
Cape Fear Farm Credit, ACA
THIRD QUARTER 2018

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2018 quarterly report of Cape Fear 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.



Gary Hendrix
Chairman of the Board



Brad Cornelius
Chief Executive Officer



Evan J. Kleinhans
Chief Financial Officer

November 8, 2018

Cape Fear 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 September 30, 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 September 30, 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 September 30, 2018.



Brad Cornelius
Chief Executive Officer



Evan J. Kleinhans
Chief Financial Officer

November 8, 2018

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 Cape Fear Farm Credit ACA, (Association) for the period ended September 30, 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 consists of agricultural commodities in our region, including swine, poultry, tobacco, and row crop operations. The Association's loan portfolio contains a concentration of swine and poultry loans. Demand for pork, chicken, turkey as well as prices of field grains affect the price of these commodities. Other factors including but not limited to international trade policies, political risks and nuisance lawsuits could impact these industries and the Association's corresponding loan portfolio. Continued low commodity prices, weakening demand for tobacco and cotton as well as adverse weather conditions are negatively impacting row crop farmers in our territory. Credit quality has contracted slightly since the fourth quarter of 2017 but remains acceptable overall.

Much of our territory was impacted by widespread flooding and wind damage caused by Hurricane Florence. Management is working to assess and quantify the financial impact this storm will have on our customers and the Association. Some credit quality deterioration and credit losses are expected. Factors, such as the use of loan guarantees, crop insurance, and federal disaster relief, that are available for some of our customers will help to mitigate the risks associated with this storm event. The Association is well capitalized and maintains adequate allowance for loan losses, which allows us to withstand stress in our loan portfolio. The Association remains dedicated to working diligently with our customers who have been impacted by this natural disaster.

The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory. Risk

exposure is reduced by many of the borrowers in the region having diversified farming operations as well as varying farm size. This factor, along with the opportunities for non-farm income in the area, lessens the level of dependency on any single given commodity. Concentration risk is further mitigated by a portfolio of participation loans purchased or originated and sold. The Association also mitigates concentration risk through the use of USDA and Farmer Mac guarantees.

The gross loan volume of the Association as of September 30, 2018 was \$919,294, a decrease of \$14,130 as compared to \$933,424 at December 31, 2017. When compared to the same period of 2017, gross loan volume increased by \$5,994 or 0.66 percent from \$913,300. Net loans outstanding at September 30, 2018 were \$909,099 as compared to \$925,513 at December 31, 2017. When compared to the same period of 2017, net loans outstanding increased by \$3,962 or 0.44 percent from \$905,137. Net loans accounted for 96.29 percent of total assets at September 30, 2018, as compared to 95.51 percent of total assets at December 31, 2017.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans increased \$4,786 to \$14,806 at September 30, 2018 from \$10,020 at December 31, 2017. The increase in nonaccrual volume is attributed to the transfer of several large loan relationships to nonaccrual 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 September 30, 2018 was \$10,195, which was more than the December 31, 2017 amount of \$7,911 by \$2,284 or 28.87 percent. The increase in the overall allowance was attributed to an increase in the both the specific and general reserves, as well as charge-offs and recoveries that occurred on several nonaccrual credits during the period. Management considers the allowance for loan losses to be adequate to cover probable losses.

Other investments consist of Rural America Bonds which come under the Farm Credit Administration's (FCA) Mission Related Investments. The objective of Rural America Bonds is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. As of September 30, 2018, the Association had \$3,755 in Rural America Bonds which were all classified as investment securities. As of December 31, 2017, the Association had

\$4,055 in Rural America Bonds of which \$77 of these instruments were classified as loans and the remaining \$3,978 were classified as investment securities.

Effective December 31, 2014, the FCA concluded each pilot program approved as part of the Investment in Rural America program. Each institution participating in such programs may continue to hold its investment through the maturity dates for the investments, provided the institution continues to meet all approval conditions. Although the pilot programs have concluded, the FCA can consider future requests on a case-by-case basis.

Other property owned (OPO) as of September 30, 2018 was \$401, a decrease of \$766 from the balance of \$1,167 as of December 31, 2017. The Association is actively marketing all properties classified as other property owned for resale.

RESULTS OF OPERATIONS

For the three months ended September 30, 2018

Net income for the three months ended September 30, 2018 totaled \$3,436 as compared to \$3,834 for the same period in 2017, a decrease of \$398 or 10.38 percent.

For the three months ended September 30, 2018, net interest income increased \$61 or 0.92 percent compared to the same period in 2017. Interest income on loans increased by \$814 while interest income from investment securities decreased by \$2. Interest expense increased \$751 compared to the same period last year. Provision for loan losses increased by \$955 in comparison with the same period in 2017. Provision for loan losses was \$1,388 for the three months ended September 30, 2018 as compared to \$433 for the same period in 2017. Nonaccrual income was \$26 for the three months ended September 30, 2018, as compared to \$75 for the same period in 2017 which is a decrease of \$49.

Noninterest income for the three months ended September 30, 2018 totaled \$1,903 as compared to \$1,830 for the same period of 2017, an increase of \$73. Positive variances for the period include an \$82 increase in loan fee income, a \$16 increase in gains/losses on sales of premises and equipment, a \$15 increase in patronage from Farm Credit Institutions and a \$12 increase in gains/losses on sales of rural home loans. The overall increase was offset by a \$28 decrease in other gains/losses, a \$20 decrease in fees for financially related services and a \$4 decrease in other noninterest income.

Noninterest expense for the three months ended September 30, 2018 totaled \$3,713 as compared to \$4,039 for the same period of 2017, a decrease of \$326. Items contributing to the decrease in non-interest expense are a \$200 decrease in salaries and employee benefits, a \$101 decrease in FCS insurance, an \$18 decrease in losses on OPO and an \$11 decrease in other operating expenses. The overall decrease was offset by a \$4 increase in occupancy and equipment.

For the nine months ended September 30, 2018

Net income for the nine months ended September 30, 2018 totaled \$12,882 as compared to \$12,521 for the same period in 2017 an increase of \$361 or 2.88 percent.

For the nine months ended September 30, 2018, net interest income increased \$927 or 4.84 percent compared to the same period in 2017. Interest income on loans increased by \$3,359 and interest income from investment securities decreased by \$6. Interest expense increased \$2,426 compared to the same period last year. Provision for loan losses increased by \$1,791 in comparison with the same period in 2017. Provision for loan losses was \$2,293 for the nine months ended September 30, 2018 as compared to \$502 for the same period in 2017. Nonaccrual income was \$86 for the nine months ended September 30, 2018, as compared to \$372 for the same period in 2017 which is a decrease of \$286.

Noninterest income for the nine months ended September 30, 2018 totaled \$6,640 as compared to \$6,304 for the same period of 2017, an increase of \$336. Positive variances for the period include a \$476 increase from an insurance fund refund and a \$130 increase in patronage from Farm Credit Institutions. The overall increase was offset by a \$121 decrease in gains/losses on premises and equipment, a \$58 decrease in loan fee income, a \$51 decrease in fees for financially related services, a \$31 decrease in other gains/losses, a \$5 decrease in gains/losses on sales of rural home loans and a \$4 decrease in noninterest income.

Noninterest expense for the nine months ended September 30, 2018 totaled \$11,444 as compared to \$12,328 for the same period of 2017, a decrease of \$884. Items contributing to the decrease in non-interest expense are a \$586 decrease in salaries and employee benefits, a \$272 decrease in FCS insurance, a \$93 decrease in losses on OPO, and a \$24 decrease in other operating expenses. The overall decrease was offset by a \$91 increase in occupancy and equipment.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank 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 are 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 September 30, 2018 were \$724,707 as compared to \$746,548 at December 31, 2017.

See Note 5 in the Notes to the Consolidated Financial Statements for information on the status of compliance with covenants under the General Financing Agreement.

CAPITAL RESOURCES

Total members' equity at September 30, 2018 increased to \$201,530 from the December 31, 2017 total of \$199,334. The increase is primarily due to recognition of net income retained through the third quarter.

On September 27, 2018 the Board of Directors resolved that it is in the best interest of our membership to make an advance distribution of 2018 Patronage-Sourced Net Earnings in the amount of \$10,667. This advance distribution is allocated based on patronage activity through August 31, 2018 and was paid on October 30, 2018 to assist our members in recovering from the damage caused by Hurricane Florence.

FCA regulations require all Farm Credit institutions to maintain minimum common equity tier 1 (CET1), tier 1 capital, total capital, and permanent capital risk-based capital ratios, along with tier 1 leverage and unallocated retained earnings equivalents leverage ratios. As of September 30, 2018, all ratios were well above the regulatory minimums.

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 September 30, 2018
Risk-adjusted ratios:				
CET1 Capital	4.5%	1.25%	5.75%	21.03%
Tier 1 Capital	6.0%	1.25%	7.25%	21.03%
Total Capital	8.0%	1.25%	9.25%	21.97%
Permanent Capital Ratio	7.0%	0.0%	7.0%	21.23%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	21.39%
UREE Leverage Ratio	1.5%	0.0%	1.5%	21.62%

* 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.

There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

REGULATORY MATTERS

On May 10, 2018, the Farm Credit Administration adopted a final rule that amends the regulations governing investments of System banks and associations. The final rule strengthens eligibility criteria for the investments the banks may purchase and hold. It also implements Section 939A of the Dodd-Frank Act by removing references to and requirements for credit ratings and substitutes the eligibility requirement with other appropriate standards of credit worthiness. In addition, it grants associations greater flexibility regarding the risk management purposes for investments and limits the type and amount of investments that an association may hold. Only securities that are issued by, or are unconditionally guaranteed or insured as to the timely payment of principal and interest by, the U.S. government or its agencies are eligible for association risk management purposes. An association may purchase and hold investments not to exceed 10 percent of its 90-day average daily balance of outstanding loans on the last business day of the quarter. The final rule will become effective January 1, 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 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	
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • 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: <ol style="list-style-type: none"> 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 any 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)	
<ul style="list-style-type: none"> • 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. A recent amendment provides an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. • Effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. 	<ul style="list-style-type: none"> • 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 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 optional 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 1-800-368-5819 ext. 3243, writing Evan J. Kleinhans, Cape Fear Farm Credit, P. O. Box 2405, Fayetteville, NC 28302, or accessing the website, www.capefearfarmcredit.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.

Cape Fear Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2018 <i>(unaudited)</i>	December 31, 2017 <i>(audited)</i>
Assets		
Cash	\$ 1,295	\$ 2,606
Investments in debt securities:		
Held to maturity (fair value of \$3,470 and \$3,815, respectively)	3,755	3,978
Loans	919,294	933,424
Allowance for loan losses	(10,195)	(7,911)
Net loans	909,099	925,513
Loans held for sale	—	131
Accrued interest receivable	11,099	9,060
Equity investments in other Farm Credit institutions	10,241	10,257
Premises and equipment, net	3,213	3,114
Other property owned	401	1,167
Accounts receivable	4,791	12,904
Other assets	253	297
Total assets	\$ 944,147	\$ 969,027
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 724,707	\$ 746,548
Accrued interest payable	1,868	1,703
Patronage refunds payable	10,756	15,024
Accounts payable	1,468	1,447
Other liabilities	3,818	4,971
Total liabilities	742,617	769,693
Commitments and contingencies (Note 8)		
Members' Equity		
Protected borrower stock	3	3
Capital stock and participation certificates	2,476	2,507
Retained earnings		
Allocated	100,753	100,298
Unallocated	98,592	96,833
Accumulated other comprehensive income (loss)	(294)	(307)
Total members' equity	201,530	199,334
Total liabilities and members' equity	\$ 944,147	\$ 969,027

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

Cape Fear Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Interest Income				
Loans	\$ 12,252	\$ 11,438	\$ 35,864	\$ 32,505
Investments	47	49	142	148
Total interest income	12,299	11,487	36,006	32,653
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	5,618	4,867	15,919	13,493
Net interest income	6,681	6,620	20,087	19,160
Provision for loan losses	1,388	433	2,293	502
Net interest income after provision for loan losses	5,293	6,187	17,794	18,658
Noninterest Income				
Loan fees	368	286	1,490	1,548
Fees for financially related services	4	24	25	76
Patronage refunds from other Farm Credit institutions	1,529	1,514	4,597	4,467
Gains (losses) on sales of rural home loans, net	12	—	17	22
Gains (losses) on sales of premises and equipment, net	16	—	59	180
Gains (losses) on other transactions	(26)	2	(24)	7
Insurance Fund refund	—	—	476	—
Other noninterest income	—	4	—	4
Total noninterest income	1,903	1,830	6,640	6,304
Noninterest Expense				
Salaries and employee benefits	2,403	2,603	7,547	8,133
Occupancy and equipment	223	219	635	544
Insurance Fund premiums	157	258	465	737
(Gains) losses on other property owned, net	26	44	96	189
Other operating expenses	904	915	2,701	2,725
Total noninterest expense	3,713	4,039	11,444	12,328
Income before income taxes	3,483	3,978	12,990	12,634
Provision for income taxes	47	144	108	113
Net income	\$ 3,436	\$ 3,834	\$ 12,882	\$ 12,521

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

Cape Fear Farm Credit, ACA
Consolidated Statements of
Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Net income	\$ 3,436	\$ 3,834	\$ 12,882	\$ 12,521
Other comprehensive income net of tax				
Employee benefit plans adjustments	4	4	13	12
Comprehensive income	\$ 3,440	\$ 3,838	\$ 12,895	\$ 12,533

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

Cape Fear Farm Credit, ACA
Consolidated Statements of Changes in
Members' Equity

(unaudited)

<i>(dollars in thousands)</i>	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2016	\$ 3	\$ 2,454	\$ 90,846	\$ 94,664	\$ (300)	\$ 187,667
Comprehensive income				12,521	12	12,533
Capital stock/participation certificates issued/(retired), net		42				42
Patronage distribution adjustment			(22)	20		(2)
Balance at September 30, 2017	\$ 3	\$ 2,496	\$ 90,824	\$ 107,205	\$ (288)	\$ 200,240
Balance at December 31, 2017	\$ 3	\$ 2,507	\$ 100,298	\$ 96,833	\$ (307)	\$ 199,334
Comprehensive income				12,882	13	12,895
Capital stock/participation certificates issued/(retired), net		(31)				(31)
Patronage distribution						
Cash				(10,667)		(10,667)
Nonqualified retained earnings			34	(34)		—
Patronage distribution adjustment			421	(422)		(1)
Balance at September 30, 2018	\$ 3	\$ 2,476	\$ 100,753	\$ 98,592	\$ (294)	\$ 201,530

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

Cape Fear 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 Cape Fear 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 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.
- 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. Entities may early adopt the provisions in whole upon issuance or may early adopt any removed or modified disclosures upon issuance and delay adoption of the additional disclosures until their effective date.

- In July 2018, the FASB issued ASU 2018-11 Leases (Topic 842): Targeted Improvements. The amendments are intended to reduce costs and ease implementation of the leases standard for financial statement preparers. It addresses certain areas identified as possible sources of unnecessary cost or complexity in the standard. Specifically, the amendments provide an option to apply the transition provisions of the new standard at its adoption date instead of at the earliest comparative period presented in its financial statements and a practical expedient that permits lessors to not separate nonlease components from the associated lease component if certain conditions are met. For entities that have not adopted Topic 842 before the issuance of this Update, the effective date and transition requirements for the amendments related to separating components of a contract are the same as the effective date and transition requirements in ASU 2016-02.
- In July 2018, the FASB issued ASU 2018-10 Codification Improvements to Topic 842, Leases. The amendments affect narrow aspects of the guidance issued in ASU 2016-02. Specifically, the Update corrects, clarifies or changes inconsistent language to improve application of the guidance in ASU 2016-02. For entities that have not adopted Topic 842, the effective date and transition requirements will be the same as the effective date and transition requirements in ASU 2016-02.
- In July 2018, the FASB issued ASU 2018-09 Codification Improvements. The amendments affect a wide variety of Topics in the Codification. They apply to all reporting entities within the scope of the affected accounting guidance. The Board has an ongoing project on its agenda about improvements to clarify the Codification or to correct unintended application of guidance. Those items generally are not expected to have a significant effect on current accounting practice. The transition and effective date guidance is based on the facts and circumstances of each amendment.
- 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. 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:

	September 30, 2018	December 31, 2017
Real estate mortgage	\$ 602,294	\$ 591,311
Production and intermediate-term	259,703	287,559
Loans to cooperatives	9,511	8,539
Processing and marketing	22,339	21,734
Farm-related business	10,577	7,311
Communication	1,312	3,743
Power and water/waste disposal	1,933	1,983
Rural residential real estate	5,283	4,844
International	3,259	3,258
Lease receivables	3,083	3,142
Total loans	<u>\$ 919,294</u>	<u>\$ 933,424</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:

	September 30, 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	\$ 11,495	\$ 68,416	\$ —	\$ —	\$ —	\$ 2,976	\$ 11,495	\$ 71,392
Production and intermediate-term	14,361	37,096	—	—	2,171	—	16,532	37,096
Loans to cooperatives	6,822	—	2,700	—	—	—	9,522	—
Processing and marketing	13,813	9,540	—	—	—	—	13,813	9,540
Farm-related business	127	4,026	—	17,450	—	—	127	21,476
Communication	1,316	—	—	—	—	—	1,316	—
Power and water/waste disposal	1,939	—	—	—	—	—	1,939	—
International	3,263	—	—	—	—	—	3,263	—
Lease receivables	—	—	3,086	—	—	—	3,086	—
Total	<u>\$ 53,136</u>	<u>\$ 119,078</u>	<u>\$ 5,786</u>	<u>\$ 17,450</u>	<u>\$ 2,171</u>	<u>\$ 2,976</u>	<u>\$ 61,093</u>	<u>\$ 139,504</u>

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	\$ 6,404	\$ 65,599	\$ —	\$ —	\$ —	\$ 4,048	\$ 6,404	\$ 69,647
Production and intermediate-term	21,856	194,247	—	—	3,500	—	25,356	194,247
Loans to cooperatives	5,824	—	2,720	—	—	—	8,544	—
Processing and marketing	11,862	17,813	—	—	—	—	11,862	17,813
Farm-related business	1,191	—	—	—	—	—	1,191	—
Communication	3,752	—	—	—	—	—	3,752	—
Power and water/waste disposal	1,988	—	—	—	—	—	1,988	—
International	3,263	—	—	—	—	—	3,263	—
Lease receivables	—	—	3,142	—	—	—	3,142	—
Total	\$ 56,140	\$ 277,659	\$ 5,862	\$ —	\$ 3,500	\$ 4,048	\$ 65,502	\$ 281,707

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:

September 30, 2018				
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 10,424	\$ 98,622	\$ 493,248	\$ 602,294
Production and intermediate-term	96,422	92,116	71,165	259,703
Loans to cooperatives	2,699	6,349	463	9,511
Processing and marketing	4,174	11,722	6,443	22,339
Farm-related business	3,627	4,117	2,833	10,577
Communication	—	1,312	—	1,312
Power and water/waste disposal	—	—	1,933	1,933
Rural residential real estate	662	831	3,790	5,283
International	—	3,009	250	3,259
Lease receivables	—	571	2,512	3,083
Total loans	\$ 118,008	\$ 218,649	\$ 582,637	\$ 919,294
Percentage	12.84%	23.78%	63.38%	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:

	September 30, 2018	December 31, 2017		September 30, 2018	December 31, 2017
Real estate mortgage:			Communication:		
Acceptable	94.84%	94.68%	Acceptable	100.00%	100.00%
OAEM	3.84	3.64	OAEM	—	—
Substandard/doubtful/loss	1.32	1.68	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Power and water/waste disposal:		
Acceptable	89.81%	92.53%	Acceptable	100.00%	100.00%
OAEM	5.68	4.55	OAEM	—	—
Substandard/doubtful/loss	4.51	2.92	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
Loans to cooperatives:			Rural residential real estate:		
Acceptable	100.00%	100.00%	Acceptable	87.04%	92.33%
OAEM	—	—	OAEM	3.90	5.23
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	9.06	2.44
	100.00%	100.00%		100.00%	100.00%
Processing and marketing:			International:		
Acceptable	87.34%	86.34%	Acceptable	100.00%	100.00%
OAEM	—	4.63	OAEM	—	—
Substandard/doubtful/loss	12.66	9.03	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
Farm-related business:			Lease receivables:		
Acceptable	100.00%	100.00%	Acceptable	89.39%	99.58%
OAEM	—	—	OAEM	0.44	0.42
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	10.17	—
	100.00%	100.00%		100.00%	100.00%
			Total loans:		
			Acceptable	93.31%	93.96%
			OAEM	4.15	3.85
			Substandard/doubtful/loss	2.54	2.19
				100.00%	100.00%

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

September 30, 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	\$ 1,515	\$ 2,535	\$ 4,050	\$ 604,394	\$ 608,444
Production and intermediate-term	674	4,251	4,925	259,494	264,419
Loans to cooperatives	-	-	-	9,539	9,539
Processing and marketing	-	1,919	1,919	20,506	22,425
Farm-related business	-	-	-	10,631	10,631
Communication	-	-	-	1,313	1,313
Power and water/waste disposal	-	-	-	1,935	1,935
Rural residential real estate	359	73	432	4,877	5,309
International	-	-	-	3,272	3,272
Lease receivables	14	-	14	3,081	3,095
Total	<u>\$ 2,562</u>	<u>\$ 8,778</u>	<u>\$ 11,340</u>	<u>\$ 919,042</u>	<u>\$ 930,382</u>

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
Real estate mortgage	\$ 1,949	\$ 2,165	\$ 4,114	\$ 592,281	\$ 596,395
Production and intermediate-term	919	2,723	3,642	287,692	291,334
Loans to cooperatives	-	-	-	8,544	8,544
Processing and marketing	-	1,969	1,969	19,836	21,805
Farm-related business	1	-	1	7,346	7,347
Communication	-	-	-	3,771	3,771
Power and water/waste disposal	-	-	-	1,984	1,984
Rural residential real estate	57	9	66	4,793	4,859
International	-	-	-	3,269	3,269
Lease receivables	-	-	-	3,154	3,154
Total	<u>\$ 2,926</u>	<u>\$ 6,866</u>	<u>\$ 9,792</u>	<u>\$ 932,670</u>	<u>\$ 942,462</u>

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

	September 30, 2018	December 31, 2017
Nonaccrual loans:		
Real estate mortgage	\$ 5,031	\$ 3,265
Production and intermediate-term	7,561	4,740
Processing and marketing	1,919	1,969
Rural residential real estate	111	46
Lease receivables	184	-
Total	<u>\$ 14,806</u>	<u>\$ 10,020</u>
Accruing restructured loans:		
Real estate mortgage	\$ 589	\$ 941
Production and intermediate-term	1,084	1,792
Processing and marketing	550	-
Total	<u>\$ 2,223</u>	<u>\$ 2,733</u>
Total nonperforming loans	\$ 17,029	\$ 12,753
Other property owned	401	1,167
Total nonperforming assets	<u>\$ 17,430</u>	<u>\$ 13,920</u>
Nonaccrual loans as a percentage of total loans	1.61%	1.07%
Nonperforming assets as a percentage of total loans and other property owned	1.90%	1.49%
Nonperforming assets as a percentage of capital	<u>8.65%</u>	<u>6.98%</u>

There were no loans accruing and 90 days past due at September 30, 2018 or December 31, 2017.

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.

	September 30, 2018	December 31, 2017
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 5,794	\$ 2,755
Past due	9,012	7,265
Total	\$ 14,806	\$ 10,020
Impaired accrual loans:		
Restructured	\$ 2,223	\$ 2,733
90 days or more past due	-	-
Total	\$ 2,223	\$ 2,733
Total impaired loans	\$ 17,029	\$ 12,753
Additional commitments to lend	\$ 6	\$ 1

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

Impaired loans:	September 30, 2018			Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:							
Real estate mortgage	\$ 2,812	\$ 2,875	\$ 742	\$ 2,565	\$ 13	\$ 2,373	\$ 40
Production and intermediate-term	4,665	4,642	1,483	4,257	21	3,937	67
Processing and marketing	-	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-	-
Lease receivables	184	186	108	167	1	155	3
Total	\$ 7,661	\$ 7,703	\$ 2,333	\$ 6,989	\$ 35	\$ 6,465	\$ 110
With no related allowance for credit losses:							
Real estate mortgage	\$ 2,808	\$ 3,832	\$ -	\$ 2,561	\$ 12	\$ 2,369	\$ 40
Production and intermediate-term	3,980	4,875	-	3,630	18	3,359	57
Processing and marketing	2,469	2,862	-	2,252	11	2,083	35
Rural residential real estate	111	183	-	102	1	94	2
Lease receivables	-	-	-	-	-	-	-
Total	\$ 9,368	\$ 11,752	\$ -	\$ 8,545	\$ 42	\$ 7,905	\$ 134
Total:							
Real estate mortgage	\$ 5,620	\$ 6,707	\$ 742	\$ 5,126	\$ 25	\$ 4,742	\$ 80
Production and intermediate-term	8,645	9,517	1,483	7,887	39	7,296	124
Processing and marketing	2,469	2,862	-	2,252	11	2,083	35
Rural residential real estate	111	183	-	102	1	94	2
Lease receivables	184	186	108	167	1	155	3
Total	\$ 17,029	\$ 19,455	\$ 2,333	\$ 15,534	\$ 77	\$ 14,370	\$ 244

Impaired loans:	December 31, 2017			Year Ended December 31, 2017	
	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	\$ 1,739	\$ 1,701	\$ 245	\$ 2,285	\$ 88
Production and intermediate-term	1,260	1,263	680	1,656	63
Processing and marketing	-	-	-	-	-
Rural residential real estate	-	-	-	-	-
Total	\$ 2,999	\$ 2,964	\$ 925	\$ 3,941	\$ 151
With no related allowance for credit losses:					
Real estate mortgage	\$ 2,467	\$ 3,569	\$ -	\$ 3,243	\$ 124
Production and intermediate-term	5,272	6,070	-	6,928	265
Processing and marketing	1,969	2,316	-	2,588	99
Rural residential real estate	46	109	-	60	2
Total	\$ 9,754	\$ 12,064	\$ -	\$ 12,819	\$ 490
Total impaired loans:					
Real estate mortgage	\$ 4,206	\$ 5,270	\$ 245	\$ 5,528	\$ 212
Production and intermediate-term	6,532	7,333	680	8,584	328
Processing and marketing	1,969	2,316	-	2,588	99
Rural residential real estate	46	109	-	60	2
Total	\$ 12,753	\$ 15,028	\$ 925	\$ 16,760	\$ 641

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	Lease Receivables	Total
Activity related to the allowance for credit losses:									
Balance at June 30, 2018	\$ 4,618	\$ 3,734	\$ 242	\$ 27	\$ 2	\$ 40	\$ 27	\$ 134	\$ 8,824
Charge-offs	(3)	(41)	—	—	—	—	—	—	(44)
Recoveries	—	27	—	—	—	—	—	—	27
Provision for loan losses	954	404	20	2	—	3	2	3	1,388
Balance at September 30, 2018	\$ 5,569	\$ 4,124	\$ 262	\$ 29	\$ 2	\$ 43	\$ 29	\$ 137	\$ 10,195
Balance at December 31, 2017	\$ 4,534	\$ 3,026	\$ 233	\$ 26	\$ 2	\$ 38	\$ 26	\$ 26	\$ 7,911
Charge-offs	(77)	(110)	—	—	—	—	—	—	(187)
Recoveries	72	106	—	—	—	—	—	—	178
Provision for loan losses	1,040	1,102	29	3	—	5	3	111	2,293
Balance at September 30, 2018	\$ 5,569	\$ 4,124	\$ 262	\$ 29	\$ 2	\$ 43	\$ 29	\$ 137	\$ 10,195
Balance at June 30, 2017	\$ 4,090	\$ 3,274	\$ 209	\$ 23	\$ 2	\$ 35	\$ 23	\$ 23	\$ 7,679
Charge-offs	—	(125)	—	—	—	—	—	—	(125)
Recoveries	—	176	—	—	—	—	—	—	176
Provision for loan losses	240	177	11	2	—	1	1	1	433
Balance at September 30, 2017	\$ 4,330	\$ 3,502	\$ 220	\$ 25	\$ 2	\$ 36	\$ 24	\$ 24	\$ 8,163
Balance at December 31, 2016	\$ 4,048	\$ 3,386	\$ 217	\$ 18	\$ 2	\$ 34	\$ 24	\$ 9	\$ 7,738
Charge-offs	(12)	(319)	—	—	—	—	—	—	(331)
Recoveries	1	253	—	—	—	—	—	—	254
Provision for loan losses	293	182	3	7	—	2	—	15	502
Balance at September 30, 2017	\$ 4,330	\$ 3,502	\$ 220	\$ 25	\$ 2	\$ 36	\$ 24	\$ 24	\$ 8,163
Allowance on loans evaluated for impairment:									
Individually	\$ 742	\$ 1,483	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 108	\$ 2,333
Collectively	4,827	2,641	262	29	2	43	29	29	7,862
Balance at September 30, 2018	\$ 5,569	\$ 4,124	\$ 262	\$ 29	\$ 2	\$ 43	\$ 29	\$ 137	\$ 10,195
Individually	\$ 245	\$ 680	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 925
Collectively	4,289	2,346	233	26	2	38	26	26	6,986
Balance at December 31, 2017	\$ 4,534	\$ 3,026	\$ 233	\$ 26	\$ 2	\$ 38	\$ 26	\$ 26	\$ 7,911
Recorded investment in loans evaluated for impairment:									
Individually	\$ 5,677	\$ 8,623	\$ —	\$ —	\$ —	\$ 113	\$ —	\$ 185	\$ 14,598
Collectively	602,767	255,796	42,595	1,313	1,935	5,196	3,272	2,910	915,784
Balance at September 30, 2018	\$ 608,444	\$ 264,419	\$ 42,595	\$ 1,313	\$ 1,935	\$ 5,309	\$ 3,272	\$ 3,095	\$ 930,382
Individually	\$ 4,251	\$ 6,737	\$ 1,998	\$ —	\$ —	\$ 47	\$ —	\$ —	\$ 13,033
Collectively	592,144	284,597	35,698	3,771	1,984	4,812	3,269	3,154	929,429
Balance at December 31, 2017	\$ 596,395	\$ 291,334	\$ 37,696	\$ 3,771	\$ 1,984	\$ 4,859	\$ 3,269	\$ 3,154	\$ 942,462

*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. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented.

Outstanding Recorded Investment	Three Months Ended September 30, 2018				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
Pre-modification:					
Production and intermediate-term	\$ —	\$ 182	\$ —	\$ 182	
Rural residential real estate	—	9	—	9	
Total	\$ —	\$ 191	\$ —	\$ 191	
Post-modification:					
Production and intermediate-term	\$ —	\$ 182	\$ —	\$ 182	\$ —
Rural residential real estate	—	9	—	9	—
Total	\$ —	\$ 191	\$ —	\$ 191	\$ —

Nine Months Ended September 30, 2018					
Outstanding Recorded Investment	Interest	Principal	Other	Total	Charge-offs
	Concessions	Concessions	Concessions		
Pre-modification:					
Real estate mortgage	\$ -	\$ 535	\$ -	\$ 535	
Production and intermediate-term	-	1,189	-	1,189	
Processing and marketing	-	663	-	663	
Rural residential real estate	-	9	-	9	
Total	\$ -	\$ 2,396	\$ -	\$ 2,396	
Post-modification:					
Real estate mortgage	\$ -	\$ 534	\$ -	\$ 534	\$ -
Production and intermediate-term	-	1,172	-	1,172	-
Processing and marketing	-	663	-	663	-
Rural residential real estate	-	9	-	9	-
Total	\$ -	\$ 2,378	\$ -	\$ 2,378	\$ -

Three Months Ended September 30, 2017					
Outstanding Recorded Investment	Interest	Principal	Other	Total	Charge-offs
	Concessions	Concessions	Concessions		
Pre-modification:					
Real estate mortgage	\$ -	\$ 208	\$ -	\$ 208	
Total	\$ -	\$ 208	\$ -	\$ 208	
Post-modification:					
Real estate mortgage	\$ -	\$ 208	\$ -	\$ 208	\$ -
Total	\$ -	\$ 208	\$ -	\$ 208	\$ -

Nine Months Ended September 30, 2017					
Outstanding Recorded Investment	Interest	Principal	Other	Total	Charge-offs
	Concessions	Concessions	Concessions		
Pre-modification:					
Real estate mortgage	\$ -	\$ 1,357	\$ -	\$ 1,357	
Production and intermediate-term	-	1,750	-	1,750	
Processing and marketing	-	1,172	-	1,172	
Total	\$ -	\$ 4,279	\$ -	\$ 4,279	
Post-modification:					
Real estate mortgage	\$ -	\$ 1,357	\$ -	\$ 1,357	\$ -
Production and intermediate-term	-	1,749	-	1,749	-
Processing and marketing	-	1,172	-	1,172	-
Total	\$ -	\$ 4,278	\$ -	\$ 4,278	\$ -

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	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Real estate mortgage	\$ 1,894	\$ 1,353	\$ 1,305	\$ 412
Production and intermediate-term	2,608	2,971	1,524	1,179
Processing and marketing	1,258	763	708	763
Rural residential real estate	39	37	39	37
Total loans	\$ 5,799	\$ 5,124	\$ 3,576	\$ 2,391
Additional commitments to lend	\$ 4	\$ 1		

The following table presents information as of period end:

	September 30, 2018
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	\$ -

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 September 30, 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:

	September 30, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 3,755	\$ —	\$ (285)	\$ 3,470	5.09%

	December 31, 2017				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 3,978	\$ —	\$ (163)	\$ 3,815	4.99%

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

	September 30, 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	929	886	2.49
After ten years	2,826	2,584	5.95
Total	\$ 3,755	\$ 3,470	5.09%

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.

	September 30, 2018			
	Less than 12 Months		12 Months Or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	\$ —	\$ —	\$ 3,470	\$ (285)

	December 31, 2017			
	Less than 12 Months		12 Months Or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	\$ —	\$ —	\$ 3,815	\$ (163)

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 result 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 3.67 percent of the issued stock of the Bank as of September 30, 2018 net of any reciprocal investment. As of that date, the Bank's assets totaled \$32.7 billion and shareholders' equity totaled \$2.4 billion. The Bank's earnings were \$227 million for the first nine months of 2018. In addition, the Association held \$544 in investments 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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Employee Benefit Plans:				
Balance at beginning of period	\$ (298)	\$ (292)	\$ (307)	\$ (300)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	4	4	13	12
Net current period other comprehensive income	4	4	13	12
Balance at end of period	\$ (294)	\$ (288)	\$ (294)	\$ (288)

	Reclassifications Out of Accumulated Other Comprehensive Income (b)				
	Three Months Ended September 30,		Nine Months Ended September 30,		Income Statement Line Item
	2018	2017	2018	2017	
Defined Benefit Pension Plans:					
Periodic pension costs	\$ (4)	\$ (4)	\$ (13)	\$ (12)	See Note 7.
Net amounts reclassified	\$ (4)	\$ (4)	\$ (13)	\$ (12)	

(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.

	September 30, 2018				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<u>Recurring Measurements</u>					
Assets:					
Assets held in trust funds	\$ 82	\$ 82	\$ –	\$ –	\$ 82
Recurring Assets	\$ 82	\$ 82	\$ –	\$ –	\$ 82
Liabilities:					
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –
<u>Nonrecurring Measurements</u>					
Assets:					
Impaired loans	\$ 5,328	\$ –	\$ –	\$ 5,328	\$ 5,328
Other property owned	401	–	–	438	438
Nonrecurring Assets	\$ 5,729	\$ –	\$ –	\$ 5,766	\$ 5,766
<u>Other Financial Instruments</u>					
Assets:					
Cash	\$ 1,295	\$ 1,295	\$ –	\$ –	\$ 1,295
Investments in debt securities, held-to-maturity	3,755	–	–	3,470	3,470
Loans	903,771	–	–	881,182	881,182
Other Financial Assets	\$ 908,821	\$ 1,295	\$ –	\$ 884,652	\$ 885,947
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	\$ 724,707	\$ –	\$ –	\$ 707,970	\$ 707,970
Other Financial Liabilities	\$ 724,707	\$ –	\$ –	\$ 707,970	\$ 707,970
<u>December 31, 2017</u>					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<u>Recurring Measurements</u>					
Assets:					
Assets held in trust funds	\$ 98	\$ 98	\$ –	\$ –	\$ 98
Recurring Assets	\$ 98	\$ 98	\$ –	\$ –	\$ 98
Liabilities:					
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –
<u>Nonrecurring Measurements</u>					
Assets:					
Impaired loans	\$ 2,074	\$ –	\$ –	\$ 2,074	\$ 2,074
Other property owned	1,167	–	–	1,294	1,294
Nonrecurring Assets	\$ 3,241	\$ –	\$ –	\$ 3,368	\$ 3,368
<u>Other Financial Instruments</u>					
Assets:					
Cash	\$ 2,606	\$ 2,606	\$ –	\$ –	\$ 2,606
Investments in debt securities, held-to-maturity	3,978	–	–	3,815	3,815
Loans	923,570	–	–	912,031	912,031
Other Financial Assets	\$ 930,154	\$ 2,606	\$ –	\$ 915,846	\$ 918,452
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	\$ 746,548	\$ –	\$ –	\$ 736,855	\$ 736,855
Other Financial Liabilities	\$ 746,548	\$ –	\$ –	\$ 736,855	\$ 736,855

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	\$ 5,766	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/Principal 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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Pension	\$ 440	\$ 572	\$ 1,321	\$ 1,715
401(k)	85	80	296	284
Other postretirement benefits	61	116	203	348
Total	\$ 586	\$ 768	\$ 1,820	\$ 2,347

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

	Actual YTD Through 9/30/18	Projected Contributions For Remainder of 2018	Projected Total Contributions 2018
	Pension	\$ 21	\$ 1,737
Other postretirement benefits	203	75	278
Total	\$ 224	\$ 1,812	\$ 2,036

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. As of September 30, 2018, the Association had recognized an estimated contingent liability of \$29 for certain 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 as follows:

Revenue recognized from contracts with customers:	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
	At a point in time	\$ 3
Over time	1	2
Total	\$ 4	\$ 25

Note 10 — Subsequent Events

The Association evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through November 8, 2018, which was the date the financial statements were issued.

On October 15, 2018, AgFirst's Board of Directors indicated an intention to declare, in December 2018, a special patronage distribution. The Association will receive between approximately \$4,648 and \$5,493 which will be recorded as patronage refunds from other Farm Credit institutions.