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*Carolina Farm Credit, ACA*  
**FIRST QUARTER 2019**

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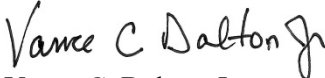
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**CERTIFICATION**

The undersigned certify that we have reviewed the March 31, 2019, quarterly report of Carolina Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

  
Vance C. Dalton, Jr.  
Chief Executive Officer

  
Christopher H. Scott  
Chief Financial Officer

  
W. Rex Bell  
Chairman of the Board

May 9, 2019

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*Carolina Farm Credit, ACA*

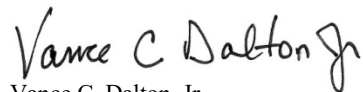
## Report on Internal Control Over Financial Reporting


The Association's 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. This process provides 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.

Internal control over financial reporting 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 March 31, 2019. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, 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's management concluded that as of March 31, 2019, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2019.

  
Vance C. Dalton, Jr.  
Chief Executive Officer

  
Christopher H. Scott  
Chief Financial Officer

May 9, 2019

# Management's Discussion and Analysis of Financial Condition and Results of Operations

*(dollars in thousands)*

The following commentary reviews the financial condition and results of operations of Carolina Farm Credit, ACA (Association) for the period ended March 31, 2019. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements, and the 2018 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

## LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including part-time farm, poultry, and rural home loans. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, reduces the dependency on a single agricultural commodity.

The gross loan volume of the Association as of March 31, 2019, was \$1,527,020, a decrease of \$4,274, as compared to \$1,531,294 at December 31, 2018. Net loans outstanding at March 31, 2019, were \$1,520,031, as compared to \$1,524,243 at December 31, 2018. Net loans accounted for 95.06% of total assets at March 31, 2019, as compared to 94.59% of total assets at December 31, 2018. The decrease in loan volume during the reporting period is a result of principal payments and payoffs outpacing new loan volume.

There is an inherent risk in the extension of any type of credit. However, portfolio credit quality continues to be maintained at an acceptable level, and credit administration remains satisfactory.

Nonaccrual loans increased from \$16,022 at December 31, 2018, to \$22,298 at March 31, 2019. This increase is primarily the result of transfers of loan volume to nonaccrual being more than regular payments made on nonaccrual loans and nonaccrual loans liquidated or reinstated back to accrual status.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in

the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2019, was \$6,989, compared to \$7,051 at December 31, 2018, and was considered by management to be adequate to cover probable losses.

## RESULTS OF OPERATIONS

### *For the three months ended March 31, 2019*

Net income for the three months ended March 31, 2019, totaled \$9,445, as compared to \$7,877 for the same period in 2018, which is an increase of \$1,568, or 19.91 percent.

Net interest income for the three months ended March 31, 2019, totaled \$12,738 as compared to \$12,064 for the same period of 2018, an increase of \$674. At March 31, 2019, total interest income increased \$2,383, as compared to the same period in 2018. Interest income recognized on nonaccrual loans was \$301 for the three months ended March 31, 2019, as compared to \$6 for the same period in 2018, an increase of \$295. Interest expense increased \$1,709 for the three months ended March 31, 2019, as compared to the same period in 2018.

The Association recorded a provision/(reversal) for loan losses of (\$35) for the three months ended March 31, 2019, as compared to a provision/(reversal) of (\$233) for the same period of 2018. The primary reason for the reversal during the recent quarter is decreased loan volume.

Noninterest income for the three months ended March 31, 2019, totaled \$5,022, as compared to \$4,610 for the same period of 2018, an increase of \$412. The increase in noninterest income is attributed to increases of \$18 in fees for financially-related services, \$175 in patronage refunds from other Farm Credit institutions, \$41 in gains/(losses) on the sale of rural home loans, \$254 in gains/(losses) on sales of premises equipment, \$484 in gains/(losses) on other transactions, and \$44 in other noninterest income, when compared to the same period in 2018. These increases were offset by decreases of \$64 in loan fees, and \$540 in Insurance Fund refunds, when compared to the same period in 2018.

Noninterest expense for the three months ended March 31, 2019, totaled \$8,348, as compared to \$9,030 for the same period of 2018, a decrease of \$682. This decrease in noninterest expense is attributed to decreases of \$326 in salaries and employee benefits, and \$426 in (gains)/losses on other property owned,

when compared to the same period in 2018. These decreases were offset by increases of \$18 in occupancy and equipment, \$14 in Insurance Fund premiums, and \$38 in other operating expenses, when compared to the same period in 2018.

The Association recorded a provision/(benefit) for income taxes of \$2 for the three months ended March 31, 2019, as compared to a provision/(benefit) of \$0 for the same period of 2018.

## FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal

performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable is segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2019, was \$1,219,139, as compared to \$1,239,668 at December 31, 2018. The decrease during the period is primarily attributable to a decrease in loan volume, and the payment of AgFirst patronage payable to the Association in January 2019.

The Association had no lines of credit outstanding with third parties as of March 31, 2019.

## CAPITAL RESOURCES

Total members' equity at March 31, 2019, increased to \$336,676, from the December 31, 2018, total of \$328,731. The change in capital is primarily attributable to net earnings in the current year.

Effective January 1, 2017, the regulatory capital requirements for System Banks and Associations were modified. The new regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. New regulations replaced existing core surplus and total surplus ratios with common equity tier 1 (CET1), tier 1 capital, and total capital risk-based capital ratios. The new regulations also replaced the existing net collateral ratio with a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The current permanent capital ratio (PCR) remains in effect.

For all periods presented, the Association exceeded minimum standards for all the regulatory capital and leverage ratios, as shown in the following table.

The following sets forth the regulatory capital ratios, which were effective January 1, 2017:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of March 31, 2019
Risk-adjusted ratios:				
CET1 Capital	4.5%	0.625%	5.125%	18.50%
Tier 1 Capital	6.0%	0.625%	6.625%	18.50%
Total Capital	8.0%	0.625%	8.625%	21.40%
Permanent Capital Ratio	7.0%	0.0%	7.0%	21.01%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	18.01%
UREE Leverage Ratio	1.5%	0.0%	1.5%	17.69%

\* The capital conservation buffers have a 3 year phase-in period and will become fully effective January 1, 2020. Risk-adjusted ratio minimums will increase 0.625% each year until fully phased in. There is no phase-in period for the tier 1 leverage ratio.

If the capital ratios fall below the minimum regulatory 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.

## REGULATORY MATTERS

On April 3, 2019, the Farm Credit Administration issued a proposed rule that would clarify the factors that System institutions should consider when categorizing high-risk loans and placing them in nonaccrual status. The rule would also revise the criteria by which loans are reinstated to accrual status, and would revise the application of the criteria to certain loans in nonaccrual status to distinguish between the types of risk that cause loans to be placed in nonaccrual status. The public comment periods ends on June 3, 2019.

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2018 Annual Report to Shareholders for recently issued accounting pronouncements. Additional information is provided in the following table.

The following Accounting Standards Update (ASU) was issued by the Financial Accounting Standards Board (FASB) but has not yet been adopted:

Summary of Guidance	Adoption and Potential Financial Statement Impact
<b><i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i></b>	
<ul style="list-style-type: none"> <li>• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management’s estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets.</li> <li>• Changes the present incurred loss impairment guidance for loans to a CECL model.</li> <li>• The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit.</li> <li>• Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets.</li> <li>• Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.</li> <li>• Effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation efforts have begun by establishing a cross-discipline governance structure. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance.</li> <li>• The new guidance is expected to result in an increase in allowance for credit losses due to several factors, including:               <ol style="list-style-type: none"> <li>1. The allowance related to loans and commitments will most likely increase to cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions,</li> <li>2. An allowance will be established for estimated credit losses on any debt securities,</li> <li>3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans.</li> </ol> </li> <li>• The extent of the increase is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts at the adoption date.</li> <li>• The guidance is expected to be adopted in first quarter 2021.</li> </ul>

**NOTE:** Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst’s annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, [www.agfirst.com](http://www.agfirst.com). Copies of the Association’s annual and quarterly reports are also available upon request free of charge by calling 1-800-521-9952, or writing Christopher H. Scott, CFO, Carolina Farm Credit, ACA, P.O. Box 1827, Statesville, NC 28687-1827, or accessing the website, [www.carolinafarmcredit.com](http://www.carolinafarmcredit.com). The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

# Carolina Farm Credit, ACA

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2019 <i>(unaudited)</i>	December 31, 2018 <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 5,811	\$ 2,963
Investments in debt securities:		
Held to maturity (fair value of \$1,472 and \$1,477, respectively)	1,493	1,526
Loans	1,527,020	1,531,294
Allowance for loan losses	(6,989)	(7,051)
Net loans	1,520,031	1,524,243
Loans held for sale	3,200	719
Accrued interest receivable	19,345	17,686
Equity investments in other Farm Credit institutions	18,144	18,079
Premises and equipment, net	16,463	15,868
Other property owned	998	468
Accounts receivable	2,884	19,597
Other assets	10,649	10,210
Total assets	\$ 1,599,018	\$ 1,611,359
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 1,219,139	\$ 1,239,668
Lease obligations	343	—
Accrued interest payable	3,436	3,474
Patronage refunds payable	1,447	22,779
Accounts payable	936	2,011
Other liabilities	37,041	14,696
Total liabilities	1,262,342	1,282,628
Commitments and contingencies (Note 8)		
<b>Members' Equity</b>		
Capital stock and participation certificates	9,235	9,164
Retained earnings		
Allocated	193,091	193,856
Unallocated	135,229	126,605
Accumulated other comprehensive income (loss)	(879)	(894)
Total members' equity	336,676	328,731
Total liabilities and members' equity	\$ 1,599,018	\$ 1,611,359

*The accompanying notes are an integral part of these consolidated financial statements.*

**Carolina Farm Credit, ACA**  
**Consolidated Statements of Income**

(unaudited)

<i>(dollars in thousands)</i>	<b>For the three months ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Interest Income</b>		
Loans	\$ 22,970	\$ 20,585
Investments	19	21
Total interest income	22,989	20,606
<b>Interest Expense</b>		
Notes payable to AgFirst Farm Credit Bank	10,251	8,542
Net interest income	12,738	12,064
Provision for (reversal of allowance for) loan losses	(35)	(233)
Net interest income after provision for (reversal of allowance for) loan losses	12,773	12,297
<b>Noninterest Income</b>		
Loan fees	698	762
Fees for financially related services	38	20
Patronage refunds from other Farm Credit institutions	2,493	2,318
Gains (losses) on sales of rural home loans, net	710	669
Gains (losses) on sales of premises and equipment, net	334	80
Gains (losses) on other transactions	382	(102)
Insurance Fund refunds	314	854
Other noninterest income	53	9
Total noninterest income	5,022	4,610
<b>Noninterest Expense</b>		
Salaries and employee benefits	6,138	6,464
Occupancy and equipment	579	561
Insurance Fund premiums	255	241
(Gains) losses on other property owned, net	(426)	—
Other operating expenses	1,802	1,764
Total noninterest expense	8,348	9,030
Income before income taxes	9,447	7,877
Provision for income taxes	2	—
Net income	\$ 9,445	\$ 7,877

*The accompanying notes are an integral part of these consolidated financial statements.*

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Carolina Farm Credit, ACA

# Consolidated Statements of Comprehensive Income

*(unaudited)*

<i>(dollars in thousands)</i>	For the three months ended March 31,	
	2019	2018
Net income	\$ 9,445	\$ 7,877
<b>Other comprehensive income net of tax</b>		
Employee benefit plans adjustments	15	41
Comprehensive income	\$ 9,460	\$ 7,918

*The accompanying notes are an integral part of these consolidated financial statements.*



**Carolina Farm Credit, ACA**  
**Consolidated Statements of Changes in**  
**Members' Equity**

*(unaudited)*

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2017	\$ 8,819	\$ 193,930	\$ 119,871	\$ (2,082)	\$ 320,538
Comprehensive income			7,877	41	7,918
Capital stock/participation certificates issued/(retired), net	(7)				(7)
Patronage distribution					
Patronage distribution adjustment		(1,523)	1,448		(75)
Balance at March 31, 2018	\$ 8,812	\$ 192,407	\$ 129,196	\$ (2,041)	\$ 328,374
<b>Balance at December 31, 2018</b>	<b>\$ 9,164</b>	<b>\$ 193,856</b>	<b>\$ 126,605</b>	<b>\$ (894)</b>	<b>\$ 328,731</b>
<b>Cumulative effect of change in accounting principle</b>			<b>10</b>		<b>10</b>
<b>Comprehensive income</b>			<b>9,445</b>	<b>15</b>	<b>9,460</b>
<b>Capital stock/participation certificates issued/(retired), net</b>	<b>71</b>				<b>71</b>
<b>Patronage distribution adjustment</b>		<b>(765)</b>	<b>(831)</b>		<b>(1,596)</b>
<b>Balance at March 31, 2019</b>	<b>\$ 9,235</b>	<b>\$ 193,091</b>	<b>\$ 135,229</b>	<b>\$ (879)</b>	<b>\$ 336,676</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

## Carolina Farm Credit, ACA

# Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)  
(unaudited)

### Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements

#### Organization

The accompanying financial statements include the accounts of Carolina Farm Credit, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2018, are contained in the 2018 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

#### Basis of Presentation

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair statement of results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The results of any interim period are not necessarily indicative of those to be expected for a full year.

#### Significant Accounting Policies

The Association's accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the financial statements, income and expenses during the reporting period, and the related disclosures. Although these estimates contemplate current conditions and expectations of change in the future, it is reasonably possible that actual conditions may be different than anticipated, which could materially affect results of operations and financial condition.

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans*

and Allowance for Loan Losses), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

For further details of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, from the latest Annual Report.

#### Accounting Standards Updates (ASUs) Issued During the Period

The following ASU was issued by the Financial Accounting Standards Board (FASB) since the most recent year end:

- In March 2019, the FASB issued ASU 2019-01 Leases (Topic 842): Codification Improvements. The Update addresses potential implementation issues that could arise as organizations implement Topic 842. The amendments in the Update include the following items brought to the Board's attention through interactions with stakeholders: 1. Determining the fair value of the underlying asset by lessors that are not manufacturers or dealers; 2. Presentation on the statement of cash flows—sales-type and direct financing leases; 3. Transition disclosures related to Topic 250, Accounting Changes and Error Corrections. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

#### ASUs Pending Effective Date

For a detailed description of the ASUs below, see the latest Annual Report.

Potential effects of ASUs issued in previous periods:

- In August 2018, the FASB issued ASU 2018-15 Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments align 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 the amendments in this Update. The guidance is effective for public business

entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period, for all entities. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

- In August 2018, the FASB issued ASU 2018-13 Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments are part of the FASB’s disclosure framework project. The project’s objective and primary focus are to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by GAAP that is most important to users of each entity’s financial statements. The amendments remove, modify or add certain disclosures contained in the financial statement footnotes related to fair value. Additionally, the guidance is intended to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Certain amendments should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance. Entities are permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. The removed disclosures were adopted effective with the 2018 Annual Report. Evaluation of any possible effects the additional and modified disclosures guidance may have on the statements of financial condition and results of operations is in progress.
- In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update, and subsequent clarifying guidance issued, is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For

public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 31, 2018. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

#### ***Accounting Standards Effective During the Period***

There were no changes in the accounting principles applied from the latest Annual Report, other than any discussed below.

No recently adopted accounting guidance issued by the FASB had a significant effect on the current period reporting. See the most recent Annual Report for a detailed description of each of the standards below:

- In February 2018, the FASB issued ASU 2018-02 Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and are intended to improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The Update also requires certain disclosures about stranded tax effects. The guidance was effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Adoption of this guidance had no impact on the statements of financial condition and results of operations.
- In March 2017, the FASB issued ASU 2017-08 Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The guidance relates to certain callable debt securities and shortens the amortization period for any premium to the earliest call date. The Update was effective for interim and annual periods beginning after December 15, 2018 for public business entities. Adoption of this guidance had no impact on the statements of financial condition and results of operations.
- In February 2016, the FASB issued ASU 2016-02 Leases (Topic 842). This Update, and subsequent clarifying guidance issued, requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Leases

will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. Lessor accounting activities are largely unchanged from existing lease accounting. The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification. The amendments were effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for public business entities.

#### Transition Information

- The guidance was adopted using the optional modified retrospective method and practical expedients for transition. Under this 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.
- The package of practical expedients was elected, which allowed existing leases to be largely accounted for consistent with current guidance, except for the incremental balance sheet recognition for lessees.
- There will not be a material change to the timing of future expense recognition.
- Upon adoption, a cumulative-effect adjustment to equity of approximately \$10 was recorded. In

addition, a Right of Use Asset in the amount of \$393 and Lease Liability in the amount of \$383 were recognized.

- Given the limited changes to lessor accounting, there were no material changes to recognition or measurement.

#### **Note 2 — Loans and Allowance for Loan Losses**

The Association maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified. See Note 3, *Loans and Allowance for Loan Losses*, from the latest Annual Report for further discussion.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. The Association manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the board of directors.

A summary of loans outstanding at period end follows:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Real estate mortgage	\$ 978,245	\$ 964,605
Production and intermediate-term	431,677	450,693
Loans to cooperatives	9,424	6,255
Processing and marketing	15,444	14,113
Farm-related business	20,046	20,434
Communication	1,404	1,422
Power and water/waste disposal	2,584	2,625
Rural residential real estate	63,346	66,298
International	4,850	4,849
Total loans	<u>\$ 1,527,020</u>	<u>\$ 1,531,294</u>

A substantial portion of the Association's lending activities is collateralized, and exposure to credit loss associated with lending activities is reduced accordingly.

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration (FCA) regulations. The following tables present the principal balance of participation loans at periods ended:

	March 31, 2019							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 9,771	\$ 44,862	\$ 71	\$ -	\$ -	\$ -	\$ 9,842	\$ 44,862
Production and intermediate-term	10,391	66,893	10,374	-	-	-	20,765	66,893
Loans to cooperatives	9,421	-	-	-	-	-	9,421	-
Processing and marketing	12,743	147	1,091	-	-	-	13,834	147
Farm-related business	-	-	304	-	-	-	304	-
Communication	1,406	-	-	-	-	-	1,406	-
Power and water/waste disposal	2,601	-	-	-	-	-	2,601	-
International	4,857	-	-	-	-	-	4,857	-
Total	\$ 51,190	\$ 111,902	\$ 11,840	\$ -	\$ -	\$ -	\$ 63,030	\$ 111,902

	December 31, 2018							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 9,742	\$ 45,063	\$ 70	\$ -	\$ -	\$ -	\$ 9,812	\$ 45,063
Production and intermediate-term	9,229	48,101	10,554	-	-	-	19,783	48,101
Loans to cooperatives	6,267	-	-	-	-	-	6,267	-
Processing and marketing	11,397	147	1,127	-	-	-	12,524	147
Farm-related business	339	-	324	-	-	-	663	-
Communication	1,425	-	-	-	-	-	1,425	-
Power and water/waste disposal	2,643	-	-	-	-	-	2,643	-
International	4,857	-	-	-	-	-	4,857	-
Total	\$ 45,899	\$ 93,311	\$ 12,075	\$ -	\$ -	\$ -	\$ 57,974	\$ 93,311

A significant source of liquidity for the Association is the repayments of loans. The following table presents the contractual maturity distribution of loans by loan type at the latest period end:

	March 31, 2019			
	Due Less Than 1 Year	Due 1 Through 5 Years	Due After 5 Years	Total
Real estate mortgage	\$ 13,444	\$ 128,439	\$ 836,362	\$ 978,245
Production and intermediate-term	111,762	221,206	98,709	431,677
Loans to cooperatives	85	5,041	4,298	9,424
Processing and marketing	1,344	7,166	6,934	15,444
Farm-related business	9,005	4,332	6,709	20,046
Communication	-	1,404	-	1,404
Power and water/waste disposal	-	1,133	1,451	2,584
Rural residential real estate	6,188	9,336	47,822	63,346
International	-	4,680	170	4,850
Total loans	\$ 141,828	\$ 382,737	\$ 1,002,455	\$ 1,527,020
Percentage	9.29%	25.06%	65.65%	100.00%

The recorded investment in a receivable is the face amount increased or decreased by applicable accrued interest, unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

The following table shows the recorded investment of loans, classified under the FCA Uniform Loan Classification System, as a percentage of the recorded investment of total loans by loan type as of:

	March 31, 2019	December 31, 2018		March 31, 2019	December 31, 2018
<b>Real estate mortgage:</b>			<b>Communication:</b>		
Acceptable	96.48%	96.53%	Acceptable	100.00%	100.00%
OAEM	1.93	1.88	OAEM	—	—
Substandard/doubtful/loss	1.59	1.59	Substandard/doubtful/loss	—	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Production and intermediate-term:</b>			<b>Power and water/waste disposal:</b>		
Acceptable	90.41%	91.13%	Acceptable	56.17%	100.00%
OAEM	5.09	4.36	OAEM	—	—
Substandard/doubtful/loss	4.50	4.51	Substandard/doubtful/loss	43.83	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Loans to cooperatives:</b>			<b>Rural residential real estate:</b>		
Acceptable	100.00%	100.00%	Acceptable	95.98%	95.46%
OAEM	—	—	OAEM	2.22	2.23
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	1.80	2.31
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Processing and marketing:</b>			<b>International:</b>		
Acceptable	100.00%	100.00%	Acceptable	100.00%	100.00%
OAEM	—	—	OAEM	—	—
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	—	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Farm-related business:</b>			<b>Total loans:</b>		
Acceptable	98.05%	98.10%	Acceptable	94.77%	94.98%
OAEM	1.93	1.90	OAEM	2.79	2.59
Substandard/doubtful/loss	0.02	—	Substandard/doubtful/loss	2.44	2.43
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>

The following tables provide an aging analysis of the recorded investment of past due loans as of:

	March 31, 2019				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	\$ 5,546	\$ 4,236	\$ 9,782	\$ 981,968	\$ 991,750
Production and intermediate-term	2,490	8,713	11,203	425,825	437,028
Loans to cooperatives	—	—	—	9,452	9,452
Processing and marketing	—	—	—	15,508	15,508
Farm-related business	—	—	—	20,111	20,111
Communication	—	—	—	1,404	1,404
Power and water/waste disposal	—	—	—	2,586	2,586
Rural residential real estate	390	401	791	62,854	63,645
International	—	—	—	4,875	4,875
Total	\$ 8,426	\$ 13,350	\$ 21,776	\$ 1,524,583	\$ 1,546,359

	December 31, 2018				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	\$ 5,829	\$ 2,677	\$ 8,506	\$ 967,907	\$ 976,413
Production and intermediate-term	6,474	5,246	11,720	444,443	456,163
Loans to cooperatives	—	—	—	6,257	6,257
Processing and marketing	—	—	—	14,172	14,172
Farm-related business	—	—	—	20,538	20,538
Communication	—	—	—	1,422	1,422
Power and water/waste disposal	—	—	—	2,627	2,627
Rural residential real estate	584	749	1,333	65,175	66,508
International	—	—	—	4,874	4,874
Total	\$ 12,887	\$ 8,672	\$ 21,559	\$ 1,527,415	\$ 1,548,974

Nonperforming assets (including related accrued interest as applicable) and related credit quality statistics at period end were as follows:

	March 31, 2019	December 31, 2018
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 11,087	\$ 4,618
Production and intermediate-term	10,592	10,329
Rural residential real estate	619	1,075
Total	<u>\$ 22,298</u>	<u>\$ 16,022</u>
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 1,271	\$ 2,179
Production and intermediate-term	257	264
Farm-related business	378	390
Rural residential real estate	69	71
Total	<u>\$ 1,975</u>	<u>\$ 2,904</u>
<b>Accruing loans 90 days or more past due:</b>		
Total	<u>\$ -</u>	<u>\$ -</u>
Total nonperforming loans	\$ 24,273	\$ 18,926
Other property owned	998	468
Total nonperforming assets	<u>\$ 25,271</u>	<u>\$ 19,394</u>
Nonaccrual loans as a percentage of total loans	1.46%	1.05%
Nonperforming assets as a percentage of total loans and other property owned	1.65%	1.27%
Nonperforming assets as a percentage of capital	<u>7.51%</u>	<u>5.90%</u>

The following table presents information related to the recorded investment of impaired loans at period end. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

	March 31, 2019	December 31, 2018
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 7,965	\$ 985
Past due	14,333	15,037
Total	<u>\$ 22,298</u>	<u>\$ 16,022</u>
<b>Impaired accrual loans:</b>		
Restructured	\$ 1,975	\$ 2,904
90 days or more past due	-	-
Total	<u>\$ 1,975</u>	<u>\$ 2,904</u>
Total impaired loans	<u>\$ 24,273</u>	<u>\$ 18,926</u>
Additional commitments to lend	<u>\$ 22</u>	<u>\$ 22</u>

The following tables present additional impaired loan information at period end. Unpaid principal balance represents the contractual principal balance of the loan.

	March 31, 2019			Three Months Ended March 31, 2019	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>Impaired loans:</b>					
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ -	\$ -	\$ -	\$ -	\$ -
Production and intermediate-term	1,494	1,557	88	1,227	21
Farm-related business	-	-	-	-	-
Rural residential real estate	76	76	22	63	1
Total	<u>\$ 1,570</u>	<u>\$ 1,633</u>	<u>\$ 110</u>	<u>\$ 1,290</u>	<u>\$ 22</u>
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 12,358	\$ 12,987	\$ -	\$ 10,158	\$ 171
Production and intermediate-term	9,355	10,093	-	7,692	129
Farm-related business	378	377	-	311	5
Rural residential real estate	612	675	-	502	8
Total	<u>\$ 22,703</u>	<u>\$ 24,132</u>	<u>\$ -</u>	<u>\$ 18,663</u>	<u>\$ 313</u>
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 12,358	\$ 12,987	\$ -	\$ 10,158	\$ 171
Production and intermediate-term	10,849	11,650	88	8,919	150
Farm-related business	378	377	-	311	5
Rural residential real estate	688	751	22	565	9
Total	<u>\$ 24,273</u>	<u>\$ 25,765</u>	<u>\$ 110</u>	<u>\$ 19,953</u>	<u>\$ 335</u>

	December 31, 2018			Year Ended December 31, 2018	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>Impaired loans:</b>					
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ -	\$ -	\$ -	\$ -	\$ -
Production and intermediate-term	1,556	1,619	93	1,170	76
Farm-related business	-	-	-	-	-
Rural residential real estate	-	-	-	-	-
Total	\$ 1,556	\$ 1,619	\$ 93	\$ 1,170	\$ 76
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 6,797	\$ 7,524	\$ -	\$ 5,112	\$ 333
Production and intermediate-term	9,037	9,551	-	6,797	443
Farm-related business	390	388	-	293	19
Rural residential real estate	1,146	1,210	-	862	56
Total	\$ 17,370	\$ 18,673	\$ -	\$ 13,064	\$ 851
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 6,797	\$ 7,524	\$ -	\$ 5,112	\$ 333
Production and intermediate-term	10,593	11,170	93	7,967	519
Farm-related business	390	388	-	293	19
Rural residential real estate	1,146	1,210	-	862	56
Total	\$ 18,926	\$ 20,292	\$ 93	\$ 14,234	\$ 927

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows:

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Total
<b>Activity related to the allowance for credit losses:</b>								
Balance at December 31, 2018	\$ 3,457	\$ 3,050	\$ 421	\$ 8	\$ 6	\$ 105	\$ 4	\$ 7,051
Charge-offs	(25)	(96)	-	-	-	(13)	-	(134)
Recoveries	-	107	-	-	-	-	-	107
Provision for loan losses	(40)	(80)	(2)	-	52	35	-	(35)
Balance at March 31, 2019	\$ 3,392	\$ 2,981	\$ 419	\$ 8	\$ 58	\$ 127	\$ 4	\$ 6,989
Balance at December 31, 2017	\$ 3,788	\$ 3,750	\$ 95	\$ 9	\$ 5	\$ 185	\$ 5	\$ 7,837
Charge-offs	(16)	(8)	-	-	-	(1)	-	(25)
Recoveries	-	3	-	-	-	-	-	3
Provision for loan losses	(44)	(203)	35	(1)	-	(20)	-	(233)
Balance at March 31, 2018	\$ 3,728	\$ 3,542	\$ 130	\$ 8	\$ 5	\$ 164	\$ 5	\$ 7,582
<b>Allowance on loans evaluated for impairment:</b>								
Individually	\$ -	\$ 88	\$ -	\$ -	\$ -	\$ 22	\$ -	\$ 110
Collectively	3,392	2,893	419	8	58	105	4	6,879
Balance at March 31, 2019	\$ 3,392	\$ 2,981	\$ 419	\$ 8	\$ 58	\$ 127	\$ 4	\$ 6,989
Individually	\$ -	\$ 93	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 93
Collectively	3,457	2,957	421	8	6	105	4	6,958
Balance at December 31, 2018	\$ 3,457	\$ 3,050	\$ 421	\$ 8	\$ 6	\$ 105	\$ 4	\$ 7,051
<b>Recorded investment in loans evaluated for impairment:</b>								
Individually	\$ 11,087	\$ 10,592	\$ -	\$ -	\$ -	\$ 619	\$ -	\$ 22,298
Collectively	980,663	426,436	45,071	1,404	2,586	63,026	4,875	1,524,061
Balance at March 31, 2019	\$ 991,750	\$ 437,028	\$ 45,071	\$ 1,404	\$ 2,586	\$ 63,645	\$ 4,875	\$ 1,546,359
Individually	\$ 4,618	\$ 10,329	\$ -	\$ -	\$ -	\$ 1,075	\$ -	\$ 16,022
Collectively	971,795	445,834	40,967	1,422	2,627	65,433	4,874	1,532,952
Balance at December 31, 2018	\$ 976,413	\$ 456,163	\$ 40,967	\$ 1,422	\$ 2,627	\$ 66,508	\$ 4,874	\$ 1,548,974

\*Includes the loan types: Loans to cooperatives, Processing and marketing, and Farm-related business.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. There were no new TDRs that occurred during the three months ended March 31, 2019 or March 31, 2018.

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets.

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the periods presented. Payment default is defined as a payment that was thirty days or more past due.



The following table provides information at period end on outstanding loans restructured in troubled debt restructurings. These loans are included as impaired loans in the impaired loan table:

	Total TDRs		Nonaccrual TDRs	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Real estate mortgage	\$ 2,159	\$ 2,179	\$ 888	\$ –
Production and intermediate-term	336	343	79	79
Farm-related business	378	390	–	–
Rural residential real estate	155	160	86	89
Total loans	\$ 3,028	\$ 3,072	\$ 1,053	\$ 168
Additional commitments to lend	\$ –	\$ –		

The following table presents information as of period end:

	March 31, 2019
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ –
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ 130

### Note 3 — Investments

#### Investments in Debt Securities

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have different eligibility requirements. At March 31, 2019, the Association held no RABs whose credit quality had deteriorated beyond the program limits.

A summary of the amortized cost and fair value of investment securities held-to-maturity follows:

	March 31, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 1,493	\$ –	\$ (21)	\$ 1,472	5.12%

	December 31, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 1,526	\$ –	\$ (49)	\$ 1,477	5.11%

A summary of the contractual maturity, amortized cost, and estimated fair value of investment securities held-to-maturity follows:

	March 31, 2019		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ –	\$ –	– %
After one year through five years	–	–	–
After five years through ten years	471	459	4.25
After ten years	1,022	1,013	5.52
Total	\$ 1,493	\$ 1,472	5.12 %

Some of these investments have contractual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	March 31, 2019			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	\$ –	\$ –	\$ 1,472	\$ (21)

	December 31, 2018			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	\$ –	\$ –	\$ 1,477	\$ (49)

The recording of an impairment is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others: (1) the length of time and the extent to which the fair value is less than cost, (2) adverse conditions specifically related to the industry, (3) geographic area and the condition of the underlying collateral, (4) payment structure of the security, (5) ratings by rating agencies, (6) the credit worthiness of bond insurers, and (7) volatility of the fair value changes.

The Association uses the present value of cash flows expected to be collected from each debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, amount and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics, and collateral type.

Significant inputs used to estimate the amount of credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The Association may obtain assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party, or generate the assumptions internally.

The Association has not recognized any credit losses as any impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

#### ***Equity Investments in Other Farm Credit System Institutions***

Equity investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. These investments are carried at cost and evaluated for impairment based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 6.08 percent of the issued stock of the Bank as of March 31, 2019, net of any reciprocal investment. As of that date, the Bank's assets totaled \$32.7 billion and shareholders' equity totaled \$2.3 billion. The Bank's earnings were \$67 million for the first three months of 2019. In addition, the Association held investments of \$1,626 related to other Farm Credit institutions.

#### **Note 4 — Debt**

##### ***Notes Payable to AgFirst Farm Credit Bank***

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets. The contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

## Note 5 — Members' Equity

### Accumulated Other Comprehensive Income (AOCI)

	Changes in Accumulated Other Comprehensive Income by Component (a)			
	Three Months Ended March 31,			
	2019		2018	
<b>Employee Benefit Plans:</b>				
Balance at beginning of period	\$	(894)	\$	(2,082)
Other comprehensive income before reclassifications		—		—
Amounts reclassified from AOCI		15		41
Net current period other comprehensive income		15		41
Balance at end of period	\$	(879)	\$	(2,041)

	Reclassifications Out of Accumulated Other Comprehensive Income (b)		
	Three Months Ended March 31,		
	2019	2018	Income Statement Line Item
<b>Defined Benefit Pension Plans:</b>			
Periodic pension costs	\$	(15)	\$ (41) See Note 7.
Net amounts reclassified	\$	(15)	\$ (41)

(a) Amounts in parentheses indicate debits to AOCI.

(b) Amounts in parentheses indicate debits to profit/loss.

## Note 6 — Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

The classifications within the fair value hierarchy are as follows:

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability.

Level 3 inputs are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing

that is different than the third-party valuation or internal model pricing.

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see the latest Annual Report to Shareholders.

There were no Level 3 assets or liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

Fair values are estimated at each period end date for assets and liabilities measured at fair value on a recurring basis. Other Financial Instruments are not measured at fair value in the statement of financial position, but their fair values are estimated as of each period end date. The following tables summarize the carrying amounts of these assets and liabilities at period end, and their related fair values.

March 31, 2019						
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in trust funds	\$ 3,599	\$ 3,599	\$ –	\$ –	\$ 3,599	
Recurring Assets	\$ 3,599	\$ 3,599	\$ –	\$ –	\$ 3,599	
<b>Liabilities:</b>						
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 1,460	\$ –	\$ –	\$ 1,460	\$ 1,460	
Other property owned	998	–	–	1,075	1,075	
Nonrecurring Assets	\$ 2,458	\$ –	\$ –	\$ 2,535	\$ 2,535	
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 5,811	\$ 5,811	\$ –	\$ –	\$ 5,811	
Investments in debt securities, held-to-maturity	1,493	–	–	1,472	1,472	
Loans	1,521,771	–	–	1,521,417	1,521,417	
Other Financial Assets	\$ 1,529,075	\$ 5,811	\$ –	\$ 1,522,889	\$ 1,528,700	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 1,219,139	\$ –	\$ –	\$ 1,212,361	\$ 1,212,361	
Other Financial Liabilities	\$ 1,219,139	\$ –	\$ –	\$ 1,212,361	\$ 1,212,361	

December 31, 2018						
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in trust funds	\$ 3,542	\$ 3,542	\$ –	\$ –	\$ 3,542	
Recurring Assets	\$ 3,542	\$ 3,542	\$ –	\$ –	\$ 3,542	
<b>Liabilities:</b>						
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 1,463	\$ –	\$ –	\$ 1,463	\$ 1,463	
Other property owned	468	–	–	505	505	
Nonrecurring Assets	\$ 1,931	\$ –	\$ –	\$ 1,968	\$ 1,968	
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 2,963	\$ 2,963	\$ –	\$ –	\$ 2,963	
Investments in debt securities, held-to-maturity	1,526	–	–	1,477	1,477	
Loans	1,523,499	–	–	1,508,923	1,508,923	
Other Financial Assets	\$ 1,527,988	\$ 2,963	\$ –	\$ 1,510,400	\$ 1,513,363	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 1,239,668	\$ –	\$ –	\$ 1,220,703	\$ 1,220,703	
Other Financial Liabilities	\$ 1,239,668	\$ –	\$ –	\$ 1,220,703	\$ 1,220,703	

## SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in

certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

**Investments in Debt Securities**

The fair values of predominantly all Level 3 investments in debt securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite

change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these Level 3 assets.

**Inputs to Valuation Techniques**

Management determines the Association’s valuation policies and procedures. The Bank performs the majority of the Association’s valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

Quoted market prices are generally not available for the instruments presented below. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

**Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements**

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 2,535	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

\* Ranges for this type of input are not useful because each collateral property is unique.

**Information about Other Financial Instrument Fair Value Measurements**

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principle and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Investments in debt securities, held-to-maturity	Discounted cash flow	Prepayment rates Risk adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

**Note 7 — Employee Benefit Plans**

The following is a table of retirement and other postretirement benefit expenses for the Association:

	Three Months Ended March 31,	
	2019	2018
Pension	\$ 910	\$ 1,423
401(k)	211	197
Other postretirement benefits	212	210
Total	\$ 1,333	\$ 1,830

The following is a table of retirement and other postretirement benefit contributions for the Association:

	Actual YTD Through 3/31/19	Projected Contributions For Remainder of 2019	Projected Total Contributions 2019
Pension	\$ 33	\$ 3,478	\$ 3,511
Other postretirement benefits	212	612	824
Total	\$ 245	\$ 4,090	\$ 4,335

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan’s

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Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2019.

Further details regarding employee benefit plans are contained in the 2018 Annual Report to Shareholders.

**Note 8 — Commitments and Contingent Liabilities**

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

**Note 9 — Subsequent Events**

The Association evaluated subsequent events and determined there were none requiring disclosure through May 9, 2019, which was the date the financial statements were issued.