Carolina Farm Credit, ACA

FIRST QUARTER 2018

TABLE OF CONTENTS

CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2018, 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

Vance C. Dalton, Jr.
Chief Executive Officer

Christopher H. Scott

Christopher H. Scott
Chief Financial Officer

W. Rex Bell

W. Rex Bell
Chairman of the Board

May 9, 2018

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, 2018. 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, 2018, 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, 2018.

Vance C. Dalton, Jr.
Chief Executive Officer

Christopher H. Scott
Chief Financial Officer

May 9, 2018

Carolina Farm Credit, ACA

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, 2018. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2017 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, 2018, was $1,466,786, an increase of $12,781, as compared to $1,454,005 at December 31, 2017. Net loans outstanding at March 31, 2018, were $1,459,204, as compared to $1,446,168 at December 31, 2017. Net loans accounted for 95.10% of total assets at March 31, 2018, as compared to 93.59% of total assets at December 31, 2017. The increase in loan volume during the reporting period is a result of new loan volume outpacing principal payments and payoffs.

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

Nonaccrual loans increased from $9,561 at December 31, 2017, to $11,112 at March 31, 2018. 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, 2018, was $7,582, compared to $7,837 at December 31, 2017, and was considered by management to be adequate to cover probable losses.

RESULTS OF OPERATIONS

For the three months ended March 31, 2018

Net income for the three months ended March 31, 2018, totaled $7,877, as compared to $6,436 for the same period in 2017, which is an increase of $1,441, or 22.39 percent.

At March 31, 2018, total interest income increased $1,676, as compared to March 31, 2017. Interest income recognized on nonaccrual loans was $6 for the three months ended March 31, 2018, as compared to $60 for the same period in 2017, a decrease of $54. Interest expense increased $1,143 for the three months ended March 31, 2018, as compared to the same period in 2017. Consequently, net interest income increased $533 for the three months ended March 31, 2018, as compared to the same period in 2017.

The Association recorded a provision/(reversal) for loan losses of ($233) for the three months ended March 31, 2018, as compared to a provision/(reversal) of ($496) for the same period of 2017. The primary reason for the reversal during the recent quarter is improving credit quality and risk profile.

Noninterest income for the three months ended March 31, 2018, totaled $4,610 as compared to $4,061 for the same period of 2017, an increase of $549. The increase in noninterest income is attributed to increases of $71 in gains/(losses) on the sale of rural home loans, and $854 in insurance fund refunds, when compared to the same period in 2017. These increases were offset by decreases of $150 in loan fees, $28 in fees for financially-related services, $5 in patronage refunds from other Farm Credit institutions, $81 in gains/(losses) on sales of premises equipment, $72 in gains/(losses) on other transactions, and $40 in other noninterest income, when compared for the same period of 2017.

Noninterest expense for the three months ended March 31, 2018, totaled $9,030 as compared to $9,652 for the same period of 2017, a decrease of $622. This decrease in noninterest expense is attributed to decreases of $264 in salaries and employee benefits, $140 in Insurance Fund premiums, $20 in (gains)/losses on other property owned, and $288 in other operating expenses, when compared to the same period in 2017. These decreases were offset by increases of $90 in occupancy and equipment, when compared for the same period of 2017.

The Association recorded a provision/(benefit) for income taxes of $0 for the three months ended March 31, 2018 as compared a provision/(benefit) of $0 for the same period of 2017.

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, 2018, was $1,166,508, as compared to $1,180,640 at December 31, 2017. The decrease during the period is primarily attributable to a slight increase in loan volume, offset by the payment of AgFirst patronage payable to the Association in January 2018.

The Association has no lines of credit outstanding with third parties as of March 31, 2018.

CAPITAL RESOURCES

Total members' equity at March 31, 2018, increased to $328,374 from the December 31, 2017, total of $320,538. 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, 2018
Risk-adjusted ratios:				
CET1 Capital	4.5%	0.625%	5.125%	18.05%
Tier 1 Capital	6.0%	0.625%	6.625%	18.05%
Total Capital	8.0%	0.625%	8.625%	21.85%
Permanent Capital Ratio	7.0%	0.0%	7.0%	21.39%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	17.68%
UREE Leverage Ratio	1.5%	0.0%	1.5%	17.31%

** - 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 July 25, 2014, the FCA published a proposed rule in the Federal Register to revise the requirements governing the eligibility of investments for System banks and associations. The public comment period ended on October 23, 2014. The FCA expects to issue a final regulation in 2018. The stated objectives of the proposed rule are as follows:

- To strengthen the safety and soundness of System banks and associations,
- To ensure that System banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption,
- To enhance the ability of the System banks to supply credit to agricultural and aquatic producers,

- To comply with the requirements of Section 939A of the Dodd-Frank Act,
- To modernize the investment eligibility criteria for System banks, and
- To revise the investment regulation for System associations to improve their investment management practices so they are more resilient to risk.

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 2017 Annual Report to Shareholders for recently issued accounting pronouncements. Additional information is provided in the following table.

The following Accounting Standards Updates ASUs were issued by the Financial Accounting Standards Board (FASB) but have not yet been adopted:

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
• 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. • Changes the present incurred loss impairment guidance for loans to a CECL model. • 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. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • 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.	• The Association has begun implementation efforts by establishing a cross-discipline governance structure. The Association is currently identifying key interpretive issues, and assessing existing credit loss forecasting models and processes against the new guidance to determine what modifications may be required. • The Association expects that the new guidance will result in an increase in its allowance for credit losses due to several factors, including: 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, 2. An allowance will be established for estimated credit losses on debt securities, 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. • The extent of the increase is under evaluation, but will depend upon the nature and characteristics of the Association's portfolio at the adoption date, and the macroeconomic conditions and forecasts at that date. • The Association expects to adopt the guidance in first quarter 2021.
ASU 2016-02 – Leases (Topic 842)	
• Requires lessees to recognize leases on the balance sheet with lease liabilities and corresponding right-of-use assets based on the present value of lease payments. • 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. • Also, expands qualitative and quantitative disclosures of leasing arrangements. • Requires adoption using a modified cumulative effect approach wherein the guidance is applied to all periods presented. • Effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted.	• The practical expedients allow entities to largely account for existing leases consistent with current guidance, except for the incremental balance sheet recognition for lessees. • The Association has started its implementation of the Update which has included an initial evaluation of leasing contracts and activities. • As a lessee the Association is developing its methodology to estimate the right-of-use assets and lease liabilities, which is based on the present value of lease payments but does not expect a material change to the timing of expense recognition. • Given the limited changes to lessor accounting, the Association does not expect material changes to recognition or measurement, but it is early in the implementation process and the impact will continue to be evaluated. • The Association is evaluating existing disclosures and may need to provide additional information as a result of adopting the Update. • The Association expects to adopt the guidance in first quarter 2019 using the modified retrospective method and practical expedients for transition.

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. 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. 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

(dollars in thousands)		March 31, 2018		December 31, 2017
		(unaudited)		*(audited)*
Assets				
Cash	**$**	**3,495**	$	11,335
Investments in debt securities:				
Held to maturity (fair value of $1,525 and $1,550, respectively)		**1,619**		1,644
Loans		**1,466,786**		1,454,005
Allowance for loan losses		**(7,582)**		(7,837)
Net loans		**1,459,204**		1,446,168
Loans held for sale		**5,790**		6,337
Accrued interest receivable		**17,446**		15,228
Equity investments in other Farm Credit institutions		**17,429**		17,364
Premises and equipment, net		**16,222**		16,142
Other property owned		**83**		143
Accounts receivable		**2,539**		20,178
Other assets		**10,522**		10,596
Total assets	**$**	**1,534,349**	$	1,545,135
Liabilities				
Notes payable to AgFirst Farm Credit Bank	**$**	**1,166,508**	$	1,180,640
Accrued interest payable		**2,896**		2,873
Patronage refunds payable		**1,184**		21,907
Accounts payable		**1,118**		2,454
Other liabilities		**34,269**		16,723
Total liabilities		**1,205,975**		1,224,597
Commitments and contingencies (Note 8)				
Members' Equity				
Capital stock and participation certificates		**8,812**		8,819
Retained earnings				
Allocated		**192,407**		193,930
Unallocated		**129,196**		119,871
Accumulated other comprehensive income (loss)		**(2,041)**		(2,082)
Total members' equity		**328,374**		320,538
Total liabilities and members' equity	**$**	**1,534,349**	$	1,545,135

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

Carolina Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2018	2017
Interest Income		
Loans	**$ 20,585**	$ 18,908
Investments	**21**	22
Total interest income	**20,606**	18,930
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	**8,542**	7,399
Net interest income	**12,064**	11,531
Provision for (reversal of allowance for) loan losses	**(233)**	(496)
Net interest income after provision for (reversal of allowance for) loan losses	**12,297**	12,027
Noninterest Income		
Loan fees	**762**	912
Fees for financially related services	**20**	48
Patronage refunds from other Farm Credit institutions	**2,318**	2,323
Gains (losses) on sales of rural home loans, net	**669**	598
Gains (losses) on sales of premises and equipment, net	**80**	161
Gains (losses) on other transactions	**(102)**	(30)
Insurance Fund refund	**854**	—
Other noninterest income	**9**	49
Total noninterest income	**4,610**	4,061
Noninterest Expense		
Salaries and employee benefits	**6,464**	6,728
Occupancy and equipment	**561**	471
Insurance Fund premiums	**241**	381
(Gains) losses on other property owned, net	**—**	20
Other operating expenses	**1,764**	2,052
Total noninterest expense	**9,030**	9,652
Income before income taxes	**7,877**	6,436
Provision for income taxes	**—**	—
Net income	**$ 7,877**	$ 6,436

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

Carolina Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2018	2017
Net income	**$ 7,877**	$ 6,436
Other comprehensive income net of tax		
Employee benefit plans adjustments	**41**	34
Comprehensive income	**$ 7,918**	$ 6,470

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

Carolina Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2016	$ 8,361	$ 191,073	$ 115,256	$ (1,892)	$ 312,798
Comprehensive income			6,436	34	6,470
Capital stock/participation certificates issued/(retired), net	62				62
Patronage distribution adjustment		(2,500)	244		(2,256)
Balance at March 31, 2017	$ 8,423	$ 188,573	$ 121,936	$ (1,858)	$ 317,074
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**

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, 2017, are contained in the 2017 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 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 ASUs were issued by the Financial Accounting Standards Board (FASB) since the most recent year end:

- In February 2018, the FASB issued ASU 2018-03 Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this Update include items brought to the Board's attention by stakeholders. The amendments clarify certain aspects of the guidance issued in Update 2016-01 as described below. The amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. All entities may early adopt these amendments for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, as long as they have adopted Update 2016-01.

- 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 is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted.

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 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 will be effective for interim and annual periods beginning after December 15, 2018 for public business entities. Early adoption is permitted. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update 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 better 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 15, 2018. The Association is in the process of evaluating what effects the guidance may have 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. The amendments will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities. Early adoption is permitted. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

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 March 2017, the FASB issued ASU 2017-07 Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. The amendments were effective January 1, 2018 for the Association. Adoption in 2018 did not have a material effect on the Association's financial statements, but did require reclassification of service costs to Other Operating Expenses.

- In February 2017, the FASB issued ASU 2017-05 Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The Update clarifies whether certain transactions are within the scope of the guidance on derecognition and the accounting for partial sales of nonfinancial assets, and defines the term in substance nonfinancial asset. The amendments conform the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue standard. The amendments were effective January 1, 2018 for the Association. Adoption in 2018 had no impact on the statements of financial condition and results of operations of the Association.

- In January 2017, the FASB issued ASU 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments provide a more robust framework to use in determining when a set of assets and activities is a business. They also support more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable. The ASU was effective January 1, 2018 for the Association. The amendments were applied prospectively. Adoption of the guidance in 2018 had no impact on the statements of financial condition and results of operations.

- In January 2016, the FASB issued ASU 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The Update was intended to improve the recognition and measurement of financial instruments. The new guidance makes targeted improvements to existing GAAP.

Transition Information

- The Association identified investment securities affected by this Update and adopted the guidance on January 1, 2018.
- The amendments related to equity securities without readily determinable fair values were applied prospectively to equity investments that existed as of the date of adoption.
- Application of the amendments did not require a cumulative effect adjustment.
- Adoption did not have an impact on the Association's financial condition or results of operations.
- The new standard did result in changes to certain disclosures.

- In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers (Topic 606). This guidance changed the recognition of revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance also included expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity’s contracts with customers. Based on input received from stakeholders, the FASB issued several additional Updates that generally provided clarifying guidance where there was the potential for diversity in practice, or address the cost and complexity of applying Topic 606.

Transition Information

- The Association identified ancillary revenues affected by this Update and adopted the guidance on January 1, 2018.
- The amendments were applied using the modified retrospective approach.
- The Association elected to only apply the guidance to contracts that were not completed at the date of initial application.
- Subtopics 610-20 on gains and losses from the derecognition of nonfinancial assets, and 340-40 on other assets and deferred costs-contracts with customers were adopted using the same transition options.
- Adoption did not have an impact on the Association's financial condition or results of operations.
- The new standard did result in enhanced disclosures about revenue (see Note 9, *Revenue from Contracts with Customers*).

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:

	March 31, 2018	December 31, 2017
Real estate mortgage	$ 896,548	$ 870,764
Production and intermediate-term	446,518	465,985
Loans to cooperatives	9,677	6,859
Processing and marketing	30,320	29,288
Farm-related business	6,283	3,432
Communication	1,477	1,496
Power and water/waste disposal	2,862	2,906
Rural residential real estate	67,761	68,432
International	5,340	4,843
Total loans	$ 1,466,786	$ 1,454,005

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, 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	$ 7,414	$ 8,661	$ –	$ –	$ –	$ –	$ 7,414	$ 8,661
Production and intermediate-term	11,934	64,647	11,260	–	–	–	23,194	64,647
Loans to cooperatives	9,678	–	8	–	–	–	9,686	–
Processing and marketing	13,255	10,013	–	–	–	–	13,255	10,013
Farm-related business	748	–	362	–	–	–	1,110	–
Communication	1,481	–	–	–	–	–	1,481	–
Power and water/waste disposal	2,883	–	–	–	–	–	2,883	–
International	5,352	–	–	–	–	–	5,352	–
Total	$ 52,745	$ 83,321	$ 11,630	$ –	$ –	$ –	$ 64,375	$ 83,321

	December 31, 2017							
	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	$ 7,520	$ 7,208	$ –	$ –	$ –	$ –	$ 7,520	$ 7,208
Production and intermediate-term	15,123	45,292	10,207	–	–	–	25,330	45,292
Loans to cooperatives	6,862	–	8	–	–	–	6,870	–
Processing and marketing	11,985	10,013	–	–	–	–	11,985	10,013
Farm-related business	158	–	374	–	–	–	532	–
Communication	1,500	–	–	–	–	–	1,500	–
Power and water/waste disposal	2,929	–	–	–	–	–	2,929	–
International	4,857	–	–	–	–	–	4,857	–
Total	$ 50,934	$ 62,513	$ 10,589	$ –	$ –	$ –	$ 61,523	$ 62,513

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, 2018			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 12,131	$ 119,559	$ 764,858	$ 896,548
Production and intermediate-term	111,383	229,002	106,133	446,518
Loans to cooperatives	–	7,878	1,799	9,677
Processing and marketing	257	11,004	19,059	30,320
Farm-related business	1,057	2,050	3,176	6,283
Communication	–	1,477	–	1,477
Power and water/waste disposal	–	–	2,862	2,862
Rural residential real estate	10,629	11,783	45,349	67,761
International	–	5,170	170	5,340
Total loans	$ 135,457	$ 387,923	$ 943,406	$ 1,466,786
Percentage	9.23%	26.45%	64.32%	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, 2018	December 31, 2017
Real estate mortgage:		
Acceptable	94.15%	94.19%
OAEM	3.84	3.64
Substandard/doubtful/loss	2.01	2.17
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	88.16%	88.77%
OAEM	7.23	6.84
Substandard/doubtful/loss	4.61	4.39
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	99.92%	99.89%
OAEM	–	0.11
Substandard/doubtful/loss	0.08	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	93.23%	87.27%
OAEM	6.77	12.73
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	March 31, 2018	December 31, 2017
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Power and water/waste disposal:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	96.54%	96.61%
OAEM	1.70	1.65
Substandard/doubtful/loss	1.76	1.74
	100.00%	100.00%
International:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	92.63%	92.73%
OAEM	4.66	4.48
Substandard/doubtful/loss	2.71	2.79
	100.00%	100.00%

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

	March 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	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 4,821	$ 2,972	$ 7,793	$ 900,785	$ 908,578	$ –
Production and intermediate-term	3,224	5,042	8,266	443,117	451,383	–
Loans to cooperatives	–	8	8	9,701	9,709	–
Processing and marketing	–	–	–	30,457	30,457	–
Farm-related business	–	–	–	6,325	6,325	–
Communication	–	–	–	1,478	1,478	–
Power and water/waste disposal	–	–	–	2,863	2,863	–
Rural residential real estate	599	258	857	67,215	68,072	–
International	–	–	–	5,360	5,360	–
Total	$ 8,644	$ 8,280	$ 16,924	$ 1,467,301	$ 1,484,225	$ –

	December 31, 2017					
	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	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 6,547	$ 1,502	$ 8,049	$ 872,625	$ 880,674	$ –
Production and intermediate-term	3,538	4,753	8,291	462,608	470,899	–
Loans to cooperatives	–	–	–	6,863	6,863	–
Processing and marketing	–	–	–	29,399	29,399	–
Farm-related business	–	–	–	3,449	3,449	–
Communication	–	–	–	1,501	1,501	–
Power and water/waste disposal	–	–	–	2,908	2,908	–
Rural residential real estate	511	113	624	68,047	68,671	–
International	–	–	–	4,862	4,862	–
Total	$ 10,596	$ 6,368	$ 16,964	$ 1,452,262	$ 1,469,226	$ –

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

	March 31, 2018	December 31, 2017
Nonaccrual loans:		
Real estate mortgage	$ 4,904	$ 3,366
Production and intermediate-term	5,772	5,928
Loans to cooperatives	8	–
Rural residential real estate	428	267
Total	$ 11,112	$ 9,561
Accruing restructured loans:		
Real estate mortgage	$ 1,863	$ 1,871
Production and intermediate-term	295	306
Farm-related business	428	439
Rural residential real estate	177	180
Total	$ 2,763	$ 2,796
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 13,875	$ 12,357
Other property owned	83	143
Total nonperforming assets	$ 13,958	$ 12,500
Nonaccrual loans as a percentage of total loans	0.76%	0.66%
Nonperforming assets as a percentage of total loans and other property owned	0.95%	0.86%
Nonperforming assets as a percentage of capital	4.25%	3.90%

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, 2018	December 31, 2017
Impaired nonaccrual loans:		
Current as to principal and interest	$ 1,735	$ 1,808
Past due	9,377	7,753
Total	$ 11,112	$ 9,561
Impaired accrual loans:		
Restructured	$ 2,763	$ 2,796
90 days or more past due	–	–
Total	$ 2,763	$ 2,796
Total impaired loans	$ 13,875	$ 12,357
Additional commitments to lend	$ 1	$ –

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

	March 31, 2018			Three Months Ended March 31, 2018	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 457	$ 478	$ 229	$ 412	$ 2
Production and intermediate-term	1,278	1,336	238	1,153	4
Loans to cooperatives	–	–	–	–	–
Farm-related business	–	–	–	–	–
Rural residential real estate	40	40	19	36	–
Total	$ 1,775	$ 1,854	$ 486	$ 1,601	$ 6
With no related allowance for credit losses:					
Real estate mortgage	$ 6,310	$ 7,166	$ –	$ 5,692	$ 21
Production and intermediate-term	4,789	5,557	–	4,319	16
Loans to cooperatives	8	8	–	7	–
Farm-related business	428	425	–	386	1
Rural residential real estate	565	608	–	509	2
Total	$ 12,100	$ 13,764	$ –	$ 10,913	$ 40
Total:					
Real estate mortgage	$ 6,767	$ 7,644	$ 229	$ 6,104	$ 23
Production and intermediate-term	6,067	6,893	238	5,472	20
Loans to cooperatives	8	8	–	7	–
Farm-related business	428	425	–	386	1
Rural residential real estate	605	648	19	545	2
Total	$ 13,875	$ 15,618	$ 486	$ 12,514	$ 46

Impaired loans:	December 31, 2017 Recorded Investment		Unpaid Principal Balance		Related Allowance		Year Ended December 31, 2017 Average Impaired Loans		Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:									
Real estate mortgage	$	525	$	543	$	228	$	588	$	25
Production and intermediate-term		1,147		1,188		261		1,286		56
Farm-related business		–		–		–		–		–
Rural residential real estate		36		36		19		41		2
Total	$	1,708	$	1,767	$	508	$	1,915	$	83
With no related allowance for credit losses:										
Real estate mortgage	$	4,712	$	5,529	$	–	$	5,285	$	229
Production and intermediate-term		5,087		5,807		–		5,705		246
Farm-related business		439		436		–		492		21
Rural residential real estate		411		449		–		461		20
Total	$	10,649	$	12,221	$	–	$	11,943	$	516
Total:										
Real estate mortgage	$	5,237	$	6,072	$	228	$	5,873	$	254
Production and intermediate-term		6,234		6,995		261		6,991		302
Farm-related business		439		436		–		492		21
Rural residential real estate		447		485		19		502		22
Total	$	12,357	$	13,988	$	508	$	13,858	$	599

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
Activity related to the allowance for credit losses:																
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
Balance at December 31, 2016	$	3,132		3,841	$	44	$	31	$	4	$	291	$	5	$	7,348
Charge-offs		–		(72)		–		–		–		(1)		–		(73)
Recoveries		19		114		–		–		–		13		–		146
Provision for loan losses		(116)		(364)		17		(1)		–		(32)		–		(496)
Balance at March 31, 2017	$	3,035	$	3,519	$	61	$	30	$	4	$	271	$	5	$	6,925
Allowance on loans evaluated for impairment:																
Individually	$	229	$	238	$	–	$	–	$	–	$	19	$	–	$	486
Collectively		3,499		3,304		130		8		5		145		5		7,096
Balance at March 31, 2018	$	3,728	$	3,542	$	130	$	8	$	5	$	164	$	5	$	7,582
Individually	$	228	$	261	$	–	$	–	$	–	$	19	$	–	$	508
Collectively		3,560		3,489		95		9		5		166		5		7,329
Balance at December 31, 2017	$	3,788	$	3,750	$	95	$	9	$	5	$	185	$	5	$	7,837
Recorded investment in loans evaluated for impairment:																
Individually	$	4,905	$	5,771	$	8	$	–	$	–	$	428	$	–	$	11,112
Collectively		903,673		445,612		46,483		1,478		2,863		67,644		5,360		1,473,113
Balance at March 31, 2018	$	908,578	$	451,383	$	46,491	$	1,478	$	2,863	$	68,072	$	5,360	$	1,484,225
Individually	$	3,366	$	5,928	$	–	$	–	$	–	$	267	$	–	$	9,561
Collectively		877,308		464,971		39,711		1,501		2,908		68,404		4,862		1,459,665
Balance at December 31, 2017	$	880,674	$	470,899	$	39,711	$	1,501	$	2,908	$	68,671	$	4,862	$	1,469,226

**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, 2017 or March 31, 2016.

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, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Real estate mortgage	$ 2,057	$ 2,074	$ 194	$ 203
Production and intermediate-term	378	394	83	88
Farm-related business	428	439	–	–
Rural residential real estate	177	180	–	–
Total loans	$ 3,040	$ 3,087	$ 277	$ 291
Additional commitments to lend	$ –	$ –		

The following table presents information as of period end:

	March 31, 2018
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	$ 9
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ 129

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 program approved by the FCA. In its Conditions of Approval for the program, the FCA 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. At March 31, 2018, 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, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 1,619	$ –	$ (94)	$ 1,525	5.07%

	December 31, 2017				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 1,644	$ –	$ (94)	$ 1,550	5.07%

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

	March 31, 2018		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	– %
After one year through five years	–	–	–
After five years through ten years	531	508	4.25
After ten years	1,088	1,017	5.48
Total	$ 1,619	$ 1,525	5.07 %

A portion of these investments has 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, 2018			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ –	$ –	$ 1,525	$ (94)

	December 31, 2017			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ –	$ –	$ 1,550	$ (94)

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 5.97 percent of the issued stock of the Bank as of March 31, 2018, net of any reciprocal investment. As of that date, the Bank's assets totaled $32.0 billion and shareholders' equity totaled $2.3 billion. The Bank's earnings were $79 million for the first three months of 2018. In addition, the Association held investments of $1,681 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,	
	2018	**2017**
Employee Benefit Plans:		
Balance at beginning of period	$ (2,082)	$ (1,892)
Other comprehensive income before reclassifications	–	–
Amounts reclassified from AOCI	41	34
Net current period other comprehensive income	41	34
Balance at end of period	$ (2,041)	$ (1,858)

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*		
	Three Months Ended March 31,		
	2018	**2017**	**Income Statement Line Item**
Defined Benefit Pension Plans:			
Periodic pension costs	$ (41)	$ (34)	See Note 7.
Net amounts reclassified	$ (41)	$ (34)	

(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, 2018				
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 3,525	$ 3,525	$ –	$ –	$ 3,525
Recurring Assets	$ 3,525	$ 3,525	$ –	$ –	$ 3,525
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 1,289	$ –	$ –	$ 1,289	$ 1,289
Other property owned	83	–	–	92	92
Nonrecurring Assets	$ 1,372	$ –	$ –	$ 1,381	$ 1,381
Other Financial Instruments					
Assets:					
Cash	$ 3,495	$ 3,495	$ –	$ –	$ 3,495
Investments in debt securities, held-to-maturity	1,619	–	–	1,525	1,525
Loans	1,463,705	–	–	1,447,253	1,447,253
Other Financial Assets	$ 1,468,819	$ 3,495	$ –	$ 1,448,778	$ 1,452,273
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,166,508	$ –	$ –	$ 1,141,610	$ 1,141,610
Other Financial Liabilities	$ 1,166,508	$ –	$ –	$ 1,141,610	$ 1,141,610

	December 31, 2017				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 3,530	$ 3,530	$ –	$ –	$ 3,530
Recurring Assets	$ 3,530	$ 3,530	$ –	$ –	$ 3,530
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 1,200	$ –	$ –	$ 1,200	$ 1,200
Other property owned	143	–	–	163	163
Nonrecurring Assets	$ 1,343	$ –	$ –	$ 1,363	$ 1,363
Other Financial Instruments					
Assets:					
Cash	$ 11,335	$ 11,335	$ –	$ –	$ 11,335
Investments in debt securities, held-to-maturity	1,644	–	–	1,550	1,550
Loans	1,451,305	–	–	1,448,756	1,448,756
Other Financial Assets	$ 1,464,284	$ 11,335	$	$ 1,450,306	$ 1,461,641
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,180,640	$ –	$ –	$ 1,167,424	$ 1,167,424
Other Financial Liabilities	$ 1,180,640	$ –	$ –	$ 1,167,424	$ 1,167,424

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	$ 1,381	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 forecast
		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,	
	2018	2017
Pension	$ 1,423	$ 1,573
401(k)	197	208
Other postretirement benefits	210	368
Total	$ 1,830	$ 2,149

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

	Actual YTD Through 3/31/18	Projected Contributions For Remainder of 2018	Projected Total Contributions 2018
Pension	$ 33	$ 5,380	$ 5,413
Other postretirement benefits	210	606	816
Total	$ 243	$ 5,986	$ 6,229

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 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, 2018.

Further details regarding employee benefit plans are contained in the 2017 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. However, the Association has established an estimated contingency loss of $124 to cover any pending claims where a loss is both probable and estimable.

Note 9 — Revenue from Contracts with Customers

On January 1, 2018, Accounting Standards Update 2014-09 Revenue from Contracts with Customers (Topic 606) became effective. The core principle of the new standard is that companies should 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.

The Association maintains contracts with customers to provide support services in various areas such as accounting, lending transactions, consulting, insurance, and information technology. The Association does not generally incur costs to obtain contracts. As most of the contracts are to provide access to expertise or system capacity that the Association maintains, there are no material incremental costs to fulfill these contracts that should be capitalized. Total revenue recognized from contracts with customers was $34 for the three months ended March 31, 2018.

Note 10 — Subsequent Events

The Association evaluated subsequent events and determined there were none requiring disclosure through May 9, 2018, which was the date the financial statements were issued.