
ArborOne, ACA

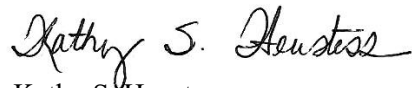
FIRST QUARTER 2019

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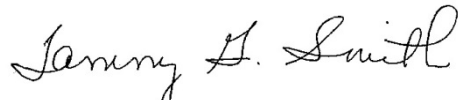
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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2019 quarterly report of **ArborOne, 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.



Kathy S. Heustess
President and Chief Executive Officer



Tammy G. Smith
Chief Financial Officer and Treasurer



William Dupree Atkinson
Chairman of the Board

May 9, 2019

ArborOne, ACA

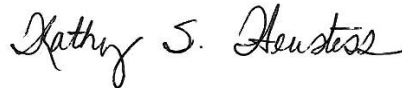
Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

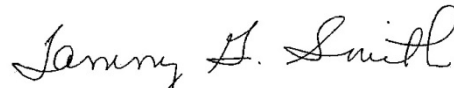
Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2019. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of March 31, 2019, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2019.



Kathy S. Heustess
President and Chief Executive Officer



Tammy G. Smith
Chief Financial Officer and Treasurer

May 9, 2019

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

(dollars in thousands)

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

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including cash grains, cotton, forestry, poultry, and tobacco. Farm size varies and many of the borrowers in the region have diversified farming operations. These factors, along with the numerous opportunities for non-farm income in the area, somewhat impact the level of dependency on a given commodity. Approximately twenty-four percent of the portfolio has significant outside income to diversify dependence on agriculture, consisting of lifestyle loans and loans to less than full-time farmers with retirement income, salaried income and non-agricultural business income. Further, approximately fifteen percent of the assets carry federal guarantees as a risk management tool.

The gross loan volume of the Association as of March 31, 2019, was \$491,047, a decrease of \$4,121 as compared to \$495,168 at December 31, 2018. Net loans outstanding at March 31, 2019, were \$480,244 as compared to \$482,364 at December 31, 2018. The Association had investment securities classified as held-to-maturity in the amount of \$9,254. Net loans and investments accounted for 95.95 percent of total assets at March 31, 2019, as compared to 94.73 percent of total assets at December 31, 2018.

Net loans decreased by \$2,120 during the reporting period. This decrease was mainly due to a decrease in originated loan volume of \$1,573 and a decrease in nonaccrual loan volume of \$6,678. These decreases were partially offset by a decrease in participations sold loan volume of \$2,285, an increase in

participations purchased loan volume of \$1,852, and a decrease in allowance for loan losses of \$2,001.

Although there was a decrease in originated loan volume, the Association had \$91,869 in available commitments which had yet to be drawn, an increase of \$3,838 when compared to \$88,031 at December 31, 2018. These available commitments were mostly due to delayed planting as a result of weather conditions. The decrease in nonaccrual loan volume resulted mainly from chargeoffs, a transfer to Other Property Owned (OPO), and repayments.

The decrease in participations sold loan volume was mainly due to paydowns on a large sold core agricultural loan. The increase in participations purchased loan volume resulted mainly from advances on existing volume. The decrease in allowance for loan losses was primarily due to a chargeoff on a large core account, which resulted in the reversal of the specific reserve on the account.

Investment securities held-to-maturity (HTM) consist of mission related investments (Rural America Bonds). The investments were transferred in 2014 to HTM from available-for-sale (AFS) at fair value with unrealized gains and losses recognized in Other Comprehensive Income (OCI). These OCI amounts will be amortized or accreted to interest income ratably over the remaining life of each individual security in accordance with generally accepted accounting principles (GAAP). The amortization of an unrealized holding gain or loss reported in OCI will offset or mitigate the effect on interest income of the amortization of any premium or discount recorded on the transfer to held-to-maturity for each security.

The HTM investment securities decreased by \$14 when compared to December 31, 2018. This decrease was mainly due to normal payments in the amount of \$11 and the amortization of the net unrealized loss from the transfer to HTM in the amount of \$4, which was partially offset by the realized amortization of a fee in the amount of \$1.

As of March 31, 2019, approximately 79 percent of the Association's HTM Rural America Bonds were guaranteed; therefore the risk of credit loss to the Association was reduced. However, as of March 31, 2019, one security was rated as other assets especially mentioned (OAEM), which made this security an ineligible investments under Farm Credit Administration (FCA) regulation. FCA has been notified of this downgrade as required. There were no unrealized credit impairments on the

HTM investment portfolio as of December 31, 2018 and none were taken during the first three months of 2019.

There is an inherent risk in the extension of any type of credit. However, portfolio credit quality continues to be maintained at an acceptable level, and credit administration remains satisfactory. Nonaccrual loans decreased from \$19,078 at December 31, 2018, to \$12,399 at March 31, 2019. This was mainly due to repayments on nonaccrual loans in the amount of \$4,549, chargeoffs in the amount of \$2,919, and the transfer of a core agricultural loan to OPO in the amount of \$637. These decreases were partially offset by the transfer of a core agricultural loan into nonaccrual status in the amount of \$922 and recoveries on mainly one account in the amount of \$97.

As of March 31, 2019, the Association has three properties classed as OPO totaling \$1,337, an increase of \$515 as compared to \$822 at December 31, 2018. The increase was due to the transfer of one core agricultural nonaccrual loan into OPO in the amount of \$637. This increase was partially offset by the writedown of one OPO account in the amount of \$12, and the sale of one OPO account in the amount of \$110. Association staff is working diligently to market the OPO properties.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on credit quality, credit history, current conditions, and expected future conditions.

The allowance for loan losses at March 31, 2019, was \$10,803, compared to \$12,804 at December 31, 2018. The allowance for loan losses for the first quarter consisted of \$9,740 in general reserves and \$1,063 in specific reserves for several core agricultural loans and a Rural America Bond. Charge-offs for the three months ended March 31, 2019 were \$2,919, of which \$2,583 was for one nonaccrual core agricultural loan. There were recoveries of \$97 for the three months ended March 31, 2019 attributed primarily to a core agricultural loan. The allowance for loan losses for the period ending March 31, 2019 was considered by management to be adequate to cover any future possible losses.

RESULTS OF OPERATIONS

For the three months ended March 31, 2019

Net income for the three months ended March 31, 2019, totaled \$1,757, an increase of \$149, as compared to \$1,608 for the same period in 2018. This increase was mainly due an increase in net interest income of \$563, which was partially offset by an increase in provision of \$314, a decrease in noninterest income of \$86, and an increase in noninterest expense of \$14.

Interest income on accruing loans increased by \$1,063 for the three months ended March 31, 2019 compared to \$5,507 for the three months ended March 31, 2018, as a result of an increase in originated loan volume. Nonaccrual interest income increased by \$324 as compared to the same period in 2018, which was mainly due to the liquidation of a few nonaccrual core agricultural loans. Interest income on investment securities was \$133 compared to \$206 for the same period in 2018. The decrease in investment interest income was due to the reduction in volume as a result of several payoffs and repayments in the normal course of business.

Interest expense increased \$751 for the three months ended March 31, 2019, as compared to the comparable period of 2018. The interest expense increase was primarily due to the increase in originated loan volume as well as an increase in rates, which was partially offset by the reduction in the HTM investment securities.

The Association recorded a provision for loan losses of \$821 as compared to \$507 for the comparable period of 2018. The increase in provision was mainly due to a chargeoff on a large core account.

Noninterest income for the three months ended March 31, 2019, totaled \$1,469 as compared to \$1,555 for the same period of 2018, a decrease of \$86. This decrease was mainly due to a decrease in insurance fund refunds of \$179 and a decrease in fees for financially related services of \$4, which was partially offset by an increase in patronage refunds from other Farm Credit institutions of \$78, an increase in gains on other transactions of \$16, and in increase in loan fees of \$3.

Noninterest expense for the three months ended March 31, 2019, increased \$14 compared to the same period of 2018. This increase was mainly a result from a decrease in gains on other property owned of \$29, an increase in occupancy and equipment of \$17, and an increase in insurance fund premiums of \$10, which was partially offset by a decrease in salaries and employee benefits of \$34 and a decrease in other operating expenses of \$8.

The Association recorded no provision for income taxes for the three months ended March 31, 2019, and for the same period in 2018.

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 March 31, 2019, was \$408,942 as compared to \$418,933 at December 31, 2018. The decrease during the period was a result of a decrease in loan volume and investment securities.

CAPITAL RESOURCES

Total members' equity increased by \$1,807 from \$87,775 at December 31, 2018 to \$89,582 at March 31, 2019, primarily due to an increase in retained earnings. Total capital stock and participation certificates were \$1,600 on March 31, 2019, compared to \$1,562 on December 31, 2018. This increase was attributed to the purchases of capital stock and participation certificates on loans in the normal course of business.

The Association reports other comprehensive income (loss) (OCI) in its Consolidated Statements of Changes in Members' Equity. The Association has an unrealized gain of \$2 as of March 31, 2019, as compared to an unrealized gain of \$41 as of December 31, 2018 for FAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The Association has an unrealized net loss of \$4 as of March 31, 2019 as compared to an unrealized net loss of \$92 as of December 31, 2018 on the HTM investment securities. The resulting effect was a net loss of \$2 to Accumulated Other Comprehensive Income for the three months ending March 31, 2019.

FCA sets minimum regulatory capital requirements for System Banks and Associations. Effective January 1, 2017, these requirements were modified to make system regulatory requirements more transparent and to ensure that the System's capital requirements are compatible with the Basel III framework and the standardized approach of federal banking regulatory agencies. New regulations replaced core surplus and total surplus ratios with common equity tier 1 (CET1) capital, tier 1 capital, and total capital risk-based capital ratios. The new regulations also include a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio (PCR) remains in effect.

Risk-adjusted assets have been defined by FCA Regulations as the Balance Sheet assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the effect of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Calculation of PCR risk-adjusted assets includes the allowance for loan losses as a deduction from risk-adjusted assets. This differs from the other risk-based capital calculations.

The ratios are calculated using three-month average daily balances, in accordance with FCA regulations. Refer to Note 7, *Members' Equity*, of the Association's 2018 Annual Report for additional information.

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

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of March 31, 2019
Risk-adjusted ratios:				
CET1 Capital	4.5%	1.875%	6.375%	17.88%
Tier 1 Capital	6.0%	1.875%	7.875%	17.88%
Total Capital	8.0%	1.875%	9.875%	19.15%
Permanent Capital Ratio	7.0%	0.0%	7.0%	18.11%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	16.82%
UREE Leverage Ratio	1.5%	0.0%	1.5%	8.55%

* 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.

For the period presented, the Association exceeded minimum regulatory standards for all the ratios.

REGULATORY MATTERS

On April 3, 2019, the Farm Credit Administration issued a proposed rule that would clarify the factors that System institutions should consider when categorizing high-risk loans and placing them in nonaccrual status. The rule would also

revise the criteria by which loans are reinstated to accrual status, and would revise the application of the criteria to certain loans in nonaccrual status to distinguish between the types of risk that cause loans to be placed in nonaccrual status. The public comment periods ends on June 3, 2019.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
<i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i>	
<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"> • Implementation efforts have begun by establishing a cross-discipline governance structure. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. • The new guidance is expected to result in an increase in allowance for credit losses due to several factors, including: <ol style="list-style-type: none"> 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 financial instrument portfolios, and the macroeconomic conditions and forecasts at the adoption date. • The guidance is expected to be adopted in first quarter 2021.

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 1-800-741-7332, writing Sarah Jackson, Corporate Secretary, ArborOne, ACA, P.O. Box 3699, Florence, SC 29502, or accessing the website, www.arborone.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.

ArborOne, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2019 <i>(unaudited)</i>	December 31, 2018 <i>(audited)</i>
Assets		
Cash	\$ 69	\$ 48
Investments in debt securities:		
Held to maturity (fair value of \$9,810 and \$9,612, respectively)	9,254	9,268
Loans	491,047	495,168
Allowance for loan losses	(10,803)	(12,804)
Net loans	480,244	482,364
Accrued interest receivable	7,191	8,962
Equity investments in other Farm Credit institutions	5,949	5,945
Premises and equipment, net	4,026	3,972
Other property owned	1,337	822
Accounts receivable	1,094	6,697
Other assets	982	885
Total assets	\$ 510,146	\$ 518,963
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 408,942	\$ 418,933
Lease obligations	39	—
Accrued interest payable	1,204	1,215
Patronage refunds payable	1,216	7,238
Accounts payable	414	322
Other liabilities	8,749	3,480
Total liabilities	420,564	431,188
Commitments and contingencies (Note 8)		
Members' Equity		
Protected borrower stock	52	52
Capital stock and participation certificates	1,548	1,510
Retained earnings		
Allocated	58,319	58,095
Unallocated	29,591	28,044
Accumulated other comprehensive income	72	74
Total members' equity	89,582	87,775
Total liabilities and members' equity	\$ 510,146	\$ 518,963

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

ArborOne, ACA
Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended March 31,	
	2019	2018
Interest Income		
Loans	\$ 6,896	\$ 5,509
Investments	133	206
	7,029	5,715
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	3,525	2,774
	3,504	2,941
Provision for loan losses	821	507
	2,683	2,434
Noninterest Income		
Loan fees	405	402
Fees for financially related services	111	115
Patronage refunds from other Farm Credit institutions	834	756
Gains (losses) on other transactions	21	5
Insurance Fund refunds	98	277
	1,469	1,555
Noninterest Expense		
Salaries and employee benefits	1,514	1,548
Occupancy and equipment	127	110
Insurance Fund premiums	80	70
(Gains) losses on other property owned, net	20	(9)
Other operating expenses	654	662
	2,395	2,381
Income before income taxes	1,757	1,608
Provision for income taxes	—	—
	\$ 1,757	\$ 1,608

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

ArborOne, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended March 31,	
	2019	2018
Net income	\$ 1,757	\$ 1,608
Other comprehensive income net of tax		
Unrealized gains (losses) on investments	(4)	(6)
Employee benefit plans adjustments	2	2
Other comprehensive income (loss) (Note 5)	(2)	(4)
Comprehensive income (loss)	\$ 1,755	\$ 1,604

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

ArborOne, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)

	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2017	\$ 53	\$ 1,413	\$ 57,424	\$ 27,867	\$ 125	\$ 86,882
Comprehensive income (loss)				1,608	(4)	1,604
Protected borrower stock issued/(retired), net	(1)					(1)
Capital stock/participation certificates issued/(retired), net		31				31
Patronage distribution adjustment			69	(98)		(29)
Balance at March 31, 2018	\$ 52	\$ 1,444	\$ 57,493	\$ 29,377	\$ 121	\$ 88,487
Balance at December 31, 2018	\$ 52	\$ 1,510	\$ 58,095	\$ 28,044	\$ 74	\$ 87,775
Cumulative effect of change in accounting principle				1		1
Comprehensive income (loss)				1,757	(2)	1,755
Capital stock/participation certificates issued/(retired), net		38				38
Patronage distribution adjustment			224	(211)		13
Balance at March 31, 2019	\$ 52	\$ 1,548	\$ 58,319	\$ 29,591	\$ 72	\$ 89,582

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

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

Basis of Presentation

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

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

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

Significant Accounting Policies

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

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and

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

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

Accounting Standards Updates (ASUs) Issued During the Period

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

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

ASUs Pending Effective Date

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

Potential effects of ASUs issued in previous periods:

In August 2018, the FASB issued ASU 2018-15 Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this Update. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019,

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

- In August 2018, the FASB issued ASU 2018-13 Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments are part of the FASB’s disclosure framework project. The project’s objective and primary focus are to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by GAAP that is most important to users of each entity’s financial statements. The amendments remove, modify or add certain disclosures contained in the financial statement footnotes related to fair value. Additionally, the guidance is intended to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Certain amendments should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance. Entities are permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. The removed disclosures were adopted effective with the 2018 Annual Report. Evaluation of any possible effects the additional and modified disclosures guidance may have on the statements of financial condition and results of operations is in progress.
- In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update, and subsequent clarifying guidance issued, is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application

will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 31, 2018. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

Accounting Standards Effective During the Period

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

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

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

lease accounting. The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification. The amendments were effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for public business entities.

Transition Information

- The guidance was adopted using the optional modified retrospective method and practical expedients for transition. Under this transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.
- The package of practical expedients was elected, which allowed existing leases to be largely accounted for consistent with current guidance, except for the incremental balance sheet recognition for lessees.
- There will not be a material change to the timing of future expense recognition.
- Upon adoption, a cumulative-effect adjustment to equity of approximately \$1 was recorded. In addition, a Right of Use Asset in the amount of \$30 and Lease Liability in the amount of \$29 were recognized.

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

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

	March 31, 2019	December 31, 2018
Real estate mortgage	\$ 254,748	\$ 243,247
Production and intermediate-term	200,223	216,817
Loans to cooperatives	5,047	3,152
Processing and marketing	16,019	16,054
Farm-related business	8,341	9,399
Power and water/waste disposal	1,738	1,757
Rural residential real estate	4,013	3,818
International	856	856
Lease receivables	62	68
Total loans	<u>\$ 491,047</u>	<u>\$ 495,168</u>

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

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

	March 31, 2019							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 12,449	\$ 10,311	\$ —	\$ —	\$ —	\$ —	\$ 12,449	\$ 10,311
Production and intermediate-term	18,448	1,886	—	—	—	—	18,448	1,886
Loans to cooperatives	4,397	—	—	—	—	—	4,397	—
Processing and marketing	8,356	20,500	—	—	—	—	8,356	20,500
Farm-related business	290	—	—	—	—	—	290	—
Power and water/waste disposal	1,746	—	—	—	—	—	1,746	—
International	857	—	—	—	—	—	857	—
Total	<u>\$ 46,543</u>	<u>\$ 32,697</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 46,543</u>	<u>\$ 32,697</u>

December 31, 2018

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 10,447	\$ 11,094	\$ -	\$ -	\$ -	\$ -	\$ 10,447	\$ 11,094
Production and intermediate-term	20,342	2,782	-	-	-	-	20,342	2,782
Loans to cooperatives	2,496	-	-	-	-	-	2,496	-
Processing and marketing	7,422	21,175	-	-	-	-	7,422	21,175
Farm-related business	1,342	-	-	-	-	-	1,342	-
Power and water/waste disposal	1,765	-	-	-	-	-	1,765	-
International	857	-	-	-	-	-	857	-
Total	\$ 44,671	\$ 35,051	\$ -	\$ -	\$ -	\$ -	\$ 44,671	\$ 35,051

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

	March 31, 2019			
	Due Less Than 1 Year	Due 1 Through 5 Years	Due After 5 Years	Total
Real estate mortgage	\$ 6,645	\$ 26,516	\$ 221,587	\$ 254,748
Production and intermediate-term	85,107	77,021	38,095	200,223
Loans to cooperatives	300	894	3,853	5,047
Processing and marketing	23	9,132	6,864	16,019
Farm-related business	4,549	3,586	206	8,341
Power and water/waste disposal	-	-	1,738	1,738
Rural residential real estate	-	188	3,825	4,013
International	-	686	170	856
Lease receivables	-	62	-	62
Total loans	\$ 96,624	\$ 118,085	\$ 276,338	\$ 491,047
Percentage	19.68%	24.05%	56.27%	100.00%

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

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

	March 31, 2019	December 31, 2018		March 31, 2019	December 31, 2018
Real estate mortgage:			Power and water/waste disposal:		
Acceptable	91.10%	91.39%	Acceptable	100.00%	100.00%
OAEM	6.61	5.59	OAEM	-	-
Substandard/doubtful/loss	2.29	3.02	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Production and intermediate-term:			Rural residential real estate:		
Acceptable	85.09%	86.44%	Acceptable	92.67%	92.18%
OAEM	10.37	6.93	OAEM	7.33	7.82
Substandard/doubtful/loss	4.54	6.63	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Loans to cooperatives:			International:		
Acceptable	100.00%	100.00%	Acceptable	100.00%	100.00%
OAEM	-	-	OAEM	-	-
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Processing and marketing:			Lease receivables:		
Acceptable	100.00%	100.00%	Acceptable	100.00%	100.00%
OAEM	-	-	OAEM	-	-
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Farm-related business:			Total loans:		
Acceptable	79.65%	96.67%	Acceptable	88.89%	89.70%
OAEM	20.35	3.33	OAEM	8.07	5.91
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	3.04	4.39
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>

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

March 31, 2019					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	\$ 495	\$ 2,776	\$ 3,271	\$ 254,866	\$ 258,137
Production and intermediate-term	4,606	2,592	7,198	196,379	203,577
Loans to cooperatives	-	-	-	5,051	5,051
Processing and marketing	-	-	-	16,115	16,115
Farm-related business	-	-	-	8,466	8,466
Power and water/waste disposal	-	-	-	1,739	1,739
Rural residential real estate	-	-	-	4,030	4,030
International	-	-	-	858	858
Lease receivables	-	-	-	63	63
Total	\$ 5,101	\$ 5,368	\$ 10,469	\$ 487,567	\$ 498,036

December 31, 2018					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	\$ 1,219	\$ 2,640	\$ 3,859	\$ 243,164	\$ 247,023
Production and intermediate-term	1,893	4,655	6,548	214,996	221,544
Loans to cooperatives	-	-	-	3,155	3,155
Processing and marketing	-	-	-	16,280	16,280
Farm-related business	-	-	-	9,512	9,512
Power and water/waste disposal	-	-	-	1,758	1,758
Rural residential real estate	151	-	151	3,681	3,832
International	-	-	-	858	858
Lease receivables	-	-	-	68	68
Total	\$ 3,263	\$ 7,295	\$ 10,558	\$ 493,472	\$ 504,030

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

	March 31, 2019	December 31, 2018
Nonaccrual loans:		
Real estate mortgage	\$ 4,874	\$ 5,266
Production and intermediate-term	7,525	13,812
Total	\$ 12,399	\$ 19,078
Accruing restructured loans:		
Real estate mortgage	\$ 6,719	\$ 6,655
Production and intermediate-term	312	264
Lease receivables	63	68
Total	\$ 7,094	\$ 6,987
Accruing loans 90 days or more past due:		
Total	\$ -	\$ -
Total nonperforming loans	\$ 19,493	\$ 26,065
Other property owned	1,337	822
Total nonperforming assets	\$ 20,830	\$ 26,887
Nonaccrual loans as a percentage of total loans	2.53%	3.85%
Nonperforming assets as a percentage of total loans and other property owned	4.23%	5.42%
Nonperforming assets as a percentage of capital	23.25%	30.63%

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

	March 31, 2019	December 31, 2018
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 5,327	\$ 9,368
Past due	7,072	9,710
Total	\$ 12,399	\$ 19,078
Impaired accrual loans:		
Restructured	\$ 7,094	\$ 6,987
90 days or more past due	-	-
Total	\$ 7,094	\$ 6,987
Total impaired loans	\$ 19,493	\$ 26,065
Additional commitments to lend	\$ 444	\$ 298

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

Impaired loans:	March 31, 2019			Three Months Ended March 31, 2019	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	\$ 4,357	\$ 4,350	\$ 420	\$ 5,400	\$ 96
Production and intermediate-term	3,688	3,879	643	4,572	82
Total	\$ 8,045	\$ 8,229	\$ 1,063	\$ 9,972	\$ 178
With no related allowance for credit losses:					
Real estate mortgage	\$ 7,236	\$ 9,076	\$ –	\$ 8,971	\$ 161
Production and intermediate-term	4,149	7,689	–	5,143	92
Rural residential real estate	–	12	–	–	–
Lease receivables	63	62	–	78	1
Total	\$ 11,448	\$ 16,839	\$ –	\$ 14,192	\$ 254
Total impaired loans:					
Real estate mortgage	\$ 11,593	\$ 13,426	\$ 420	\$ 14,371	\$ 257
Production and intermediate-term	7,837	11,568	643	9,715	174
Rural residential real estate	–	12	–	–	–
Lease receivables	63	62	–	78	1
Total	\$ 19,493	\$ 25,068	\$ 1,063	\$ 24,164	\$ 432

Impaired loans:	December 31, 2018			Year Ended December 31, 2018	
	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	\$ 4,399	\$ 4,468	\$ 415	\$ 4,286	\$ 93
Production and intermediate-term	8,605	8,669	2,650	8,385	182
Total	\$ 13,004	\$ 13,137	\$ 3,065	\$ 12,671	\$ 275
With no related allowance for credit losses:					
Real estate mortgage	\$ 7,522	\$ 9,362	\$ –	\$ 7,331	\$ 159
Production and intermediate-term	5,471	6,228	–	5,331	116
Rural residential real estate	–	14	–	–	–
Lease receivables	68	68	–	66	1
Total	\$ 13,061	\$ 15,672	\$ –	\$ 12,728	\$ 276
Total impaired loans:					
Real estate mortgage	\$ 11,921	\$ 13,830	\$ 415	\$ 11,617	\$ 252
Production and intermediate-term	14,076	14,897	2,650	13,716	298
Rural residential real estate	–	14	–	–	–
Lease receivables	68	68	–	66	1
Total	\$ 26,065	\$ 28,809	\$ 3,065	\$ 25,399	\$ 551

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*	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivables	Total
Activity related to the allowance for credit losses:								
Balance at December 31, 2018	\$ 3,124	\$ 9,177	\$ 463	\$ 12	\$ 19	\$ 9	\$ -	\$ 12,804
Charge-offs	(130)	(2,789)	-	-	-	-	-	(2,919)
Recoveries	-	97	-	-	-	-	-	97
Provision for loan losses	308	491	21	-	1	-	-	821
Balance at March 31, 2019	\$ 3,302	\$ 6,976	\$ 484	\$ 12	\$ 20	\$ 9	\$ -	\$ 10,803
Balance at December 31, 2017	\$ 2,879	\$ 7,432	\$ 377	\$ 14	\$ 22	\$ 9	\$ 111	\$ 10,844
Charge-offs	-	(32)	-	-	-	-	-	(32)
Recoveries	-	53	-	-	-	-	-	53
Provision for loan losses	112	422	3	-	(1)	-	(29)	507
Balance at March 31, 2018	\$ 2,991	\$ 7,875	\$ 380	\$ 14	\$ 21	\$ 9	\$ 82	\$ 11,372
Allowance on loans evaluated for impairment:								
Individually	\$ 420	\$ 643	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,063
Collectively	2,882	6,333	484	12	20	9	-	9,740
Balance at March 31, 2019	\$ 3,302	\$ 6,976	\$ 484	\$ 12	\$ 20	\$ 9	\$ -	\$ 10,803
Individually	\$ 415	\$ 2,650	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,065
Collectively	2,709	6,527	463	12	19	9	-	9,739
Balance at December 31, 2018	\$ 3,124	\$ 9,177	\$ 463	\$ 12	\$ 19	\$ 9	\$ -	\$ 12,804
Recorded investment in loans evaluated for impairment:								
Individually	\$ 11,593	\$ 7,837	\$ -	\$ -	\$ -	\$ -	\$ 63	\$ 19,493
Collectively	246,544	195,740	29,632	1,739	4,030	858	-	478,543
Balance at March 31, 2019	\$ 258,137	\$ 203,577	\$ 29,632	\$ 1,739	\$ 4,030	\$ 858	\$ 63	\$ 498,036
Individually	\$ 11,921	\$ 14,076	\$ -	\$ -	\$ -	\$ -	\$ 68	\$ 26,065
Collectively	235,102	207,468	28,947	1,758	3,832	858	-	477,965
Balance at December 31, 2018	\$ 247,023	\$ 221,544	\$ 28,947	\$ 1,758	\$ 3,832	\$ 858	\$ 68	\$ 504,030

*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.

Three Months Ended March 31, 2019					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Production and intermediate-term	\$ -	\$ 64	\$ -	\$ 64	
Total	\$ -	\$ 64	\$ -	\$ 64	
Post-modification:					
Production and intermediate-term	\$ -	\$ 64	\$ -	\$ 64	\$ -
Total	\$ -	\$ 64	\$ -	\$ 64	\$ -
Three Months Ended March 31, 2018					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Production and intermediate-term	\$ -	\$ 92	\$ -	\$ 92	
Total	\$ -	\$ 92	\$ -	\$ 92	
Post-modification:					
Production and intermediate-term	\$ -	\$ 92	\$ -	\$ 92	\$ -
Total	\$ -	\$ 92	\$ -	\$ 92	\$ -

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.

The following table presents outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

	Three Months Ended March 31,	
	2019	2018
Defaulted troubled debt restructurings:		
Production and intermediate-term	\$ —	\$ 58
Total	\$ —	\$ 58

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

	Total TDRs		Nonaccrual TDRs	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Real estate mortgage	\$ 6,719	\$ 6,655	\$ —	\$ —
Production and intermediate-term	1,283	3,663	971	3,399
Lease receivables	63	68	—	—
Total loans	\$ 8,065	\$ 10,386	\$ 971	\$ 3,399
Additional commitments to lend	\$ —	\$ —		

The following table presents information as of period end:

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

Note 3 — Investments

Investments in Debt Securities

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have different eligibility requirements. At March 31, 2019, the Association held one RABs totaling \$172 whose credit quality had deteriorated beyond the program limits.

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

	March 31, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 9,254	\$ 556	\$ —	\$ 9,810	5.90%

	December 31, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 9,268	\$ 350	\$ (6)	\$ 9,612	5.90%

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

	March 31, 2019		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ —	\$ —	—%
After one year through five years	847	890	7.15
After five years through ten years	—	—	—
After ten years	8,407	8,920	5.78
Total	\$ 9,254	\$ 9,810	5.90%

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 table shows the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category for the period presented. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified. At March 31, 2019, the Association had no investments that were in a continuous unrealized loss position.

	December 31, 2018			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	\$ —	\$ —	\$ 460	\$ (6)

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.

Based on the results of all analyses, the Association has recognized no credit-related other-than-temporary impairment related to investment securities in the Statements of Income for the three months ended March 31, 2019 or 2018 and there was no accretion to interest income of previously recognized credit impairment for the three months ended March 31, 2019 or 2018. Only one substandard security had previously recognized a credit impairment, and the final settlement payment for the disposition of collateral for this security was received in December 2018.

For all other impaired investments, the Association has not recognized any credit losses as the 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.

The following schedule details the activity related to cumulative credit losses on investments recognized in earnings.

	Three Months Ended March 31,	
	2019	2018
Amount related to credit loss-beginning balance	\$ —	\$ 2,024
Additions for initial credit impairments	—	—
Additions for subsequent credit impairments	—	—
Reductions for increases in expected cash flows	—	—
Reductions for securities sold, settled, or matured	—	—
Amount related to credit loss-ending balance	\$ —	\$ 2,024
Life to date incurred credit losses	—	—
Remaining unrealized credit losses	\$ —	\$ 2,024

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 2.05 percent of the issued stock of the Bank as of March 31, 2019 net of any reciprocal investment. As of that date, the Bank's assets totaled \$32.7 billion and shareholders' equity totaled \$2.3 billion. The Bank's earnings were \$67 million for the first three months of 2019. In addition, the Association held investments of \$381 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of

the Association's assets. The contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

	Changes in Accumulated Other Comprehensive Income by Component (a)	
	Three Months Ended March 31,	
	2019	2018
Unrealized Gains (Losses) on Investments:		
Balance at beginning of period	\$ 300	\$ 392
Other comprehensive income before reclassifications	—	—
Amounts reclassified from AOCI	(4)	(6)
Net current period other comprehensive income	(4)	(6)
Balance at end of period	\$ 296	\$ 386
Employee Benefit Plans:		
Balance at beginning of period	\$ (226)	\$ (267)
Other comprehensive income before reclassifications	—	—
Amounts reclassified from AOCI	2	2
Net current period other comprehensive income	2	2
Balance at end of period	\$ (224)	\$ (265)
Accumulated Other Comprehensive Income:		
Balance at beginning of period	\$ 74	\$ 125
Other comprehensive income before reclassifications	—	—
Amounts reclassified from AOCI	(2)	(4)
Net current period other comprehensive income	(2)	(4)
Balance at end of period	\$ 72	\$ 121

	Reclassifications Out of Accumulated Other Comprehensive Income (b)		
	Three Months Ended March 31,		
	2019	2018	Income Statement Line Item
Investment Securities:			
Sales gains & losses	\$ —	\$ —	Gains (losses) on investments, net
Holding gains & losses	—	—	Net other-than-temporary impairment
Amortization	4	6	Interest income on investments
Net amounts reclassified	4	6	
Defined Benefit Pension Plans:			
Periodic pension costs	(2)	(2)	See Note 7.
Net amounts reclassified	(2)	(2)	
Total reclassifications for period	\$ 2	\$ 4	

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

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

		March 31, 2019				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<u>Recurring Measurements</u>						
Assets:						
Assets held in trust funds	\$	846	\$ 846	\$ –	\$ –	\$ 846
Recurring Assets	\$	846	\$ 846	\$ –	\$ –	\$ 846
Liabilities:						
Recurring Liabilities	\$	–	\$ –	\$ –	\$ –	\$ –
<u>Nonrecurring Measurements</u>						
Assets:						
Impaired loans	\$	6,982	\$ –	\$ –	\$ 6,982	\$ 6,982
Other property owned		1,337	–	–	1,467	1,467
Nonrecurring Assets	\$	8,319	\$ –	\$ –	\$ 8,449	\$ 8,449
<u>Other Financial Instruments</u>						
Assets:						
Cash	\$	69	\$ 69	\$ –	\$ –	\$ 69
Investments in debt securities, held-to-maturity		9,254	–	–	9,810	9,810
Loans		473,262	–	–	469,290	469,290
Other Financial Assets	\$	482,585	\$ 69	\$ –	\$ 479,100	\$ 479,169
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	408,942	\$ –	\$ –	\$ 408,530	\$ 408,530
Other Financial Liabilities	\$	408,942	\$ –	\$ –	\$ 408,530	\$ 408,530
		December 31, 2018				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<u>Recurring Measurements</u>						
Assets:						
Assets held in trust funds	\$	704	\$ 704	\$ –	\$ –	\$ 704
Recurring Assets	\$	704	\$ 704	\$ –	\$ –	\$ 704
Liabilities:						
Recurring Liabilities	\$	–	\$ –	\$ –	\$ –	\$ –
<u>Nonrecurring Measurements</u>						
Assets:						
Impaired loans	\$	9,939	\$ –	\$ –	\$ 9,939	\$ 9,939
Other property owned		822	–	–	887	887
Nonrecurring Assets	\$	10,761	\$ –	\$ –	\$ 10,826	\$ 10,826
<u>Other Financial Instruments</u>						
Assets:						
Cash	\$	48	\$ 48	\$ –	\$ –	\$ 48
Investments in debt securities, held-to-maturity		9,268	–	–	9,612	9,612
Loans		472,425	–	–	464,880	464,880
Other Financial Assets	\$	481,741	\$ 48	\$ –	\$ 474,492	\$ 474,540
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	418,933	\$ –	\$ –	\$ 415,125	\$ 415,125
Other Financial Liabilities	\$	418,933	\$ –	\$ –	\$ 415,125	\$ 415,125

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	\$ 8,449	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 March 31,	
	2019	2018
Pension	\$ 195	\$ 268
401(k)	80	77
Other postretirement benefits	47	48
Total	\$ 322	\$ 393

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

	Actual YTD Through 3/31/19	Projected Contributions For Remainder of 2019	Projected Total Contributions 2019
Pension	\$ 13	\$ 784	\$ 797
Other postretirement benefits	47	134	181
Total	\$ 60	\$ 918	\$ 978

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, 2019.

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

Note 8 — Commitments and Contingent Liabilities

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

Note 9 — Subsequent Events

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