in the amount of $1.0 million, related to benefits recognized from the federal tax reform legislation and other significant non-recurring items in the current year. Financially related services increased $120 thousand, compared to the prior year primarily due to the implementation of FASB guidance “Revenue from Contracts with customers” which impacts the timing related to reporting crop insurance commissions. (See Note 1 of the accompanying Consolidated Financial Statements). All other increases were largely attributable to the merger.

We received mineral income of $352 thousand during the first nine months of 2018, which is distributed to us quarterly from CoBank. The increase of $112 thousand compared to the first nine months of 2017 is primarily due to the merger.

During the first nine months of 2018, noninterest expense increased $1.3 million to $8.7 million. The increase is net of efficiencies gained from the merger. The increases of $877 thousand in salaries and benefits and $402 thousand in purchased services from AgVantis are due to additional employees while the increase in occupancy and equipment of $120 thousand is primarily due to costs associated with an additional branch location (i.e., Ness City). These increases were partially offset by a $99 thousand decrease in the Farm Credit Insurance Fund premium. Noninterest expense efficiencies recognized due to the merger were approximately $1.4 million through the third quarter of 2018.

CAPITAL RESOURCES

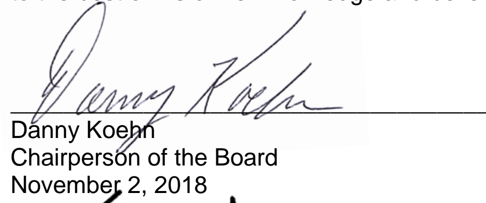
Our shareholders’ equity at September 30, 2018 was $240.4 million, an increase of $22.2 million from $218.2 million at December 31, 2017. This increase is due to year-to-date net income, amortization of pension costs included in the net periodic benefit cost and net stock issuances, partially offset by preferred stock dividends declared.

The Association’s Class H Preferred Stock dividend rate at September 30, 2018 was 3.25%. The dividend rate is a per annum rate subject to change each month.

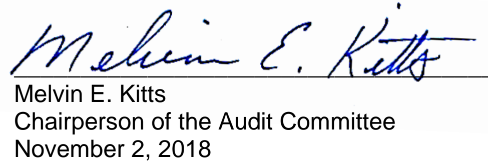
BUILDING PROJECTS

As High Plains Farm Credit continues to expand products and services for our stockholders, we also need infrastructure which is commensurate with our current and future growth. In March, the board of directors approved a building addition to the Hays office located on Vine Street. The expansion will provide additional offices, public meeting space and a basement for storage and future growth. Construction commenced in May and is expected to be completed by the end of 2018. The net project cost is expected to be just over $1 million. The project will be funded by sale of the administrative office location in downtown Hays and financing through CoBank.

The undersigned certify they have reviewed this report, this report has been prepared in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of his or her knowledge and belief.



Danny Koehn
Chairperson of the Board
November 2, 2018



Melvin E. Kitts
Chairperson of the Audit Committee
November 2, 2018

Kevin D. Swayne
President & Chief Executive Officer
November 2, 2018

Kristen Windscheffel
Chief Financial Officer
November 2, 2018

NOTES TO FINANCIAL STATEMENTS
(Dollars in Thousands, Except as Noted)
(Unaudited)

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of High Plains Farm Credit, ACA (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2017, are contained in the 2017 Annual Report to Shareholders. These unaudited third quarter 2018 financial statements should be read in conjunction with the 2017 Annual Report to Shareholders.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2017, as contained in the 2017 Annual Report to Shareholders.

In the opinion of management, the unaudited financial information is complete and reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2018. Descriptions of the significant accounting policies are included in the 2017 Annual Report to Shareholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In August 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost.” The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. Early adoption is permitted. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The Association is evaluating the impact of adoption on the Association’s financial condition and its results of operations.

In August 2018, the FASB issued guidance entitled “Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans.” The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the Association’s financial condition or its results of operations, but will impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled “Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement.” The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted and an entity is permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The adoption of this guidance will not impact the Association’s financial condition or its results of operations, but will impact the fair value measurements disclosures.

In February 2018, the FASB issued guidance entitled “Income Statement — Reporting Comprehensive Income — Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” This guidance allows for the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the recently issued tax legislation, Tax Cuts and Jobs Act (TCJA) that lowered the federal corporate tax rate from 35 percent to 21 percent. The amount of the reclassification shall include the effect of the change in the tax rate on gross deferred tax amounts and related valuation allowances at the date of enactment of the TCJA related to items remaining in accumulated other comprehensive income. The guidance becomes effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years.

Early adoption is permitted. The Association early adopted this standard during the first quarter of 2018, and there was no impact on the Association's financial condition or results of operations.

In March 2017, the FASB issued guidance entitled "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost." The guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This guidance became effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not materially impact the Association's financial condition or results of operations.

In August 2016, the FASB issued guidance entitled "Classification of Certain Cash Receipts and Cash Payments." The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. This guidance became effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not impact the Association's financial condition or its results of operations.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." 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. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. In July 2018, the FASB issued an update entitled "Leases – Targeted Improvements," which provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. An entity that elects this additional transition method must provide the required disclosures of the now current standard for all prior periods presented. The guidance and related amendments in this update become effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association has evaluated the impact of this new guidance, and the adoption is not expected to impact the Association's financial condition or its results of operations.

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." The guidance affects, among other things, the presentation and disclosure requirements for financial instruments. For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance became effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not impact the Association's financial condition or its results of operations but did impact the Association's fair value disclosures.

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." 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 new revenue recognition guidance. The guidance sets forth the requirement for new and enhanced disclosures. The Association adopted the new standard effective January 1, 2018, using the modified retrospective approach. As the majority of the Association's revenues are not subject to the new guidance, the adoption of the guidance did not have a material impact on the financial position, results of operations, equity or cash flows.