
Farm Credit of Central Florida, ACA
FIRST QUARTER 2018

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2018 quarterly report of Farm Credit of Central Florida, 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.



Reginald T. Holt
Chief Executive Officer



Anne M. Sullivan
Chief Financial Officer



Keith D. Mixon
Chairman of the Audit committee

May 9, 2018

Farm Credit of Central Florida, ACA

Report on Internal Control Over Financial Reporting

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

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2018. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of March 31, 2018, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2018.



Reginald T. Holt
Chief Executive Officer



Anne M. Sullivan
Chief Financial Officer

May 9, 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 Farm Credit of Central Florida, ACA, (Association) for the period ended March 31, 2018. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2017 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

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

The Association's territory was greatly affected by Hurricane Irma in September, 2017. While it is expected to have a substantial impact on crop production and agriculture in the State of Florida for the next several years, it is not expected to have a material impact on the Association's financial condition or the results of operations.

March 31, 2018 compared to December 31, 2017

Loan volume of the Association as of March 31, 2018, was \$514,413, a decrease of \$19,106 as compared to \$533,519 at December 31, 2017. Net loans outstanding at March 31, 2018, were \$510,373 as compared to \$529,334 at December 31, 2017. The Association has investment securities that are classified as held to maturity in the amount of \$11,705 at March 31, 2018, as compared to \$13,029 at December 31, 2017. Net loans and investment securities accounted for 97.75 percent of total assets at March 31, 2018, as compared to 96.54 percent of total assets at December 31, 2017.

The Association's total servicing portfolio has increased to \$911,435 as compared to \$902,074 at December 31, 2017, due in large part to new money closings exceeding run-off and liquidations. The decrease in net loan volume is due to run-off

and liquidations exceeding new money closings. The short-term portfolio, which is heavily influenced by operating loans, normally reaches a peak balance between October and December and declines between January and June as strawberry and other winter vegetable growers pay down their loans using proceeds from the sale of their crops. The result of this normal seasonal lending activity causes net loan volume to decrease on revolving credit lines.

March 31, 2018 compared to March 31, 2017

Loan volume of the Association as of March 31, 2018, was \$514,413, an increase of \$24,885 as compared to \$489,528 at March 31, 2017. Net loans outstanding at March 31, 2018, were \$510,373 as compared to \$484,988 at March 31, 2017. The Association has investment securities that are classified as held to maturity in the amount of \$11,705 at March 31, 2018, as compared to \$17,811 at March 31, 2017. Net loans and investment securities accounted for 97.75 percent of total assets at March 31, 2018, as compared to 97.12 percent of total assets at March 31, 2017.

The Association's total servicing portfolio has increased to \$911,435 as compared to \$906,443 at March 31, 2017, due to new money closings exceeding run-off and liquidations over the past twelve months.

ASSET QUALITY AND LOAN LOSS RESERVES

There is an inherent risk in the extension of any type of credit. Portfolio credit quality has improved slightly as compared to year end as a result of a decrease in substandard assets. Acceptable and OAEM credit quality as a percentage of total loan portfolio was 97.66% as of March 31, 2018, compared to 97.78% at December 31, 2017 and 95.35% at March 31, 2017. Substandard credit quality was 2.34% as of March 31, 2018, compared to 2.22% at December 31, 2017. The actual substandard asset volume has increased by \$223 from year-end December 31, 2017. Nonaccrual loan volume was \$7,597 at March 31, 2018, compared to \$8,179 at December 31, 2017 and \$7,241 at March 31, 2017, a decrease of \$482 and increase of \$356, respectively. The majority of the loan assets in nonaccrual are in the nursery and fruits and vegetables industries.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2018, was \$4,040

compared to \$4,185 at December 31, 2017, and \$4,540 at March 31, 2017, and is considered by management to be adequate to cover possible losses. The allowance for loan loss is broken down between specific reserves assigned to an individual loan and general reserves which are available for the possible losses within the entire portfolio. The current allowance for loan loss at March 31, 2018, contains \$2,051 in specific reserves and \$1,989 in general reserves, of which \$1,037 is allocated to the citrus portfolio. The following outlines the allowance for loan loss activity as of March 31, 2018.

Allowance for Loan Losses Activity:	YTD 2018
Balance at beginning of period	\$ 4,185
Charge-offs	(1)
Recoveries	6
Provisions/(Reversals)-General	20
Provisions/(Reversals)-Specifics	(170)
Balance at end of period	<u>\$ 4,040</u>

The decrease in allowance for loan losses compared to December 2017 was a direct result of an allowance reversals during 2018 within the fruits and vegetable and strawberry industries. The reversals are due to improved asset quality since December 2017. Chargeoffs are funded through the allowance from previous and/or current increases in the provision for loan losses.

RESULTS OF OPERATIONS

For the three months ended March 31, 2018

Net income for the three months ended March 31, 2018, totaled \$2,511, as compared to \$2,281 for the same period in 2017. The increase of \$230 for the period is associated directly with an increase in gains on sales of rural home loans coupled with a refund from the Farm Credit System Insurance Fund.

Net interest income decreased \$38 for the three months ended March 31, 2018, as compared to the same period in 2017. The primary reason for the decrease in net interest income is decreased income from investments and recovery income from nonaccrual loans offset by higher loan volumes. Net interest income for the three months ending March 31, 2018, is shown in the following table:

Net Interest Income	For the three months ended March 31,			
	2018	2017	\$ change	% change
Investment Interest Income	\$ 46	\$ 126	\$ (80)	(63.49)%
Loan Interest Income	6,321	5,604	707	12.79
Total Interest Income	6,367	5,730	637	11.12
Total Interest Expense	3,122	2,447	675	27.59
Net Interest Income	<u>\$ 3,245</u>	<u>\$ 3,283</u>	<u>\$ (38)</u>	<u>(1.16)%</u>

Allowance for loan loss activity for the quarter consisted of \$150 reversal for the period compared to a \$228 reversal for the same period prior year. Provisions for loan losses for the three months ending March 31, 2018 are shown in the following table:

Provisions/(Reversals) for Loan Losses	For the three months ended March 31,			
	2018	2017	\$ change	% change
General Reserves	\$ 20	\$ 51	\$ (31)	(60.78)%
Specific Reserves	(170)	(279)	109	39.07
Total Provisions/(Reversals)	<u>\$ (150)</u>	<u>\$ (228)</u>	<u>\$ 78</u>	<u>34.21%</u>

Noninterest income for the three months ended March 31, 2018, totaled \$1,649, as compared to \$1,337 for the same period of 2017, an increase of \$312. The increase is the result of a refund from the Farm Credit System Insurance Fund and increased gains on sales of rural home loans. During the first quarter of 2018, the Association recorded \$272 of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the system's debt obligations. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act. Noninterest income for the three months ending March 31, 2018, is shown in the following table:

Noninterest Income	For the three months ended March 31,			
	2018	2017	\$ change	% change
Loan fees	\$ 94	\$ 99	\$ (5)	(5.05)%
Fees for financially related services	1	24	(23)	(95.83)
Patronage refunds from other				
Farm Credit Institutions	1,174	1,171	3	0.26
Gains (losses) on sales of rural				
home loans, net	103	22	81	368.18
Gains (losses) on other transactions	5	19	(14)	(73.68)
Insurance Fund refund	272	-	272	100.00
Other noninterest income	-	2	(2)	(100.00)
Total noninterest income	<u>\$ 1,649</u>	<u>\$ 1,337</u>	<u>\$ 312</u>	<u>23.33%</u>

Noninterest expense for the three months ended March 31, 2018, decreased \$34 compared to the same period of 2017, primarily due to a reduction in salaries and employee benefits and decreased Insurance Fund Premium expenses due to lower premiums offset by increased other operating expenses. The Farm Credit System Insurance Corporation (FCSIC) has set the premium to 9 basis points (compared to 16 basis points during the first quarter of 2017) on adjusted insured debt outstanding with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans. The primary reason for the increase in other operating expense is increased guarantee fees and training expenses. Noninterest expense for the three months ending March 31, 2018 is shown in the following table:

Noninterest Expense	For the three months ended March 31,			
	2018	2017	\$ change	% change
Salary and employee benefits	\$ 1,591	\$ 1,661	\$ (70)	(4.21)%
Occupancy and equipment	176	159	17	10.69
Insurance Fund Premium	94	145	(51)	(35.17)
(Gains) losses on other property owned, net	-	4	(4)	(100.00)
Other operating expenses	672	598	74	12.37
Total noninterest expense	\$ 2,533	\$ 2,567	\$ (34)	(1.32)%

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, 2018, was \$420,338 as compared to \$443,696 at December 31, 2017. The decrease is attributable to pay downs on loans received during the normal course of business being greater than borrowings to fund new loan advances.

CAPITAL RESOURCES

Total members' equity at March 31, 2018, increased to \$105,266 from the December 31, 2017, total of \$102,739. The increase is primarily attributed to the increase in unallocated surplus resulting from net income.

Total capital stock and participation certificates were \$897 on March 31, 2018, compared to \$900 on December 31, 2017. This decrease is attributed to the retirement of stock and participation certificates in the normal course of business.

FCA sets minimum regulatory capital requirements with a capital conservation buffer for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios.

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of March 31, 2018
Risk-adjusted ratios:				
CET1 Capital	4.5%	0.625%	5.125%	19.12%
Tier 1 Capital	6.0%	0.625%	6.625%	19.12%
Total Capital	8.0%	0.625%	8.625%	19.93%
Permanent Capital Ratio	7.0%	0.0%	7.0%	19.30%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	18.14%
UREE Leverage Ratio	1.5%	0.0%	1.5%	14.46%

* - 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 all periods presented, the Association exceeded minimum regulatory standards for all capital ratios.

BOARD RESTRUCTURING

Mr. Robert R. Roberson's 3 year term as Chairman of the Board ended effective April 30, 2018. Mr. W. Rex Clonts, Jr. was appointed Chairman of the Board by the Board of Directors and assumed this role effective May 1, 2018. Mr. Keith D. Mixon will replace Mr. Clonts as Vice Chairman of the Board of Directors.

REGULATORY MATTERS

On July 25, 2014, the FCA published a proposed rule in the Federal Register to revise the requirements governing the

eligibility of investments for System banks and associations. The public comment period ended on October 23, 2014. The FCA expects to issue a final regulation in 2018. The stated objectives of the proposed rule are as follows:

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

- To comply with the requirements of Section 939A of the Dodd-Frank Act,
- To modernize the investment eligibility criteria for System banks, and

- To revise the investment regulation for System associations to improve their investment management practices so they are more resilient to risk.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2017 Annual Report to Shareholders for recently issued accounting pronouncements. Additional information is provided in the table below.

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
<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"> • 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 debt securities, 3. The nonaccretible 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.
<i>ASU 2016-02 – Leases (Topic 842)</i>	
<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. • 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 it is early in the implementation process and the impact will continue to be evaluated. • The Association is evaluating existing disclosures and may need to provide additional information as a result of adopting the Update. • The Association expects to adopt the guidance in first quarter 2019 using the modified retrospective method and practical expedients for transition.

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst’s annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, www.agfirst.com. Copies of the Association’s annual and quarterly reports are also available upon request free of charge by calling 1-800-533-2773, or writing Anne M. Sullivan, CFO, Farm Credit of Central Florida, ACA, P.O. Box 8009, Lakeland, FL 33802, or accessing the website, www.farmcreditfl.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.

Farm Credit Of Central Florida, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2018 <i>(unaudited)</i>	December 31, 2017 <i>(audited)</i>
Assets		
Cash	\$ 14	\$ 53
Investments in debt securities: Held to maturity (fair value of \$11,975 and \$13,278, respectively)	11,705	13,029
Loans	514,413	533,519
Allowance for loan losses	(4,040)	(4,185)
Net loans	510,373	529,334
Loans held for sale	25	676
Accrued interest receivable	2,440	1,963
Equity investments in other Farm Credit institutions	6,382	6,318
Premises and equipment, net	946	856
Accounts receivable	1,606	8,951
Other assets	609	634
Total assets	\$ 534,100	\$ 561,814
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 420,338	\$ 443,696
Accrued interest payable	1,085	1,052
Patronage refunds payable	804	4,872
Accounts payable	295	1,710
Other liabilities	6,312	7,745
Total liabilities	428,834	459,075
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	897	900
Retained earnings		
Allocated	24,588	24,588
Unallocated	80,332	77,821
Accumulated other comprehensive income (loss)	(551)	(570)
Total members' equity	105,266	102,739
Total liabilities and members' equity	\$ 534,100	\$ 561,814

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

Farm Credit Of Central Florida, ACA

Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended March 31,	
	2018	2017
Interest Income		
Loans	\$ 6,321	\$ 5,604
Investments	46	126
Total interest income	6,367	5,730
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	3,122	2,447
Net interest income	3,245	3,283
Provision for (reversal of allowance for) loan losses	(150)	(228)
Net interest income after provision for (reversal of allowance for) loan losses	3,395	3,511
Noninterest Income		
Loan fees	94	99
Fees for financially related services	1	24
Patronage refunds from other Farm Credit institutions	1,174	1,171
Gains (losses) on sales of rural home loans, net	103	22
Gains (losses) on other transactions	5	19
Insurance Fund refund	272	—
Other noninterest income	—	2
Total noninterest income	1,649	1,337
Noninterest Expense		
Salaries and employee benefits	1,591	1,661
Occupancy and equipment	176	159
Insurance Fund premiums	94	145
(Gains) losses on other property owned, net	—	4
Other operating expenses	672	598
Total noninterest expense	2,533	2,567
Net income	\$ 2,511	\$ 2,281

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

Farm Credit Of Central Florida, ACA
Consolidated Statements of
Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended March 31,	
	2018	2017
Net income	\$ 2,511	\$ 2,281
Other comprehensive income net of tax		
Employee benefit plans adjustments	<u>19</u>	<u>14</u>
Comprehensive income	<u>\$ 2,530</u>	<u>\$ 2,295</u>

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

Farm Credit Of Central Florida, ACA
Consolidated Statements of Changes in
Members' Equity

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2016	\$ 861	\$ 26,269	\$ 70,166	\$ (499)	\$ 96,797
Comprehensive income			2,281	14	2,295
Capital stock/participation certificates issued/(retired), net	1				1
Balance at March 31, 2017	\$ 862	\$ 26,269	\$ 72,447	\$ (485)	\$ 99,093
Balance at December 31, 2017	\$ 900	\$ 24,588	\$ 77,821	\$ (570)	\$ 102,739
Comprehensive income			2,511	19	2,530
Capital stock/participation certificates issued/(retired), net	(3)				(3)
Balance at March 31, 2018	\$ 897	\$ 24,588	\$ 80,332	\$ (551)	\$ 105,266

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

Farm Credit of Central Florida, 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 Farm Credit of Central Florida, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2017, are contained in the 2017 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation

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

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

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

Significant Accounting Policies

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

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

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

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

Accounting Standards Updates (ASUs) Issued During the Period

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

- In February 2018, the FASB issued ASU 2018-03 Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this Update include items brought to the Board's attention by stakeholders. The amendments clarify certain aspects of the guidance issued in Update 2016-01 as described below. The amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. All entities may early adopt these amendments for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, as long as they have adopted Update 2016-01.
- In February 2018, the FASB issued ASU 2018-02 Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and are intended to improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The Update also requires certain disclosures about stranded tax effects. The guidance is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted.

ASUs Pending Effective Date

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

Potential effects of ASUs issued in previous periods:

- In March 2017, the FASB issued ASU 2017-08 Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The guidance relates to certain callable debt securities and shortens the amortization period for any premium to the earliest call date. The Update will be effective for interim and annual periods beginning after December 15, 2018 for public business entities. Early adoption is permitted. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to better estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- In February 2016, the FASB issued ASU 2016-02 Leases (Topic 842). This Update, and subsequent clarifying guidance issued, requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. The amendments will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities. Early adoption is permitted. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

Accounting Standards Effective During the Period

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

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

- In March 2017, the FASB issued ASU 2017-07 Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. The amendments were effective January 1, 2018 for the Association. Adoption in 2018 did not have a material effect on the Association's financial statements, but did require reclassification of service costs to Other Operating Expenses.
- In February 2017, the FASB issued ASU 2017-05 Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The Update clarifies whether certain transactions are within the scope of the guidance on derecognition and the accounting for partial sales of nonfinancial assets, and defines the term in substance nonfinancial asset. The amendments conform the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue standard. The amendments were effective January 1, 2018 for the Association. Adoption in 2018 had no impact on the statements of financial condition and results of operations of the Association.
- In January 2017, the FASB issued ASU 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments provide a more robust framework to use in determining when a set of assets and activities is a business. They also support more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable. The ASU was effective January 1, 2018 for the Association. The amendments were applied prospectively. Adoption of the guidance in 2018 had no impact on the statements of financial condition and results of operations.
- In January 2016, the FASB issued ASU 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The Update was intended to improve the recognition and measurement of financial instruments. The new guidance makes targeted improvements to existing GAAP.

Transition Information

- The Association identified investment securities affected by this Update and adopted the guidance on January 1, 2018.
 - The amendments related to equity securities without readily determinable fair values were applied prospectively to equity investments that existed as of the date of adoption.
 - Application of the amendments did not require a cumulative effect adjustment.
 - Adoption did not have an impact on the Association's financial condition or results of operations.
 - The new standard did result in changes to certain disclosures.
-
- In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers (Topic 606). This guidance changed the recognition of revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance also included expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Based on input received from stakeholders, the FASB issued several additional Updates that generally provided clarifying guidance where there was the potential for diversity in practice, or address the cost and complexity of applying Topic 606.

Transition Information

- The Association identified ancillary revenues affected by this Update and adopted the guidance on January 1, 2018.

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

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

	March 31, 2018	December 31, 2017
Real estate mortgage	\$ 280,588	\$ 276,252
Production and intermediate-term	130,187	153,523
Loans to cooperatives	1,689	1,378
Processing and marketing	58,690	56,244
Farm-related business	5,456	8,171
Communication	19,735	19,940
Power and water/waste disposal	3,821	3,831
Rural residential real estate	8,415	8,348
International	5,832	5,832
Total loans	<u>\$ 514,413</u>	<u>\$ 533,519</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, 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	\$ 5,199	\$ 57,524	\$ -	\$ 14,839	\$ -	\$ -	\$ 5,199	\$ 72,363
Production and intermediate-term	19,512	58,726	-	905	-	-	19,512	59,631
Loans to cooperatives	1,694	-	-	-	-	-	1,694	-
Processing and marketing	40,100	20,626	686	3,974	-	-	40,786	24,600
Communication	19,816	-	-	-	-	-	19,816	-
Power and water/waste disposal	3,833	-	-	-	-	-	3,833	-
International	5,841	-	-	-	-	-	5,841	-
Total	\$ 95,995	\$ 136,876	\$ 686	\$ 19,718	\$ -	\$ -	\$ 96,681	\$ 156,594

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	\$ 5,532	\$ 61,634	\$ -	\$ 14,937	\$ -	\$ -	\$ 5,532	\$ 76,571
Production and intermediate-term	26,894	76,718	-	9,039	-	-	26,894	85,757
Loans to cooperatives	1,383	-	-	-	-	-	1,383	-
Processing and marketing	39,916	6,046	-	-	-	-	39,916	6,046
Farm-related business	-	3,181	-	-	-	-	-	3,181
Communication	20,026	-	-	-	-	-	20,026	-
Power and water/waste disposal	3,843	-	-	-	-	-	3,843	-
International	5,841	-	-	-	-	-	5,841	-
Total	\$ 103,435	\$ 147,579	\$ -	\$ 23,976	\$ -	\$ -	\$ 103,435	\$ 171,555

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

March 31, 2018

	Due less than 1 year		Due 1 Through 5 years		Due after 5 years		Total
Real estate mortgage	\$ 9,363	\$ 39,481	\$ 231,744	\$ 280,588			
Production and intermediate-term	23,711	66,771	39,705	130,187			
Loans to cooperatives	-	1,689	-	1,689			
Processing and marketing	7,392	38,022	13,276	58,690			
Farm-related business	1,222	1,477	2,757	5,456			
Communication	231	14,054	5,450	19,735			
Power and water/waste disposal	-	-	3,821	3,821			
Rural residential real estate	300	471	7,644	8,415			
International	-	5,468	364	5,832			
Total loans	\$ 42,219	\$ 167,433	\$ 304,761	\$ 514,413			
Percentage	8.21%	32.55%	59.24%	100.00%			

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

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

	March 31, 2018	December 31, 2017		March 31, 2018	December 31, 2017
Real estate mortgage:			Communication:		
Acceptable	97.04%	96.71%	Acceptable	74.62%	100.00%
OAEM	1.28	1.51	OAEM	25.38	—
Substandard/doubtful/loss	1.68	1.78	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Power and water/waste disposal:		
Acceptable	90.58%	89.97%	Acceptable	100.00%	100.00%
OAEM	4.26	5.83	OAEM	—	—
Substandard/doubtful/loss	5.16	4.20	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
Loans to cooperatives			Rural residential real estate:		
Acceptable	100.00%	100.00%	Acceptable	91.23%	91.43%
OAEM	—	—	OAEM	1.88	3.49
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	6.89	5.08
	100.00%	100.00%		100.00%	100.00%
Processing and marketing:			International		
Acceptable	98.83%	99.99%	Acceptable	100.00%	100.00%
OAEM	1.17	0.01	OAEM	—	—
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
Farm-related business:			Total loans:		
Acceptable	100.00%	100.00%	Acceptable	94.75%	95.28%
OAEM	—	—	OAEM	2.91	2.51
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	2.34	2.21
	100.00%	100.00%		100.00%	100.00%

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

	March 31, 2018					Recorded Investment 90 Days or More Past Due and Accruing Interest
	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	\$ 455	\$ 322	\$ 777	281,302	\$ 282,079	\$ —
Production and intermediate-term	31	2,947	2,978	127,840	130,818	—
Loans to cooperatives	—	—	—	1,695	1,695	—
Processing and marketing	—	—	—	58,815	58,815	—
Farm-related business	—	—	—	5,472	5,472	—
Communication	—	—	—	19,744	19,744	—
Power and water/waste disposal	—	—	—	3,824	3,824	—
Rural residential real estate	44	433	477	7,979	8,456	—
International	—	—	—	5,855	5,855	—
Total	\$ 530	\$ 3,702	\$ 4,232	\$ 512,526	\$ 516,758	\$ —

	December 31, 2017					Recorded Investment 90 Days or More Past Due and Accruing Interest
	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	\$ 443	\$ 56	\$ 499	\$ 277,020	\$ 277,519	\$ —
Production and intermediate-term	1,484	2,990	4,474	149,449	153,923	—
Loans to cooperatives	—	—	—	1,382	1,382	—
Processing and marketing	—	—	—	56,342	56,342	—
Farm-related business	—	—	—	8,200	8,200	—
Communication	—	—	—	19,949	19,949	—
Power and water/waste disposal	—	—	—	3,833	3,833	—
Rural residential real estate	99	84	183	8,197	8,380	—
International	—	—	—	5,852	5,852	—
Total	\$ 2,026	\$ 3,130	\$ 5,156	\$ 530,224	\$ 535,380	\$ —

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

	March 31, 2018	December 31, 2017
Nonaccrual loans:		
Real estate mortgage	\$ 1,817	\$ 1,861
Production and intermediate-term	5,304	5,892
Rural residential real estate	476	426
Total	<u>\$ 7,597</u>	<u>\$ 8,179</u>
Accruing restructured loans:		
Real estate mortgage	\$ 5,740	\$ 4,822
Production and intermediate-term	4,154	4,591
Rural residential real estate	338	345
Total	<u>\$ 10,232</u>	<u>\$ 9,758</u>
Accruing loans 90 days or more past due:		
Total	\$ -	\$ -
Total nonperforming loans	\$ 17,829	\$ 17,937
Other property owned	-	-
Total nonperforming assets	<u>\$ 17,829</u>	<u>\$ 17,937</u>
Nonaccrual loans as a percentage of total loans	1.48%	1.53%
Nonperforming assets as a percentage of total loans and other property owned	3.47%	3.36%
Nonperforming assets as a percentage of capital	<u>16.94%</u>	<u>17.46%</u>

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

	March 31, 2018	December 31, 2017
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 3,797	\$ 4,192
Past due	3,800	3,987
Total	<u>\$ 7,597</u>	<u>\$ 8,179</u>
Impaired accrual loans:		
Restructured	\$ 10,232	\$ 9,758
90 days or more past due	-	-
Total	<u>\$ 10,232</u>	<u>\$ 9,758</u>
Total impaired loans	<u>\$ 17,829</u>	<u>\$ 17,937</u>
Additional commitments to lend	\$ 1	\$ 1,125

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

	March 31, 2018			Three Months Ended March 31, 2018	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans:					
With a related allowance for credit losses:					
Real estate mortgage	\$ 1,440	\$ 1,582	\$ 178	\$ 1,447	\$ 16
Production and intermediate-term	7,962	8,336	1,738	8,002	87
Rural residential real estate	729	854	135	733	8
Total	<u>\$ 10,131</u>	<u>\$ 10,772</u>	<u>\$ 2,051</u>	<u>\$ 10,182</u>	<u>\$ 111</u>
With no related allowance for credit losses:					
Real estate mortgage	\$ 6,117	\$ 6,233	\$ -	\$ 6,149	\$ 67
Production and intermediate-term	1,496	3,066	-	1,503	16
Rural residential real estate	85	149	-	85	1
Total	<u>\$ 7,698</u>	<u>\$ 9,448</u>	<u>\$ -</u>	<u>\$ 7,737</u>	<u>\$ 84</u>
Total:					
Real estate mortgage	\$ 7,557	\$ 7,815	\$ 178	\$ 7,596	\$ 83
Production and intermediate-term	9,458	11,402	1,738	9,505	103
Rural residential real estate	814	1,003	135	818	9
Total	<u>\$ 17,829</u>	<u>\$ 20,220</u>	<u>\$ 2,051</u>	<u>\$ 17,919</u>	<u>\$ 195</u>

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	\$ 924	\$ 976	\$ 147	\$ 946	\$ 58
Production and intermediate-term	8,702	9,047	2,000	8,912	543
Rural residential real estate	509	540	70	521	32
Total	\$ 10,135	\$ 10,563	\$ 2,217	\$ 10,379	\$ 633
With no related allowance for credit losses:					
Real estate mortgage	\$ 5,759	\$ 5,957	\$ —	\$ 5,898	\$ 359
Production and intermediate-term	1,781	3,362	—	1,824	112
Rural residential real estate	262	419	—	268	16
Total	\$ 7,802	\$ 9,738	\$ —	\$ 7,990	\$ 487
Total:					
Real estate mortgage	\$ 6,683	\$ 6,933	\$ 147	\$ 6,844	\$ 417
Production and intermediate-term	10,483	12,409	2,000	10,736	655
Rural residential real estate	771	959	70	789	48
Total	\$ 17,937	\$ 20,301	\$ 2,217	\$ 18,369	\$ 1,120

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:								
Balance at December 31, 2017	\$ 1,116	\$ 2,833	\$ 85	\$ 48	\$ 4	\$ 96	\$ 3	\$ 4,185
Charge-offs	—	—	—	—	—	(1)	—	(1)
Recoveries	4	—	—	—	—	2	—	6
Provision for loan losses	11	(252)	5	11	2	74	(1)	(150)
Balance at March 31, 2018	\$ 1,131	\$ 2,581	\$ 90	\$ 59	\$ 6	\$ 171	\$ 2	\$ 4,040
Balance at December 31, 2016	\$ 1,481	\$ 3,096	\$ 90	\$ 25	\$ —	\$ 71	\$ 3	\$ 4,766
Charge-offs	(2)	(39)	—	—	—	—	—	(41)
Recoveries	28	14	—	—	—	1	—	43
Provision for loan losses	71	(303)	(1)	11	—	(6)	—	(228)
Balance at March 31, 2017	\$ 1,578	\$ 2,768	\$ 89	\$ 36	\$ —	\$ 66	\$ 3	\$ 4,540
Allowance on loans evaluated for impairment:								
Individually	\$ 178	\$ 1,738	\$ —	\$ —	\$ —	\$ 135	\$ —	\$ 2,051
Collectively	953	843	90	59	6	36	2	1,989
Balance at March 31, 2018	\$ 1,131	\$ 2,581	\$ 90	\$ 59	\$ 6	\$ 171	\$ 2	\$ 4,040
Individually	\$ 147	\$ 2,000	\$ —	\$ —	\$ —	\$ 70	\$ —	\$ 2,217
Collectively	969	833	85	48	4	26	3	1,968
Balance at December 31, 2017	\$ 1,116	\$ 2,833	\$ 85	\$ 48	\$ 4	\$ 96	\$ 3	\$ 4,185
Recorded investment in loans evaluated for impairment:								
Individually	\$ 7,109	\$ 9,769	\$ —	\$ —	\$ —	\$ 817	\$ —	\$ 17,695
Collectively	274,970	121,049	65,982	19,744	3,824	7,639	5,855	499,063
Balance at March 31, 2018	\$ 282,079	\$ 130,818	\$ 65,982	\$ 19,744	\$ 3,824	\$ 8,456	\$ 5,855	\$ 516,758
Individually	\$ 7,023	\$ 10,535	\$ —	\$ —	\$ —	\$ 771	\$ —	\$ 18,329
Collectively	270,496	143,388	65,924	19,949	3,833	7,609	5,852	517,051
Balance at December 31, 2017	\$ 277,519	\$ 153,923	\$ 65,924	\$ 19,949	\$ 3,833	\$ 8,380	\$ 5,852	\$ 535,380

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. There were no new TDRs that occurred during the three months ended March 31, 2018 or 2017.

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

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

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

	Total TDRs		Nonaccrual TDRs	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Real estate mortgage	\$ 6,081	\$ 5,388	\$ 341	\$ 566
Production and intermediate-term	5,553	6,048	1,399	1,457
Rural residential real estate	422	428	84	83
Total loans	\$ 12,056	\$ 11,864	\$ 1,824	\$ 2,106
Additional commitments to lend	\$ —	\$ —		

The following table presents information as of period end:

	March 31, 2018
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ —
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 asset-backed securities (ABSs). These ABSs are issued through the Small Business Administration and are guaranteed by the full faith and credit of the United States government. They are held for managing short-term surplus funds and reducing interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

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

	March 31, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
ABSs	\$ 11,705	\$ 276	\$ (6)	\$ 11,975	4.03%

	December 31, 2017				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
ABSs	\$ 13,029	\$ 272	\$ (23)	\$ 13,278	2.17%

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

	March 31, 2018		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ 53	\$ 53	4.47%
After one year through five years	2,655	2,688	3.76
After five years through ten years	2,722	2,764	3.74
After ten years	6,275	6,470	4.28
Total	\$ 11,705	\$ 11,975	4.03%

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

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

	March 31, 2018			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	\$ 1,366	\$ (5)	\$ 51	\$ (1)

	December 31, 2017			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	\$ 1,325	\$ (6)	\$ 1,030	\$ (17)

The recording of an impairment is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities,

other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

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

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

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

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

interest due on these securities, especially after considering credit enhancements.

Substantially all of these investments were in U. S. government agency securities and the Association expects these securities would not be settled at a price less than their amortized cost. All securities continue to perform at period end.

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 2.19 percent of the issued stock of the Bank as of March 31, 2018 net of any reciprocal investment. As of that date, the Bank's assets totaled \$32.0 billion and shareholders' equity totaled \$2.3 billion. The Bank's earnings were \$79 million for the first three months of 2018. In addition, the Association held investments of \$611 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)

Employee Benefit Plans:

Balance at beginning of period
Other comprehensive income before reclassifications
Amounts reclassified from AOCI
Net current period other comprehensive income
Balance at end of period

Changes in Accumulated Other Comprehensive Income by Component (a)			
Three Months Ended March 31,			
	2018		2017
\$	(570)	\$	(499)
	—		—
	19		14
	19		14
\$	(551)	\$	(485)

Reclassifications Out of Accumulated Other Comprehensive Income (b)			
Three Months Ended March 31,			
	2018	2017	Income Statement Line Item
Defined Benefit Pension Plans:			
Periodic pension costs	\$ (19)	\$ (14)	See Note 7.
Net amounts reclassified	\$ (19)	\$ (14)	

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

Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

		March 31, 2018				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<u>Recurring Measurements</u>						
Assets:						
Assets held in trust funds	\$	576	\$ 576	\$ –	\$ –	\$ 576
Recurring Assets	\$	576	\$ 576	\$ –	\$ –	\$ 576
Liabilities:						
Recurring Liabilities	\$	–	\$ –	\$ –	\$ –	\$ –
<u>Nonrecurring Measurements</u>						
Assets:						
Impaired loans	\$	8,080	\$ –	\$ –	\$ 8,080	\$ 8,080
Other property owned	\$	–	\$ –	\$ –	\$ –	\$ –
Nonrecurring Assets	\$	8,080	\$ –	\$ –	\$ 8,080	\$ 8,080
<u>Other Financial Instruments</u>						
Assets:						
Cash	\$	14	\$ 14	\$ –	\$ –	\$ 14
Investments in debt securities, held-to-maturity	\$	11,705	\$ –	\$ 11,975	\$ –	\$ 11,975
Loans	\$	502,318	\$ –	\$ –	\$ 491,693	\$ 491,693
Other Financial Assets	\$	514,037	\$ 14	\$ 11,975	\$ 491,693	\$ 503,682
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	420,338	\$ –	\$ –	\$ 414,281	\$ 414,281
Other Financial Liabilities	\$	420,338	\$ –	\$ –	\$ 414,281	\$ 414,281
		December 31, 2017				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<u>Recurring Measurements</u>						
Assets:						
Assets held in trust funds	\$	577	\$ 577	\$ –	\$ –	\$ 577
Recurring Assets	\$	577	\$ 577	\$ –	\$ –	\$ 577
Liabilities:						
Recurring Liabilities	\$	–	\$ –	\$ –	\$ –	\$ –
<u>Nonrecurring Measurements</u>						
Assets:						
Impaired loans	\$	7,918	\$ –	\$ –	\$ 7,918	\$ 7,918
Other property owned	\$	–	\$ –	\$ –	\$ –	\$ –
Nonrecurring Assets	\$	7,918	\$ –	\$ –	\$ 7,918	\$ 7,918
<u>Other Financial Instruments</u>						
Assets:						
Cash	\$	53	\$ 53	\$ –	\$ –	\$ 53
Investments in debt securities, held-to-maturity	\$	13,029	\$ –	\$ 13,278	\$ –	\$ 13,278
Loans	\$	522,092	\$ –	\$ –	\$ 514,907	\$ 514,907
Other Financial Assets	\$	535,174	\$ 53	\$ 13,278	\$ 514,907	\$ 528,238
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	443,696	\$ –	\$ –	\$ 441,018	\$ 441,018
Other Financial Liabilities	\$	443,696	\$ –	\$ –	\$ 441,018	\$ 441,018

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.

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	\$ 8,080	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,	
	2018	2017
Pension	\$ 251	\$ 228
401(k)	125	116
Other postretirement benefits	41	42
Total	\$ 417	\$ 386

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

	Actual YTD Through 3/31/18	Projected Contributions For Remainder of 2018	Projected Total Contributions 2018
Pension	\$ 5	\$ 876	\$ 881
Other postretirement benefits	41	117	158
Total	\$ 46	\$ 993	\$ 1,039

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. 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 — 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 \$7 for the three months ended March 31, 2018.

Note 10 — Subsequent Events

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