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*Farm Credit of Central Florida, ACA*  
**THIRD QUARTER 2018**

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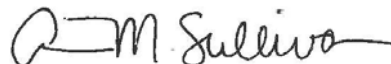
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**CERTIFICATION**

The undersigned certify that we have reviewed the September 30, 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

November 8, 2018

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*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 September 30, 2018. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of September 30, 2018, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2018.



Reginald T. Holt  
Chief Executive Officer



Anne M. Sullivan  
Chief Financial Officer

November 8, 2018

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## *Farm Credit of Central Florida, ACA*

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

*(dollars in thousands)*

The following commentary reviews the financial condition and results of operations of Farm Credit of Central Florida, ACA, (Association) for the period ended September 30, 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 State of Florida was hit by Hurricane Michael in October, 2018. While the hurricane did have a substantial impact on the state of Florida, it is not expected to have an impact on the Association's financial condition or the results of operations.

#### ***September 30, 2018 compared to December 31, 2017***

Loan volume of the Association as of September 30, 2018, was \$522,448, a decrease of \$11,071 as compared to \$533,519 at December 31, 2017. Net loans outstanding at September 30, 2018, were \$519,182 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 8,779 at September 30, 2018, as compared to \$13,029 at December 31, 2017. Net loans and investment securities accounted for 97.33 percent of total assets at September 30, 2018, as compared to 96.54 percent of total assets at December 31, 2017.

The Association's total servicing portfolio has decreased slightly to \$902,012 as compared to \$902,074 at December 31, 2017. 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.

#### ***September 30, 2018 compared to September 30, 2017***

Loan volume of the Association as of September 30, 2018, was \$522,448, an increase of \$57,472 as compared to \$464,976 at September 30, 2017. Net loans outstanding at September 30, 2018, were \$519,182 as compared to \$460,403 at September 30, 2017. The Association has investment securities that are classified as held to maturity in the amount of \$8,779 at September 30, 2018, as compared to \$15,481 at September 30, 2017. Net loans and investment securities accounted for 97.33 percent of total assets at September 30, 2018, as compared to 96.84 percent of total assets at September 30, 2017.

The Association's total servicing portfolio has increased to \$902,012 as compared to \$848,855 at September 30, 2017, due to increased new money closings which greatly exceeded 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 from September 2017 and has declined from year end as a result of an increase in substandard assets. Acceptable and ODEM credit quality as a percentage of total loan portfolio was 97.07% as of September 30, 2018, compared to 97.79% at December 31, 2017 and 96.25% at September 30, 2017. Substandard credit quality was 2.93% as of September 30, 2018, compared to 2.21% at December 31, 2017. The actual substandard asset volume has increased by \$3.5 million from year-end December 31, 2017. Nonaccrual loan volume was \$8,233 at September 30, 2018, compared to \$8,179 at December 31, 2017 and \$7,045 at September 30, 2017, an increase of \$54 and \$1,188, 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 September 30, 2018, was \$3,266 compared to \$4,185 at December 31, 2017, and \$4,573 at September 30, 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 September 30, 2018, contains \$1,377 in specific reserves and \$1,889 in general reserves, of which \$1,130 is allocated to the citrus portfolio. The following outlines the allowance for loan loss activity as of September 30, 2018.

Allowance for Loan Losses Activity:	YTD 2018
Balance at beginning of period	\$ 4,185
Charge-offs	(101)
Recoveries	957
Provisions/(Reversals)-General	(79)
Provisions/(Reversals)-Specifics	(1,696)
Balance at end of period	<u>\$ 3,266</u>

The decrease in allowance for loan losses compared to December 2017 was a direct result of an allowance reversals and recoveries during 2018 within the cattle, fruits and vegetable and nursery industries. The majority of the reversals were a result of one large recovery from a nonaccrual cattle loan. 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 September 30, 2018*

Net income for the three months ended September 30, 2018, totaled \$3,650, as compared to \$1,604 for the same period in 2017. The increase of \$2,046 for the period is associated directly with an increase in net interest income and a reversal of provisions for loan losses which were both positively impacted by the full liquidation of a large cattle nonaccrual loan.

Net interest income was \$4,187 for the three months ended September 30, 2018, as compared to \$3,033 for the same period in 2017. The increase is a result of increased loan volume in addition to nonaccrual liquidation income from the full liquidation of a large cattle nonaccrual loan. Net interest income for the three months ending September 30, 2018, is shown in the following table:

Net Interest Income	For the three months ended September 30,			
	2018	2017	\$ change	% change
Investment Interest Income	\$ 64	\$ 118	\$ (54)	(45.76)%
Loan Interest Income	7,538	5,383	2,155	40.03
Total Interest Income	7,602	5,501	2,101	38.19
Total Interest Expense	3,415	2,468	947	38.37
Net Interest Income	<u>\$ 4,187</u>	<u>\$ 3,033</u>	<u>\$ 1,154</u>	<u>38.05%</u>

Allowance for loan loss activity for the quarter consisted of \$1,060 reversal for the period compared to no provision or reversal for the same period prior year. The large reversal was impacted by a charge-off recovery on the full liquidation of a cattle nonaccrual loan. Provisions for loan losses for the three months ending September 30, 2018 are shown in the following table:

Provisions/(Reversals) for Loan Losses	For the three months ended September 30,			
	2018	2017	\$ change	% change
General Reserves	\$ (71)	\$ (53)	\$ (18)	(33.96)%
Specific Reserves	(989)	53	(1,042)	(1,966.03)
Total Provisions/(Reversals)	<u>\$ (1,060)</u>	<u>\$ -</u>	<u>\$ (1,060)</u>	<u>(100.00)%</u>

Noninterest income for the three months ended September 30, 2018, totaled \$1,279, as compared to \$1,203 for the same period of 2017, an increase of \$76. The increase is primarily the result of increased patronage refunds from other Farm Credit institutions. Noninterest income for the three months ending September 30, 2018, is shown in the following table:

Noninterest Income	For the three months ended September 30,			
	2018	2017	\$ change	% change
Loan fees	\$ 119	\$ 108	\$ 11	10.19%
Fees for financially related services	3	44	(41)	(93.18)
Patronage refunds from other				
Farm Credit Institutions	1,050	957	93	9.72
Gains (losses) on sales of rural				
home loans, net	93	78	15	19.23
Gains (losses) on other transactions	14	14	-	-
Other noninterest income	-	2	(2)	(100.00)
Total noninterest income	<u>\$ 1,279</u>	<u>\$ 1,203</u>	<u>\$ 76</u>	<u>6.32%</u>

Noninterest expense for the three months ended September 30, 2018, increased \$244 compared to the same period of 2017, primarily due to increased salaries and employee benefits and other operating expense offset by decreased Insurance Fund Premium expenses due to lower premiums and losses on other property owned. Salaries and employee benefits increased \$166 or 9.47% during the period due to increased employee head count. The primary reason for the increase in other operating expense is increased guarantee fees. The primary reason for the increase in other operating expense is increased guarantee fees. The Farm Credit System Insurance Corporation (FCSIC) has set the premium to 9 basis points (compared to 15 basis points during the third quarter of 2017) on adjusted insured debt outstanding with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans. Noninterest expense for the three months ending September 30, 2018 is shown in the following table:

Noninterest Expense	For the three months ended September 30,			
	2018	2017	\$ change	% change
Salary and employee benefits	\$ 1,919	\$ 1,753	\$ 166	9.47%
Occupancy and equipment	179	161	18	11.18
Insurance Fund Premium	92	131	(39)	(29.77)
(Gains) losses on other property owned, net	-	-	-	-
Other operating expenses	686	587	99	16.87
Total noninterest expense	\$ 2,876	\$ 2,632	\$ 244	9.27%

### For the nine months ended September 30, 2018

Net income for the nine months ended September 30, 2018, totaled \$8,841 as compared to \$5,632 for the same period in 2017. The increase of \$3,209 for the period is associated with increased net interest income, an increased reversal of allowance for loan loss as well as increased noninterest income.

Net interest income increased \$1,460 or 15.83% for the nine months ended September 30, 2018, as compared to the same period in 2017. The primary reasons for the increase in net interest income are higher loan volume from prior year combined with the nonaccrual liquidation income from the full liquidation of a large nonaccrual cattle loan, offset by decreased investment income. Net interest income for the nine months ending September 30, 2017 is shown in the following table:

Net Interest Income	For the nine months ended September 30,			
	2018	2017	\$ change	% change
Investment Interest Income	\$ 160	\$ 358	\$ (198)	(55.31)%
Loan Interest Income	20,322	16,316	4,006	24.55
Total Interest Income	20,482	16,674	3,808	22.84
Total Interest Expense	9,800	7,452	2,348	31.51
Net Interest Income	\$10,682	\$ 9,222	\$ 1,460	15.83%

The effects of changes in average volume and interest rates on net interest income over the past nine months are presented in the following table:

Change in Net Interest Income:	Non-accrual				
	Volume	Rate	Amortization	Total	
(dollars in thousands)					
Change in NII	\$ 630	\$ 293	\$ 583	\$ (46)	\$ 1,460

Allowance for loan loss activity consisted of a \$1,775 reversal, as compared to a \$228 reversal for the same period last year. The decrease in allowance for loan losses compared to December 2017 was a direct result of an allowance reversals during 2018 within the cattle, fruits and vegetable and nursery industries. The majority of the reversals were a result of one large recovery on a nonaccrual cattle loan. Provisions for loan

losses for the nine months ending September 30, 2018 are shown in the following table:

Provisions for Loan Losses	For the nine months ended September 30,			
	2018	2017	\$ change	% change
General Reserves	\$ (79)	\$ (42)	\$ (37)	(88.10)%
Specific Reserves	(1,696)	(186)	(1,510)	(811.83)
Total Provisions/(Reversals)	\$ (1,775)	\$ (228)	\$ (1,547)	(678.51)%

Noninterest income for the nine months ended September 30, 2018, totaled \$4,645, as compared to \$4,137 for the same period of 2017, an increase of \$508. The increase is primarily a result of increased loan fees, increased patronage from other Farm Credit institutions, increased gains on sales of rural home loans and a refund from the Farm Credit System Insurance Fund. 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 nine months ending September 30, 2018 is shown in the following table:

Noninterest Income	For the nine months ended September 30,			
	2018	2017	\$ change	% change
Loan fees	\$ 468	\$ 335	\$ 133	39.70%
Fees for financially related services	331	409	(78)	(19.07)
Patronage refunds from other				
Farm Credit institutions	3,298	3,162	136	4.30
Gains (losses) on sales of rural home loans, net	256	176	80	45.45
Gains (losses) on other				
Transactions	18	50	(32)	(64.00)
Insurance Fund refund	272	-	272	100.00
Other noninterest income	2	5	(3)	(60.00)
Total noninterest income	\$ 4,645	\$ 4,137	\$ 508	12.28%

Noninterest expense for the nine months ended September 30, 2018 increased \$306 compared to the same period of 2017. The increase is related to increases in salaries and employee benefits and other operating expenses, offset by decreased losses on other property owned and decreased Insurance Fund Premium expenses. Salaries and employee benefits increased \$239 or 4.55% during the period due to increased employee head count. The primary reason for the increase in other operating expense is increased guarantee fees. The Association has had no other property owned during 2018. Insurance Fund Premium expenses decreased due to increased loan balances offset by lower premiums to the Farm Credit System Insurance Corporation (FCSIC). The premium was reduced to 9 basis points (compared to 15 basis points) on adjusted insured debt outstanding with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans. Noninterest expense for the nine

months ending September 30, 2018 is shown in the following table:

Noninterest Expense	For the nine months ended September 30,			
	2018	2017	\$ change	% change
Salary and employee benefits	\$ 5,490	\$ 5,251	\$ 239	4.55%
Occupancy and equipment	528	484	44	9.09
Insurance Fund Premium	277	418	(141)	(33.73)
(Gains) losses on other property owned, net	—	66	(66)	(100.00)
Other operating expenses	1,966	1,736	230	13.25
Total noninterest expense	\$ 8,261	\$ 7,955	\$ 306	3.85%

## FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2018, was \$426,396 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 September 30, 2018, increased to \$109,947 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 \$892 on September 30, 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 September 30, 2018
Risk-adjusted ratios:				
CET1 Capital	4.5%	1.25%	5.125%	19.87%
Tier 1 Capital	6.0%	1.25%	6.625%	19.87%
Total Capital	8.0%	1.25%	8.625%	20.58%
Permanent Capital Ratio	7.0%	0.0%	7.0%	20.01%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	19.02%
UREE Leverage Ratio	1.5%	0.0%	1.5%	15.48%

\* - 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.

## REGULATORY MATTERS

On May 10, 2018, the Farm Credit Administration adopted a final rule that amends the regulations governing investments of System banks and associations. The final rule strengthens eligibility criteria for the investments the banks may purchase and hold. It also implements Section 939A of the Dodd-Frank Act by removing references to and requirements for credit

ratings and substitutes the eligibility requirement with other appropriate standards of credit worthiness. In addition, it grants associations greater flexibility regarding the risk management purposes for investments and limits the type and amount of investments that an association may hold. Only securities that are issued by, or are unconditionally guaranteed or insured as to the timely payment of principal and interest by, the U.S.

government or its agencies are eligible for association risk management purposes. An association may purchase and hold investments not to exceed 10 percent of its 90-day average daily balance of outstanding loans on the last business day of the quarter. The final rule will become effective January 1, 2019.

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2017 Annual Report to Shareholders for recently issued accounting pronouncements. Additional information is provided in the 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
<b><i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i></b>	
<ul style="list-style-type: none"> <li>• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management’s estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets.</li> <li>• Changes the present incurred loss impairment guidance for loans to a CECL model.</li> <li>• The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit.</li> <li>• Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets.</li> <li>• Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.</li> <li>• Effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.</li> </ul>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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"> <li>1. The allowance related to loans and commitments will most likely increase to cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions,</li> <li>2. An allowance will be established for estimated credit losses on any debt securities,</li> <li>3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans.</li> </ol> </li> <li>• The extent of the increase is under evaluation, but will depend upon the nature and characteristics of the Association’s portfolio at the adoption date, and the macroeconomic conditions and forecasts at that date.</li> <li>• The Association expects to adopt the guidance in first quarter 2021.</li> </ul>
<b><i>ASU 2016-02 – Leases (Topic 842)</i></b>	
<ul style="list-style-type: none"> <li>• 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.</li> <li>• Lessor accounting activities are largely unchanged from existing lease accounting.</li> <li>• The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification.</li> <li>• Also, expands qualitative and quantitative disclosures of leasing arrangements.</li> <li>• Requires adoption using a modified cumulative effect approach wherein the guidance is applied to all periods presented. A recent amendment provides an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.</li> <li>• Effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted.</li> </ul>	<ul style="list-style-type: none"> <li>• The practical expedients allow entities to largely account for existing leases consistent with current guidance, except for the incremental balance sheet recognition for lessees.</li> <li>• The Association has started its implementation of the Update which has included an initial evaluation of leasing contracts and activities.</li> <li>• 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.</li> <li>• Given the limited changes to lessor accounting, the Association does not expect material changes to recognition or measurement, but the implementation process and the impact will continue to be evaluated.</li> <li>• The Association is evaluating existing disclosures and may need to provide additional information as a result of adopting the Update.</li> <li>• The Association expects to adopt the guidance in first quarter 2019 using the optional modified retrospective method and practical expedients for transition.</li> </ul>

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**NOTE:** Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst’s annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, [www.agfirst.com](http://www.agfirst.com). Copies of the Association’s annual and quarterly reports are also available upon request free of charge by calling 1-800-533-2773, 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](http://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>	September 30, 2018 <i>(unaudited)</i>	December 31, 2017 <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 39	\$ 53
Investments in debt securities:		
Held to maturity (fair value of \$8,725 and \$13,278, respectively)	8,779	13,029
Loans	522,448	533,519
Allowance for loan losses	(3,266)	(4,185)
Net loans	519,182	529,334
Loans held for sale	72	676
Accrued interest receivable	2,155	1,963
Equity investments in other Farm Credit institutions	6,311	6,318
Premises and equipment, net	1,660	856
Accounts receivable	3,534	8,951
Other assets	719	634
Total assets	<b>\$ 542,451</b>	<b>\$ 561,814</b>
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 426,396	\$ 443,696
Accrued interest payable	1,139	1,052
Patronage refunds payable	175	4,872
Accounts payable	1,109	1,710
Other liabilities	3,685	7,745
Total liabilities	<b>432,504</b>	<b>459,075</b>
Commitments and contingencies (Note 8)		
<b>Members' Equity</b>		
Capital stock and participation certificates	892	900
Retained earnings		
Allocated	22,907	24,588
Unallocated	86,662	77,821
Accumulated other comprehensive income (loss)	(514)	(570)
Total members' equity	<b>109,947</b>	<b>102,739</b>
Total liabilities and members' equity	<b>\$ 542,451</b>	<b>\$ 561,814</b>

*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 September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
<b>Interest Income</b>				
Loans	\$ 7,538	\$ 5,383	\$ 20,322	\$ 16,316
Investments	64	118	160	358
Total interest income	7,602	5,501	20,482	16,674
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	3,415	2,468	9,800	7,452
Net interest income	4,187	3,033	10,682	9,222
Provision for (reversal of allowance for) loan losses	(1,060)	—	(1,775)	(228)
Net interest income after provision for (reversal of allowance for) loan losses	5,247	3,033	12,457	9,450
<b>Noninterest Income</b>				
Loan fees	119	108	468	335
Fees for financially related services	3	44	331	409
Patronage refunds from other Farm Credit institutions	1,050	957	3,298	3,162
Gains (losses) on sales of rural home loans, net	93	78	256	176
Gains (losses) on other transactions	14	14	18	50
Insurance Fund refund	—	—	272	—
Other noninterest income	—	2	2	5
Total noninterest income	1,279	1,203	4,645	4,137
<b>Noninterest Expense</b>				
Salaries and employee benefits	1,919	1,753	5,490	5,251
Occupancy and equipment	179	161	528	484
Insurance Fund premiums	92	131	277	418
(Gains) losses on other property owned, net	—	—	—	66
Other operating expenses	686	587	1,966	1,736
Total noninterest expense	2,876	2,632	8,261	7,955
Net income	\$ 3,650	\$ 1,604	\$ 8,841	\$ 5,632

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

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

*(unaudited)*

<i>(dollars in thousands)</i>	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Net income	\$ 3,650	\$ 1,604	\$ 8,841	\$ 5,632
<b>Other comprehensive income net of tax</b>				
Employee benefit plans adjustments	19	15	56	43
Comprehensive income	\$ 3,669	\$ 1,619	\$ 8,897	\$ 5,675

*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			5,632	43	5,675
Capital stock/participation certificates issued/(retired), net	24				24
Retained earnings retired		(1,681)			(1,681)
Balance at September 30, 2017	\$ 885	\$ 24,588	\$ 75,798	\$ (456)	\$ 100,815
<b>Balance at December 31, 2017</b>	<b>\$ 900</b>	<b>\$ 24,588</b>	<b>\$ 77,821</b>	<b>\$ (570)</b>	<b>\$ 102,739</b>
<b>Comprehensive income</b>			<b>8,841</b>	<b>56</b>	<b>8,897</b>
<b>Capital stock/participation certificates issued/(retired), net</b>	<b>(8)</b>				<b>(8)</b>
<b>Retained earnings retired</b>		<b>(1,681)</b>			<b>(1,681)</b>
<b>Balance at September 30, 2018</b>	<b>\$ 892</b>	<b>\$ 22,907</b>	<b>\$ 86,662</b>	<b>\$ (514)</b>	<b>\$ 109,947</b>

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

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## 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 August 2018, the FASB issued ASU 2018-15 Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this Update. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period, for all entities. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption.
- In August 2018, the FASB issued ASU 2018-13 Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments are part of the FASB's disclosure framework project. The project's objective and primary focus are to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by GAAP that is most important to users of each entity's financial statements. The amendments remove, modify or add certain disclosures contained in the financial statement footnotes related to fair value. Additionally, the guidance is intended to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure

requirements. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Certain amendments should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Entities may early adopt the provisions in whole upon issuance or may early adopt any removed or modified disclosures upon issuance and delay adoption of the additional disclosures until their effective date.

- In July 2018, the FASB issued ASU 2018-11 Leases (Topic 842): Targeted Improvements. The amendments are intended to reduce costs and ease implementation of the leases standard for financial statement preparers. It addresses certain areas identified as possible sources of unnecessary cost or complexity in the standard. Specifically, the amendments provide an option to apply the transition provisions of the new standard at its adoption date instead of at the earliest comparative period presented in its financial statements and a practical expedient that permits lessors to not separate nonlease components from the associated lease component if certain conditions are met. For entities that have not adopted Topic 842 before the issuance of this Update, the effective date and transition requirements for the amendments related to separating components of a contract are the same as the effective date and transition requirements in ASU 2016-02.
- In July 2018, the FASB issued ASU 2018-10 Codification Improvements to Topic 842, Leases. The amendments affect narrow aspects of the guidance issued in ASU 2016-02. Specifically, the Update corrects, clarifies or changes inconsistent language to improve application of the guidance in ASU 2016-02. For entities that have not adopted Topic 842, the effective date and transition requirements will be the same as the effective date and transition requirements in ASU 2016-02.
- In July 2018, the FASB issued ASU 2018-09 Codification Improvements. The amendments affect a wide variety of Topics in the Codification. They apply to all reporting entities within the scope of the affected accounting guidance. The Board has an ongoing project on its agenda about improvements to clarify the Codification or to correct unintended application of guidance. Those items generally are not expected to have a significant effect on current accounting practice. The transition and effective date guidance is based on the facts and circumstances of each amendment.
- In February 2018, the FASB issued ASU 2018-03 Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this Update include items brought to

the Board's attention by stakeholders. The amendments clarify certain aspects of the guidance issued in ASU 2016-01. The amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. All entities may early adopt these amendments for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, as long as they have adopted ASU 2016-01.

- In February 2018, the FASB issued ASU 2018-02 Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and are intended to improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The Update also requires certain disclosures about stranded tax effects. The guidance is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted.

#### *ASUs Pending Effective Date*

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

Potential effects of ASUs issued in previous periods:

- In March 2017, the FASB issued ASU 2017-08 Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The guidance relates to certain callable debt securities and shortens the amortization period for any premium to the earliest call date. The Update will be effective for interim and annual periods beginning after December 15, 2018 for public business entities. Early adoption is permitted. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use

forward-looking information to better estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- In February 2016, the FASB issued ASU 2016-02 Leases (Topic 842). This Update, and subsequent clarifying guidance issued, requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. The amendments will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities. Early adoption is permitted. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

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

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

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

- In March 2017, the FASB issued ASU 2017-07 Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost related to the income statement presentation of the components of net periodic benefit cost for an entity’s sponsored defined benefit pension and other postretirement plans. The amendments were effective January 1, 2018 for the Association. Adoption in 2018 did not have a material effect on the Association’s financial statements, but did require reclassification of service costs to Other Operating Expenses.
- In February 2017, the FASB issued ASU 2017-05 Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The Update clarifies whether certain transactions are within the scope of the guidance on derecognition and the accounting for

partial sales of nonfinancial assets, and defines the term in substance nonfinancial asset. The amendments conform the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue standard. The amendments were effective January 1, 2018 for the Association. Adoption in 2018 had no impact on the statements of financial condition and results of operations of the Association.

- In January 2017, the FASB issued ASU 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments provide a more robust framework to use in determining when a set of assets and activities is a business. They also support more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable. The ASU was effective January 1, 2018 for the Association. The amendments were applied prospectively. Adoption of the guidance in 2018 had no impact on the statements of financial condition and results of operations.
- In January 2016, the FASB issued ASU 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The Update was intended to improve the recognition and measurement of financial instruments. The new guidance makes targeted improvements to existing GAAP.

#### **Transition Information**

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

FASB issued several additional Updates that generally provided clarifying guidance where there was the potential for diversity in practice, or address the cost and complexity of applying Topic 606.

Transition Information

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

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

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

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

A summary of loans outstanding at period end follows:

	September 30, 2018	December 31, 2017
Real estate mortgage	\$ 297,114	\$ 276,252
Production and intermediate-term	121,947	153,523
Loans to cooperatives	1,690	1,378
Processing and marketing	62,548	56,244
Farm-related business	5,891	8,171
Communication	15,478	19,940
Power and water/waste disposal	3,737	3,831
Rural residential real estate	8,208	8,348
International	5,835	5,832
Total loans	<u>\$ 522,448</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:

	September 30, 2018							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 15,734	\$ 45,105	\$ —	\$ 14,635	\$ —	\$ —	\$ 15,734	\$ 59,740
Production and intermediate-term	20,004	30,241	—	1,430	—	—	20,004	31,671
Loans to cooperatives	1,694	—	—	—	—	—	1,694	—
Processing and marketing	44,051	17,932	—	4,628	—	—	44,051	22,560
Communication	15,542	—	—	—	—	—	15,542	—
Power and water/waste disposal	3,748	—	—	—	—	—	3,748	—
International	5,841	—	—	—	—	—	5,841	—
Total	<u>\$ 106,614</u>	<u>\$ 93,278</u>	<u>\$ —</u>	<u>\$ 20,693</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 106,614</u>	<u>\$ 113,971</u>



December 31, 2017

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 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:

	September 30, 2018			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 7,764	\$ 48,427	\$ 240,923	\$ 297,114
Production and intermediate-term	18,838	69,118	33,991	121,947
Loans to cooperatives	-	1,690	-	1,690
Processing and marketing	6,348	30,234	25,966	62,548
Farm-related business	1,363	1,531	2,997	5,891
Communication	1,575	13,903	-	15,478
Power and water/waste disposal	-	-	3,737	3,737
Rural residential real estate	149	531	7,528	8,208
International	-	5,470	365	5,835
Total loans	\$ 36,037	\$ 170,904	\$ 315,507	\$ 522,448
Percentage	6.90%	32.71%	60.39%	100.00%

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

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

	September 30, 2018	December 31, 2017		September 30, 2018	December 31, 2017
<b>Real estate mortgage:</b>			<b>Communication:</b>		
Acceptable	97.96%	96.71%	Acceptable	79.39%	100.00%
OAEM	0.21	1.51	OAEM	20.61	-
Substandard/doubtful/loss	1.83	1.78	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
<b>Production and intermediate-term:</b>			<b>Power and water/waste disposal:</b>		
Acceptable	90.89%	89.97%	Acceptable	100.00%	100.00%
OAEM	1.57	5.83	OAEM	-	-
Substandard/doubtful/loss	7.54	4.20	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
<b>Loans to cooperatives</b>			<b>Rural residential real estate:</b>		
Acceptable	100.00%	100.00%	Acceptable	91.74%	91.43%
OAEM	-	-	OAEM	-	3.49
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	8.26	5.08
	100.00%	100.00%		100.00%	100.00%
<b>Processing and marketing:</b>			<b>International</b>		
Acceptable	100.00%	99.99%	Acceptable	100.00%	100.00%
OAEM	-	0.01	OAEM	-	-
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
<b>Farm-related business:</b>			<b>Total loans:</b>		
Acceptable	100.00%	100.00%	Acceptable	95.97%	95.28%
OAEM	-	-	OAEM	1.10	2.51
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	2.93	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:

September 30, 2018						
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	
Real estate mortgage	\$ 1,931	\$ 1,188	\$ 3,119	\$ 295,294	\$ 298,413	
Production and intermediate-term	1,147	105	1,252	121,245	122,497	
Loans to cooperatives	—	—	—	1,698	1,698	
Processing and marketing	—	—	—	62,673	62,673	
Farm-related business	—	—	—	5,909	5,909	
Communication	—	—	—	15,486	15,486	
Power and water/waste disposal	—	—	—	3,740	3,740	
Rural residential real estate	289	350	639	7,610	8,249	
International	—	—	—	5,860	5,860	
Total	\$ 3,367	\$ 1,643	\$ 5,010	\$ 519,515	\$ 524,525	

December 31, 2017						
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	
Real estate mortgage	\$ 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:

	September 30, 2018	December 31, 2017
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 2,485	\$ 1,861
Production and intermediate-term	5,170	5,892
Rural residential real estate	578	426
Total	\$ 8,233	\$ 8,179
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 5,180	\$ 4,822
Production and intermediate-term	3,665	4,591
Rural residential real estate	326	345
Total	\$ 9,171	\$ 9,758
<b>Accruing loans 90 days or more past due:</b>		
Real estate mortgage	\$ 735	\$ —
Production and intermediate-term	106	—
Total	\$ 841	\$ —
Total nonperforming loans	\$ 18,245	\$ 17,937
Other property owned	—	—
Total nonperforming assets	\$ 18,245	\$ 17,937
Nonaccrual loans as a percentage of total loans	1.58%	1.53%
Nonperforming assets as a percentage of total loans and other property owned	3.49%	3.36%
Nonperforming assets as a percentage of capital	16.59%	17.46%

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

	September 30, 2018	December 31, 2017
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 5,349	\$ 4,192
Past due	2,884	3,987
Total	<u>\$ 8,233</u>	<u>\$ 8,179</u>
<b>Impaired accrual loans:</b>		
Restructured	\$ 9,171	\$ 9,758
90 days or more past due	841	-
Total	<u>\$ 10,012</u>	<u>\$ 9,758</u>
Total impaired loans	<u>\$ 18,245</u>	<u>\$ 17,937</u>
Additional commitments to lend	<u>\$ -</u>	<u>\$ 1,125</u>

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

Impaired loans:	September 30, 2018			Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>							
Real estate mortgage	\$ 1,490	\$ 1,545	\$ 208	\$ 1,380	\$ 88	\$ 1,412	\$ 123
Production and intermediate-term	5,728	6,417	1,001	5,309	340	5,430	472
Rural residential real estate	824	952	168	764	49	781	68
Total	<u>\$ 8,042</u>	<u>\$ 8,914</u>	<u>\$ 1,377</u>	<u>\$ 7,453</u>	<u>\$ 477</u>	<u>\$ 7,623</u>	<u>\$ 663</u>
<b>With no related allowance for credit losses:</b>							
Real estate mortgage	\$ 6,910	\$ 7,132	\$ -	\$ 6,405	\$ 411	\$ 6,550	\$ 569
Production and intermediate-term	3,213	3,329	-	2,977	190	3,045	265
Rural residential real estate	80	150	-	74	5	76	7
Total	<u>\$ 10,203</u>	<u>\$ 10,611</u>	<u>\$ -</u>	<u>\$ 9,456</u>	<u>\$ 606</u>	<u>\$ 9,671</u>	<u>\$ 841</u>
<b>Total:</b>							
Real estate mortgage	\$ 8,400	\$ 8,677	\$ 208	\$ 7,785	\$ 499	\$ 7,962	\$ 692
Production and intermediate-term	8,941	9,746	1,001	8,286	530	8,475	737
Rural residential real estate	904	1,102	168	838	54	857	75
Total	<u>\$ 18,245</u>	<u>\$ 19,525</u>	<u>\$ 1,377</u>	<u>\$ 16,909</u>	<u>\$ 1,083</u>	<u>\$ 17,294</u>	<u>\$ 1,504</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
<b>With a related allowance for credit losses:</b>					
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	<u>\$ 10,135</u>	<u>\$ 10,563</u>	<u>\$ 2,217</u>	<u>\$ 10,379</u>	<u>\$ 633</u>
<b>With no related allowance for credit losses:</b>					
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	<u>\$ 7,802</u>	<u>\$ 9,738</u>	<u>\$ -</u>	<u>\$ 7,990</u>	<u>\$ 487</u>
<b>Total:</b>					
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	<u>\$ 17,937</u>	<u>\$ 20,301</u>	<u>\$ 2,217</u>	<u>\$ 18,369</u>	<u>\$ 1,120</u>

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

	Real Estate Mortgage	Production and Intermediate- term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Total
<b>Activity related to the allowance for credit losses:</b>								
Balance at June 30, 2018	\$ 1,105	\$ 1,927	\$ 94	\$ 56	\$ 6	\$ 194	\$ 2	\$ 3,384
Charge-offs	–	–	–	–	–	–	–	–
Recoveries	30	909	–	–	–	3	–	942
Provision for loan losses	(23)	(1,041)	13	(10)	–	1	–	(1,060)
Balance at September 30, 2018	\$ 1,112	\$ 1,795	\$ 107	\$ 46	\$ 6	\$ 198	\$ 2	\$ 3,266
Balance at December 31, 2017	\$ 1,116	\$ 2,833	\$ 85	\$ 48	\$ 4	\$ 96	\$ 3	\$ 4,185
Charge-offs	(6)	(95)	–	–	–	(1)	–	(102)
Recoveries	42	909	–	–	–	7	–	958
Provision for loan losses	(40)	(1,852)	22	(2)	2	96	(1)	(1,775)
Balance at September 30, 2018	\$ 1,112	\$ 1,795	\$ 107	\$ 46	\$ 6	\$ 198	\$ 2	\$ 3,266
Balance at June 30, 2017	\$ 1,683	\$ 2,702	\$ 88	\$ 36	\$ –	\$ 54	\$ 3	\$ 4,566
Charge-offs	–	–	–	–	–	–	–	–
Recoveries	6	–	–	–	–	1	–	7
Provision for loan losses	(70)	(4)	2	(2)	–	74	–	–
Balance at September 30, 2017	\$ 1,619	\$ 2,698	\$ 90	\$ 34	\$ –	\$ 129	\$ 3	\$ 4,573
Balance at December 31, 2016	\$ 1,481	\$ 3,096	\$ 90	\$ 25	\$ –	\$ 71	\$ 3	\$ 4,766
Charge-offs	(2)	(43)	–	–	–	–	–	(45)
Recoveries	39	37	–	–	–	4	–	80
Provision for loan losses	101	(392)	–	9	–	54	–	(228)
Balance at September 30, 2017	\$ 1,619	\$ 2,698	\$ 90	\$ 34	\$ –	\$ 129	\$ 3	\$ 4,573
<b>Allowance on loans evaluated for impairment:</b>								
Individually	\$ 208	\$ 1,001	\$ –	\$ –	\$ –	\$ 168	\$ –	\$ 1,377
Collectively	904	794	107	46	6	30	2	1,889
Balance at September 30, 2018	\$ 1,112	\$ 1,795	\$ 107	\$ 46	\$ 6	\$ 198	\$ 2	\$ 3,266
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
<b>Recorded investment in loans evaluated for impairment:</b>								
Individually	\$ 7,666	\$ 8,836	\$ –	\$ –	\$ –	\$ 904	\$ –	\$ 17,406
Collectively	290,747	113,661	70,280	15,486	3,740	7,345	5,860	507,119
Balance at September 30, 2018	\$ 298,413	\$ 122,497	\$ 70,280	\$ 15,486	\$ 3,740	\$ 8,249	\$ 5,860	\$ 524,525
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. The following table presents additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. There were no new TDRs that occurred during the three or nine months ended September 30, 2018 or the three months ended September 30, 2017.

Outstanding Recorded Investment	Nine months ended September 30, 2017				
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
<b>Pre-modification:</b>					
Real estate mortgage	\$ –	\$ 196	\$ –	\$ 196	
Total	\$ –	\$ 196	\$ –	\$ 196	
<b>Post-modification:</b>					
Real estate mortgage	\$ –	\$ 204	\$ –	\$ 204	\$ (1)
Total	\$ –	\$ 204	\$ –	\$ 204	\$ (1)

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

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

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

	Total TDRs		Nonaccrual TDRs	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Real estate mortgage	\$ 5,494	\$ 5,388	\$ 314	\$ 566
Production and intermediate-term	4,897	6,048	1,232	1,457
Rural residential real estate	406	428	80	83
Total loans	\$ 10,797	\$ 11,864	\$ 1,626	\$ 2,106
Additional commitments to lend	\$ —	\$ —		

The following table presents information as of period end:

	September 30, 2018
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ —
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ 394

### 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:

	September 30, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
ABSs	\$ 8,779	\$ 34	\$ (88)	\$ 8,725	4.57%

	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:

	September 30, 2018		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ 161	\$ 160	4.15%
After one year through five years	1,837	1,832	4.34
After five years through ten years	1,327	1,322	4.28
After ten years	5,454	5,411	4.73
Total	\$ 8,779	\$ 8,725	4.57%

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

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

	September 30, 2018			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	\$ 5,781	\$ (86)	\$ 47	\$ (2)

	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 September 30, 2018 net of any reciprocal investment. As of that date, the Bank's assets totaled \$32.7 billion and shareholders' equity totaled \$2.4 billion. The Bank's earnings were \$227 million for the first nine months of 2018. In addition, the Association held investments of \$540 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)**

	<b>Changes in Accumulated Other Comprehensive Income by Component (a)</b>			
	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Employee Benefit Plans:</b>				
Balance at beginning of period	\$ (533)	\$ (471)	\$ (570)	\$ (499)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	19	15	56	43
Net current period other comprehensive income	19	15	56	43
Balance at end of period	\$ (514)	\$ (456)	\$ (514)	\$ (456)

	<b>Reclassifications Out of Accumulated Other Comprehensive Income (b)</b>				
	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>		<b>Income Statement Line Item</b>
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	
<b>Defined Benefit Pension Plans:</b>					
Periodic pension costs	\$ (19)	\$ (15)	\$ (56)	\$ (43)	See Note 7.
Net amounts reclassified	\$ (19)	\$ (15)	\$ (56)	\$ (43)	

(a) Amounts in parentheses indicate debits to AOCI.

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

## Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

	September 30, 2018				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Recurring Measurements</b>					
<b>Assets:</b>					
Assets held in trust funds	\$ 690	\$ 690	\$ —	\$ —	\$ 690
Recurring Assets	\$ 690	\$ 690	\$ —	\$ —	\$ 690
<b>Liabilities:</b>					
Recurring Liabilities	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Nonrecurring Measurements</b>					
<b>Assets:</b>					
Impaired loans	\$ 6,665	\$ —	\$ —	\$ 6,665	\$ 6,665
Other property owned	—	—	—	—	—
Nonrecurring Assets	\$ 6,665	\$ —	\$ —	\$ 6,665	\$ 6,665
<b>Other Financial Instruments</b>					
<b>Assets:</b>					
Cash	\$ 39	\$ 39	\$ —	\$ —	\$ 39
Investments in debt securities, held-to-maturity	8,779	—	8,725	—	8,725
Loans	512,589	—	—	499,794	499,794
Other Financial Assets	\$ 521,407	\$ 39	\$ 8,725	\$ 499,794	\$ 508,558
<b>Liabilities:</b>					
Notes payable to AgFirst Farm Credit Bank	\$ 426,396	\$ —	\$ —	\$ 419,740	\$ 419,740
Other Financial Liabilities	\$ 426,396	\$ —	\$ —	\$ 419,740	\$ 419,740

December 31, 2017

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Recurring Measurements</b>					
<b>Assets:</b>					
Assets held in trust funds	\$ 577	\$ 577	\$ -	\$ -	\$ 577
Recurring Assets	\$ 577	\$ 577	\$ -	\$ -	\$ 577
<b>Liabilities:</b>					
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Nonrecurring Measurements</b>					
<b>Assets:</b>					
Impaired loans	\$ 7,918	\$ -	\$ -	\$ 7,918	\$ 7,918
Other property owned	-	-	-	-	-
Nonrecurring Assets	\$ 7,918	\$ -	\$ -	\$ 7,918	\$ 7,918
<b>Other Financial Instruments</b>					
<b>Assets:</b>					
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
<b>Liabilities:</b>					
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	\$ 6,665	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**

	<b>Valuation Technique(s)</b>	<b>Input</b>
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:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Pension	\$ 232	\$ 227	\$ 697	\$ 684
401(k)	87	78	298	274
Other postretirement benefits	38	38	120	122
Total	\$ 357	\$ 343	\$ 1,115	\$ 1,080

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

	<b>Actual YTD Through 9/30/18</b>	<b>Projected Contributions For Remainder of 2018</b>	<b>Projected Total Contributions 2018</b>
Pension	\$ 16	\$ 790	\$ 806
Other postretirement benefits	120	38	158
Total	\$ 136	\$ 828	\$ 964

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 as follows:

	<b>Three Months Ended September 30, 2018</b>	<b>Nine Months Ended September 30, 2018</b>
<b>Revenue recognized from contracts with customers:</b>		
At a point in time	\$ 4	\$ 333
Over time	—	—
Total	\$ 4	\$ 333

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**Note 10 — Subsequent Events**

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

On October 15, 2018, AgFirst's Board of Directors indicated an intention to declare, in December 2018, a special patronage distribution. The Association will receive between approximately \$2,751 and \$3,251 which will be recorded as patronage refunds from other Farm Credit institutions.