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*AgSouth Farm Credit, ACA*

# FIRST QUARTER 2019

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## CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2019 quarterly report of AgSouth Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Pat Calhoun  
Chief Executive Officer



Bo Fennell  
Chief Financial Officer



James C. Carter, Jr.  
Chairman of the Board

May 9, 2019

# 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 affected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

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

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

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



Pat Calhoun

Chief Executive Officer



Bo Fennell  
Chief Financial Officer

May 9, 2019

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

*(dollars in thousands)*

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

## FORWARD LOOKING INFORMATION

This quarterly report contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

## 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 wide range of agricultural commodities produced in our region,

including timber, poultry (broilers, turkeys and eggs), sod, nursery and horticulture, cotton, feed grains, soybeans and hay, beef cattle, horses, peanuts, blueberries, fruits, and nuts. Loans to producers of these commodities total \$1,510,371 or 86.11 percent of the Association's portfolio. Farm size varies, and many of the Association's customers have diversified farming operations. These factors, along with the numerous opportunities for non-farm income in the area, reduce to some degree the level of income dependency on any given commodity.

## AGRICULTURE OVERVIEW

NASS released the 2019 Prospective Plantings report on March 29, 2019. The US soybean crop is estimated to be 84.6 million acres, down 5 percent from last year. The US corn crop is estimated to be 92.8 million acres, up 4 percent from 2018. The US cotton crop is estimated to be 13.8 million acres, down 2 percent from last year. The US peanut crop is estimated to be 1.45 million acres, up 2 percent from 2018. Tobacco is estimated to be 244 thousand acres, a 16 percent decline from 2018.

In both Georgia and South Carolina, planted acres for corn is estimated to be approximately 17 percent higher over 2018. Planted acres projected for cotton in 2019 indicates a 6 percent and 3 percent decline over 2018, respectively for Georgia and South Carolina. The peanut crop in South Carolina is estimated to be 65,000 acres, down 25 percent from 2018. For Georgia, peanut acres are projected very similar to 2018 plantings at 670,000 acres. Tobacco will also see a slight decline in both states.

Weather in Georgia and South Carolina for the first quarter consisted of a cold January, a warmer than a normal February followed by a cool March. Topsoil and subsoil moisture, as of March 31, 2019 was rated 70 percent to 85 percent adequate or surplus.

As of March 31, 2019 Georgia's planted acres for corn was 48 percent planted, while South Carolina was 18 percent planted. Other primary crops have yet to be planted as of that date. In spite of some near freezing temperatures in March, it appears both the Georgia and South Carolina peach crop is in good shape. The blueberry crop in Georgia also came through the cold snaps with little harm; 90 percent rated good to excellent.

As of the March 31, 2019 NASS Crop Progress and Condition Report, cattle conditions in Georgia are rated 67 percent good to excellent with 27 percent rated fair. South Carolina cattle conditions are rated 79 percent good to excellent, with 21 percent being rated fair. As of the end of March for Georgia and South Carolina, pasture conditions were mostly rated good to excellent. The NASS Cattle Inventory Report released February 28, 2019, indicated cattle and calves in the United States, as of January 1, 2019 totaled 94.8 million head; up slightly from the 94.3 million head a year ago. Both Georgia and South Carolina herd inventories were up one percent from a year ago.

On February 20, 2019 NASS released the Southern Region News Release Milk Production report. Overall, US milk production was up from the 2018 yield of 53.1 million pounds to 53.3 million pounds in 2019. Although there was an overall increase, Georgia and South Carolina both saw a decrease in milk production. Milk production in Georgia yielded 422 million pounds in 2019 compared to 434 million pounds in 2018. South Carolina milk production yield decreased 5 million pounds from 59 million pounds in 2018 to 54 million pounds in 2019.

Domestic broiler growers placed 184 million chicks for meat production as of March 23, 2019 up slightly from the comparable week a year earlier. At March 23, 2019 Georgia broiler chicks placed were at 27.8 million and South Carolina chick placements were at 4.9 million. This was an increase for both states from the same period a year ago. US broiler type eggs set were up 2 percent at 230 million compared to one year ago. Broiler type eggs set in South Carolina were 6.04 million eggs which is up 3 percent from 2018. Georgia showed a slight decrease from 34.8 to 34.1 million eggs set from prior year period. From a year earlier, both Georgia and South Carolina showed increases for egg production – both table and hatching eggs.

According to the First Quarter 2019 market report by TimberMart-South, wet weather created supply chain issues resulting in average prices increasing both pine and hardwood products. This price movement was in line with the seasonal trend in the First Quarter of the year; however, for First Quarter 2019 the seasonal price increase was larger than normal. US housing starts year-to-date through February 2019 totaled 166,000 units, down 8 percent over the same time period in 2018. However, in the South, total housing starts for the same time period were up 4,000 units, approximately a 4 percent increase. The US Census reported residential remodeling activity was \$26 billion through February 2019, a decrease of 2 percent over the same period in 2018.

The Federal Reserve in March 2019 left interest rates unchanged, further indicating a cut back in additional rate hikes for the year as economic growth slows. This was a change from the previous meeting which indicated two rate increases during 2019.

The Conference Board Leading Economic Index (LEI) in the US increased 0.2 percent in February to 111.5 percent, following no change in January and a 0.1 percent decline in December 2018. The Conference Board stated “The US LEI increased in February for the first time in five months. February’s improvement was driven by accommodative financial conditions and a rebound in stock prices, which more than offset weaknesses in the labor market components. Despite the latest results, the US LEI’s growth rate has slowed over the past six months, suggesting that while the economy will continue to expand in the near-term, its pace of growth could decelerate by year end.”

The Conference Board Consumer Confidence Index declined in March, after increasing in February. The index now stands at 124.1, down from 131.4 in February. The Conference Board stated “Consumer Confidence decreased in March after rebounding in February with the present situation the main driver of this month’s decline. Confidence has been somewhat volatile over the past few months, as consumers have had to weather volatility in the financial markets, a partial government shutdown and a very weak February jobs reports. Despite these dynamics, consumers remain confident that the economy will continue expanding in the near term. However, the overall trend in confidence has been softening since last summer pointing to a moderation in economic growth.”

The unemployment rate for the United States was 3.8 percent as of March 2019. Unemployment was 3.9 percent for Georgia and 3.2 percent for South Carolina as of the same reporting period. The unemployment rate in South Carolina has remained unchanged for the last six months, while Georgia has seen a slight increase from 3.7 percent.

## ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of March 31, 2019 was \$1,753,991, a decrease of \$39,461 or 2.20 percent compared to \$1,793,452 at December 31, 2018. Net loans outstanding at March 31, 2019 were \$1,738,674 as compared to \$1,778,008 at December 31, 2018. Net loans accounted for 95.34 percent of total assets at March 31, 2019, as compared to 94.33 percent of total assets at December 31, 2018.

The decrease in gross loan volume during the reporting period is attributed to payments and payoffs on operating lines of credit and term loans. Advances on operating lines are now being processed and growth in the portfolio is anticipated in the second quarter of 2019. Competition for good quality loans remains strong from some commercial banks, but the Association has remained competitive in a difficult rate environment.

The Association typically structures loans to meet the needs of the borrower. Many term loans are made for ten years or less allowing the borrower to build equity faster and thus reducing the risk in the loan portfolio.

At December 31, 2018 the Association held Investments in debt securities totaling \$5,280. These investments are Rural America Bonds made under the authority for Mission Related Investments granted by the Farm Credit Administration (FCA). At March 31, 2019, Investments in debt securities totaled \$5,213, a decrease of \$67 from December 31, 2018. The 1.27 percent decrease is from expected payments made year to date in 2019.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality is at an acceptable level and credit administration remains satisfactory. Nonaccrual loans decreased from \$12,093 at December 31, 2018 to \$10,625 at March 31, 2019. The balance of nonaccrual loans is decreased by liquidations, loans returning to accrual status, or transfer of assets to other property owned offset by transfers to nonaccrual status. Association staff is working diligently to work out all nonaccrual debt situations.

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, 2019 was \$15,317 compared to \$15,444 at December 31, 2018 and was considered by management to be adequate to cover possible losses. The decrease in the allowance account is in conjunction with comparative loan volume during the first quarter of 2019 and represents similar risk characteristics to the portfolio as a whole. The reserve set aside for unfunded commitments is \$683 which is an increase of \$126 compared to the total at December 31, 2018 of \$557. The reserve for unfunded commitments is included in Other liabilities. The Asset/Liability Committee (ALCO) of the Association, which is comprised of members of senior management and staff assigned to special assets management, met in March 2019 to review the allowance account. The ALCO determined that the composition between the allowance for loan losses on the outstanding portfolio and the reserve required for unfunded commitments needed to be adjusted and an additional general reserve was required. The ALCO considered the general economic conditions, the potential for deterioration in the existing portfolio, the loan growth in the portfolio, and the amount of outstanding loan commitments in determining the level of allowance.

As of the end of the first quarter of 2019, the Association had originated \$38,418 in loans for the secondary market. Originations for the same period 2018 were \$34,542. The 11.22 percent increase is due to increased volume as the market continues to remain strong for both refinancing and new home purchases despite rising interest rates. As of March 31, 2019 the Association held \$2,402 in qualifying Loans held for sale. At December 31, 2018 loans held for sale totaled \$359.

Accrued interest receivable decreased \$1,962 or 10.19 percent from \$19,251 to \$17,289. The decrease is directly tied to the decrease in loans outstanding for the current period compared to December 31, 2018.

Investments in other Farm Credit institutions increased from \$24,151 at December 31, 2018 to \$24,203 at March 31, 2019. The slight increase of \$52, or less than one percent, is the result of a slightly higher balance of investment in other Farm Credit institutions related to participations sold on a patronage basis.

Premises and equipment net increased \$154 from \$20,894 at December 31, 2018 to \$21,048 at March 31, 2019. The increase of less than one percent is the result of the purchase of land in Baxley, GA for a new branch office. The increase is also due to the new accounting lease standard and the balance of the leased equipment account.

Other property owned increased to \$4,859 at March 31, 2019 from \$4,627 at December 31, 2018. The increase of \$232 or 5.01 percent in Other property owned is the result of transfers to Other property owned exceeding sales and write-downs of existing Other property owned during the reporting period. The Association is actively marketing all properties for sale. For details, please visit our website at [www.agsouthfc.com](http://www.agsouthfc.com) and click on *Property For Sale*.

Accounts receivable decreased \$20,987 from \$25,162 at December 31, 2018 to \$4,175 at March 31, 2019. The decrease is the result of the patronage distribution receivable at December 31, 2018 from AgFirst and other Farm Credit institutions, which totaled \$12,487 in regular distribution and \$11,805 in a special distribution. As of March 31, 2019 this line item included only one quarter of patronage accrual from AgFirst and other Farm Credit institutions totaling \$3,069.

Other assets increased from \$2,104 at December 31, 2018 to \$2,238 at March 31, 2019. The majority of other assets is made up of prepaid retirement expense which totaled \$1,338 as of March 31, 2019 compared to \$1,336 as of December 31, 2018.

On the liability side of the balance sheet, Notes payable to AgFirst Farm Credit Bank decreased from \$1,461,549 at December 31, 2018 to \$1,411,760 at March 31, 2019. The \$49,789 or 3.41 percent decrease is tied to the decrease in loans outstanding.

Lease obligations totaled \$184 at March 31, 2019. The balance at December 31, 2018 was \$0. The Lease obligations line item was added due to the new accounting lease standard adopted January 1, 2019.

Accrued interest payable decreased \$107 or 2.59 percent from \$4,136 to \$4,029. The decrease is tied to the decrease in the notes outstanding balance and an increase in the weighted average interest rate on the notes payable balance outstanding.

Patronage refunds payable decreased \$8,827 from \$10,361 at December 31, 2018 to \$1,534 at March 31, 2019. The decrease is the result of the cash portion of the 2018 Patronage distribution on the Association's records at December 31, 2018 moving from Patronage refund payable to Other liabilities. This

amount totaled \$10,133 at December 31, 2018. At March 31, 2019 no patronage distribution for 2019 has been declared.

Accounts payable decreased \$877 from \$1,700 at December 31, 2018 to \$823 at March 31, 2019. The 51.59 percent decrease is due to the payable established to pay the insurance premiums on loans to the Farm Credit System Insurance Corporation (FCSIC). At December 31, 2018 the payable related to the FCSIC totaled \$1,172, and at March 31, 2019 the payable was \$291.

Other liabilities increased \$8,475 from \$17,124 at December 31, 2018 to \$25,599 at March 31, 2019. The 49.49 percent increase is due to a payable established for the revolvment of the 2013 Allocated Surplus distribution and the cash portion of the 2018 Patronage distribution. These liabilities will decrease as checks are presented for payment at the commercial bank.

Capital stock and participation certificates increased from \$9,567 at December 31, 2018 to \$9,645 at March 31, 2019. The increase of \$78 or less than one percent is due to new borrowers purchasing stock during the reporting period in excess of liquidations of stock when loans pay out.

Allocated surplus decreased from \$126,003 at December 31, 2018 to \$105,832 at March 31, 2019. This is a decrease of \$20,171 or 16.01 percent. The reduction is from the decision made by the Board of Directors to revolve the 2013 series of Allocated Surplus in February 2019. This revolvment totaled \$20,434. The checks and notices for this revolvment were generated and mailed in March 2019.

Unallocated surplus increased \$9,892 or 3.88 percent from the December 31, 2018 balance of \$254,648. The balance of \$264,540 at March 31, 2019 includes the retention of a portion of 2018 fiscal year end earnings and earnings year to date in 2019.

## RESULTS OF OPERATIONS

### *For the three months ended March 31, 2019*

Net income for the three months ended March 31, 2019 totaled \$10,261 as compared to \$10,836 for the same period in 2018. This is a decrease of \$575 or 5.31 percent. The following commentary explains the variance.

At March 31, 2019 interest income increased \$2,114 from \$24,861 at March 31, 2018 to \$26,975. This increase of 8.50 percent is primarily due to the increase in the weighted average loan yield between the two reporting periods. Nonaccrual income, which is included in interest income, was \$136 for the three months ended March 31, 2019, as compared to \$366 for the same period in 2018.

For the three months ended March 31, 2019 interest income on investments totaled \$86 compared to \$90 for the three months ended March 31, 2018. Investment income declined \$4 or 4.44 percent due to the lower outstanding balance of investments between the two reporting periods.

Interest expense for the three months ended March 31, 2019 increased \$1,746 from \$10,094 at March 31, 2018 to \$11,840 at March 31, 2019. The variance is 17.30 percent and is tied to the weighted average direct note rate between the two reporting periods.

Net interest income before the provision for loan loss increased \$368 for the three months ended March 31, 2019 as compared to the same period in 2018 due primarily to the increased earnings on a higher balance of average earning assets.

Net interest income after the provision for loan losses increased \$350 during the quarter ending March 31, 2019 compared to March 31, 2018. A net provision for loan losses of \$0 was made in the quarter ending March 31, 2019. The provision entry represents an adjustment between the general provision and the unfunded commitments provision which is booked to Other liabilities.

Noninterest income decreased \$950 over the same period last year. The commentary that follows will detail the aggregate difference.

Loan fees increased \$128 or 17.63 percent due to an increase in late fees and SMM origination fees earned during the quarter compared to the same period in 2018.

Fees for financially related services decreased \$62 from \$412 at March 31, 2018 to \$350 at March 31, 2019. The decrease of 15.05 percent is due to decrease in commissions earned on the sale of multi-peril crop insurance during the reporting period.

Patronage refunds from other Farm Credit institutions decreased \$213 from \$3,328 at March 31, 2018 to \$3,115 at March 31, 2019. The decrease of 6.40 percent is related to a decrease in loans sold to AgFirst and other Farm Credit Institutions. See *Note 2* for more information.

Gains on the sale of rural home loans increased \$47 from \$463 at March 31, 2018 compared to \$510 at March 31, 2019. An increase in originations between the two reporting periods resulted in the increased gains.

Gains on the sale of premises and equipment for the period ending March 31, 2019 totaled \$0 compared to \$35 for the period ending March 31, 2018.

Losses on other transactions totaled \$83 at March 31, 2019. For the same period in 2018, Gains on other transactions totaled \$77. The difference of \$160 is directly related to the increase in allowance for unfunded commitments of \$126.

Insurance Fund refunds totaled \$366 at March 31, 2019 compared to \$989 during the three months ended March 31, 2018. The decrease of \$623 or 62.99 percent is tied to the lower refund amount given to the AgFirst District by the Farm Credit System Insurance Corporation compared to last year.

Other noninterest income was \$39 during the three months ended March 31, 2019 compared to \$71 for the three months ending March 31, 2018. This line item captures the volume premium paid by AgFirst for secondary market loans sold to AgFirst.

Noninterest expense for the three months ended March 31, 2019 totaled \$10,025 and decreased \$25 or less than one percent when compared to \$10,050 for the same period of 2018. Salaries and employee benefits expense are the largest portion of noninterest expense and totaled \$7,178 for the three months ended March 31, 2019. Salaries and employee benefits increased \$384 between the two reporting periods. The majority of the 5.65 percent increase is tied to an increase in expense related to the pension plan and incentive between the reporting periods.

Occupancy and equipment expense at March 31, 2019 was \$706 compared to \$753 for the same period in 2018. This is a decrease of \$47 or 6.24 percent. The decrease is tied to furniture purchases made in 2018 for the Statesboro Operations Center not being warranted in 2019.

The Insurance Fund premiums at March 31, 2018 was \$280 and at March 31, 2019 it was \$291. The \$11 or 3.93 percent increase is due to the higher premium on accruing loans assessed in 2019 by the Insurance Fund.

In the three months ending March 31, 2019 the Association experienced losses on the sale of Other property owned in the amount of \$84. During the same period of 2018, the Association booked gains on the sale of Other property owned of \$4. The losses and expenses incurred in 2019 included write-downs on some of the properties at sale or when a new appraisal was received justifying the write-down.

Other operating expenses decreased \$461 from \$2,227 at March 31, 2018 compared to \$1,766 at March 31, 2019. The decrease of 20.70 percent is primarily attributed to a decrease in purchased services, advertising, phone service expenses, and other expenses between the reporting periods. Other operating expenses also include communications, printing and office supplies and all other expenses necessary to run the business.

## FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (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 Bank advances the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2019 was \$1,411,760 as compared to \$1,461,549 at December 31, 2018. The \$49,789 decrease, or 3.41 percent, is directly tied to a decrease in loan volume.

## CAPITAL RESOURCES

Total members' equity at December 31, 2018 totaled \$389,992. At March 31, 2019 total members' equity had decreased by \$10,201 to \$379,791. The decrease in total members' equity is due to the increase in Unallocated retained earnings offset by a decrease in Allocated retained earnings between the two reporting periods. At December 31, 2018 Allocated retained earnings totaled \$126,003 compared to \$105,832 at March 31, 2019. The decrease is due to the revolvment of the 2013 series of allocated surplus in the first quarter of 2019. At December 31, 2018 Unallocated retained earnings totaled 254,648 and increased to \$264,540. The increase in Unallocated retained earnings is due to the decision to retain a portion of the 2018 earnings for capital purposes and year to date 2019 earnings.

Total Capital stock and participation certificates were \$9,645 on March 31, 2019 compared to \$9,567 on December 31, 2018. The increase is attributed to the purchase of new stock and participation certificates for new borrowing entities offset by the retirement of stock and participation certificates on loans liquidated in the normal course of business.

The Association's capital ratios are calculated in accordance with FCA regulations, as follows:

- The CET1 ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvment, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- The total capital ratio is tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the

corresponding deduction approach, divided by average risk-adjusted assets.

The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.

- The tier 1 leverage ratio is tier 1 capital, divided by average assets less regulatory deductions to tier 1 capital.
- The UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to

revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions to tier 1 capital.

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.

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

<b>Ratio</b>	<b>Minimum Requirement</b>	<b>Capital Conservation Buffer*</b>	<b>Minimum Requirement with Capital Conservation Buffer</b>	<b>Capital Ratios as of March 31, 2019</b>
Risk-adjusted ratios:				
CET1 Capital	4.5%	0.625%	6.375%	14.29%
Tier 1 Capital	6.0%	0.625%	7.875%	14.29%
Total Capital	8.0%	0.625%	9.875%	21.97%
Permanent Capital Ratio	7.0%	0.0%	7.625%	21.23%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	13.65%
UREE Leverage Ratio	1.5%	0.0%	1.5%	13.52%

*\*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.*

## REGULATORY MATTERS

On April 3, 2019, the Farm Credit Administration issued a proposed rule that would clarify the factors that System institutions should consider when categorizing high-risk loans and placing them in nonaccrual status. The rule would also revise the criteria by which loans are reinstated to accrual status, and would revise the application of the criteria to certain loans in nonaccrual status to distinguish between the types of risk that cause loans to be placed in nonaccrual status. The public comment periods ends on June 3, 2019.



## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

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

**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 1-800-633-9091, ext. 2674, writing Bo Fennell, CFO, AgSouth Farm Credit, ACA, P.O. Box 718, Statesboro, GA 30459, or accessing the Association’s website [www.agsouthfc.com](http://www.agsouthfc.com). The Association prepares an electronic version of the Annual Report which is available on the Association’s web site within 75 days after the end of the fiscal year and distributes the Annual report to Shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the 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.

Reports of suspected or actual wrongdoings involving the Association, its employees and/or Directors, can be made anonymously and confidentially through the Association’s Whistleblower Hotline (SpeakUp) at 1-844-850-6496 or [www.convercent.com/report](http://www.convercent.com/report).

# AgSouth Farm Credit, ACA

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2019 <i>(unaudited)</i>	December 31, 2018 <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 3,619	\$ 5,026
Investments in debt securities:		
Held to maturity (fair value of \$5,434 and \$5,419, respectively)	5,213	5,280
Loans	1,753,991	1,793,452
Allowance for loan losses	(15,317)	(15,444)
Net loans	1,738,674	1,778,008
Loans held for sale	2,402	359
Accrued interest receivable	17,289	19,251
Equity investments in other Farm Credit institutions	24,203	24,151
Premises and equipment, net	21,048	20,894
Other property owned	4,859	4,627
Accounts receivable	4,175	25,162
Other assets	2,238	2,104
Total assets	\$ 1,823,720	\$ 1,884,862
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 1,411,760	\$ 1,461,549
Lease obligations	184	—
Accrued interest payable	4,029	4,136
Patronage refunds payable	1,534	10,361
Accounts payable	823	1,700
Other liabilities	25,599	17,124
Total liabilities	1,443,929	1,494,870
Commitments and contingencies (Note 8)		
<b>Members' Equity</b>		
Capital stock and participation certificates	9,645	9,567
Retained earnings		
Allocated	105,832	126,003
Unallocated	264,540	254,648
Accumulated other comprehensive income (loss)	(226)	(226)
Total members' equity	379,791	389,992
Total liabilities and members' equity	\$ 1,823,720	\$ 1,884,862

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

**AgSouth Farm Credit, ACA**  
**Consolidated Statements of Income**

(unaudited)

<i>(dollars in thousands)</i>	<b>For the three months ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Interest Income</b>		
Loans	\$ 26,889	\$ 24,771
Investments	86	90
Total interest income	26,975	24,861
<b>Interest Expense</b>		
Notes payable to AgFirst Farm Credit Bank	11,840	10,028
Other	—	66
Total interest expense	11,840	10,094
Net interest income	15,135	14,767
Provision for (reversal of allowance for) loan losses	—	(18)
Net interest income after provision for (reversal of allowance for) loan losses	15,135	14,785
<b>Noninterest Income</b>		
Loan fees	854	726
Fees for financially related services	350	412
Patronage refunds from other Farm Credit institutions	3,115	3,328
Gains (losses) on sales of rural home loans, net	510	463
Gains (losses) on sales of premises and equipment, net	—	35
Gains (losses) on other transactions	(83)	77
Insurance Fund refunds	366	989
Other noninterest income	39	71
Total noninterest income	5,151	6,101
<b>Noninterest Expense</b>		
Salaries and employee benefits	7,178	6,794
Occupancy and equipment	706	753
Insurance Fund premiums	291	280
(Gains) losses on other property owned, net	84	(4)
Other operating expenses	1,766	2,227
Total noninterest expense	10,025	10,050
Income before income taxes	10,261	10,836
Provision for income taxes	—	—
Net income	\$ 10,261	\$ 10,836

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

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AgSouth Farm Credit, ACA

# Consolidated Statements of Comprehensive Income

*(unaudited)*

For the three months  
ended March 31,

2019                      2018

*(dollars in thousands)*

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Net income	\$ 10,261	\$ 10,836
<b>Other comprehensive income net of tax</b>		
Employee benefit plans adjustments	—	2
Comprehensive income	<b>\$ 10,261</b>	<b>\$ 10,838</b>

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

**AgSouth Farm Credit, 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, 2017	\$ 9,097	\$ 121,876	\$ 234,892	\$ (374)	\$ 365,491
Comprehensive income			10,836	2	10,838
Capital stock/participation certificates issued/(retired), net	93				93
Retained earnings retired		(19,426)			(19,426)
Patronage distribution adjustment		(14)	20		6
<b>Balance at March 31, 2018</b>	<b>\$ 9,190</b>	<b>\$ 102,436</b>	<b>\$ 245,748</b>	<b>\$ (372)</b>	<b>\$ 357,002</b>
<b>Balance at December 31, 2018</b>	<b>\$ 9,567</b>	<b>\$ 126,003</b>	<b>\$ 254,648</b>	<b>\$ (226)</b>	<b>\$ 389,992</b>
<b>Cumulative effect of change in accounting principle</b>			<b>8</b>		<b>8</b>
<b>Comprehensive income</b>			<b>10,261</b>		<b>10,261</b>
<b>Capital stock/participation certificates issued/(retired), net</b>	<b>78</b>				<b>78</b>
<b>Retained earnings retired</b>		<b>(20,435)</b>			<b>(20,435)</b>
<b>Patronage distribution adjustment</b>		<b>264</b>	<b>(377)</b>		<b>(113)</b>
<b>Balance at March 31, 2019</b>	<b>\$ 9,645</b>	<b>\$ 105,832</b>	<b>\$ 264,540</b>	<b>\$ (226)</b>	<b>\$ 379,791</b>

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

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*AgSouth Farm Credit, ACA*

# Notes to the Consolidated Financial Statements

*(dollars in thousands, except as noted)  
(unaudited)*

## **Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements**

### ***Organization***

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

### ***Basis of Presentation***

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

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

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

### ***Significant Accounting Policies***

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

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

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

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

### ***Accounting Standards Updates (ASUs) Issued During the Period***

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

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

### ***ASUs Pending Effective Date***

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

Potential effects of ASUs issued in previous periods:

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

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

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

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

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

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

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

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

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

Transition Information

- The guidance was adopted using the optional modified retrospective method and practical expedients for transition. Under this transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.
- The package of practical expedients was elected, which allowed existing leases to be largely accounted for consistent with current guidance, except for the incremental balance sheet recognition for lessees.
- There will not be a material change to the timing of future expense recognition.
- Upon adoption, a cumulative-effect adjustment to equity of approximately \$8 was recorded. In addition, a Right of Use Asset in the amount of \$218 and Lease Liability in the amount of \$210 were recognized.

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

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

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

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

A summary of loans outstanding at period end follows:

	March 31, 2019	December 31, 2018
Real estate mortgage	\$ 1,350,132	\$ 1,336,239
Production and intermediate-term	295,382	348,156
Processing and marketing	22,697	21,505
Farm-related business	21,439	23,992
Rural residential real estate	63,905	63,124
Other (including Mission Related)	436	436
Total loans	<u>\$ 1,753,991</u>	<u>\$ 1,793,452</u>

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

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

**March 31, 2019**

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 3,563	\$ 146,595	\$ 424	\$ 9,551	\$ —	\$ —	\$ 3,987	\$ 156,146
Production and intermediate-term	—	46,955	644	—	4,081	—	4,725	46,955
Processing and marketing	—	24,341	297	22,688	—	—	297	47,029
Farm-related business	3,290	1,561	—	—	—	—	3,290	1,561
Total	<u>\$ 6,853</u>	<u>\$ 219,452</u>	<u>\$ 1,365</u>	<u>\$ 32,239</u>	<u>\$ 4,081</u>	<u>\$ —</u>	<u>\$ 12,299</u>	<u>\$ 251,691</u>



**December 31, 2018**

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 3,268	\$ 162,669	\$ 434	\$ 9,551	\$ —	\$ —	\$ 3,702	\$ 172,220
Production and intermediate-term	—	53,384	618	—	4,175	—	4,793	53,384
Processing and marketing	—	20,254	293	18,039	—	—	293	38,293
Farm-related business	3,358	11,362	—	—	—	—	3,358	11,362
Total	\$ 6,626	\$ 247,669	\$ 1,345	\$ 27,590	\$ 4,175	\$ —	\$ 12,146	\$ 275,259

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

**March 31, 2019**

	Due Less Than 1 Year	Due 1 Through 5 Years	Due After 5 Years	Total
Real estate mortgage	\$ 41,544	\$ 220,459	\$ 1,088,129	\$ 1,350,132
Production and intermediate-term	145,059	113,491	36,832	295,382
Processing and marketing	4,492	6,860	11,345	22,697
Farm-related business	4,346	9,455	7,638	21,439
Rural residential real estate	5,269	1,805	56,831	63,905
Other (including Mission Related)	—	—	436	436
Total loans	\$ 200,710	\$ 352,070	\$ 1,201,211	\$ 1,753,991
Percentage	11.44%	20.07%	68.49%	100.00%

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

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

	March 31, 2019	December 31, 2018		March 31, 2019	December 31, 2018
<b>Real estate mortgage:</b>			<b>Rural residential real estate:</b>		
Acceptable	97.28%	97.46%	Acceptable	98.63%	98.34%
OAEM	1.98	1.90	OAEM	0.76	0.98
Substandard/doubtful/loss	0.74	0.64	Substandard/doubtful/loss	0.61	0.68
	100.00%	100.00%		100.00%	100.00%
<b>Production and intermediate-term:</b>			<b>Other (including Mission Related):</b>		
Acceptable	95.93%	96.76%	Acceptable	100.00%	100.00%
OAEM	2.34	2.48	OAEM	—	—
Substandard/doubtful/loss	1.73	0.76	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
<b>Processing and marketing:</b>			<b>Total loans:</b>		
Acceptable	89.67%	94.32%	Acceptable	96.93%	97.27%
OAEM	—	—	OAEM	2.04	2.00
Substandard/doubtful/loss	10.33	5.68	Substandard/doubtful/loss	1.03	0.73
	100.00%	100.00%		100.00%	100.00%
<b>Farm-related business:</b>					
Acceptable	91.26%	94.11%			
OAEM	7.33	4.59			
Substandard/doubtful/loss	1.41	1.30			
	100.00%	100.00%			

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

**March 31, 2019**

	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	\$ 7,873	\$ 1,681	\$ 9,554	\$ 1,352,252	\$ 1,361,806
Production and intermediate-term	5,633	1,521	7,154	293,145	300,299
Processing and marketing	269	666	935	21,990	22,925
Farm-related business	1,128	257	1,385	20,200	21,585
Rural residential real estate	857	191	1,048	63,149	64,197
Other (including Mission Related)	—	—	—	438	438
Total	15,760	4,316	20,076	1,751,174	1,771,250

**December 31, 2018**

	<b>30 Through 89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total Past Due</b>	<b>Not Past Due or Less Than 30 Days Past Due</b>	<b>Total Loans</b>
Real estate mortgage	\$ 6,254	\$ 2,483	\$ 8,737	\$ 1,339,698	\$ 1,348,435
Production and intermediate-term	2,687	1,693	4,380	350,162	354,542
Processing and marketing	281	666	947	20,809	21,756
Farm-related business	152	194	346	23,808	24,154
Rural residential real estate	400	80	480	62,869	63,349
Other (including Mission Related)	-	-	-	437	437
Total	<u>\$ 9,774</u>	<u>\$ 5,116</u>	<u>\$ 14,890</u>	<u>\$ 1,797,783</u>	<u>\$ 1,812,673</u>

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

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 5,861	\$ 6,798
Production and intermediate-term	3,559	4,008
Processing and marketing	666	667
Farm-related business	305	313
Rural residential real estate	234	307
Total	<u>\$ 10,625</u>	<u>\$ 12,093</u>
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 6,956	\$ 6,579
Production and intermediate-term	329	273
Rural residential real estate	175	136
Total	<u>\$ 7,460</u>	<u>\$ 6,988</u>
<b>Accruing loans 90 days or more past due:</b>		
Total	<u>\$ -</u>	<u>\$ -</u>
Total nonperforming loans	\$ 18,085	\$ 19,081
Other property owned	4,859	4,627
Total nonperforming assets	<u>\$ 22,944</u>	<u>\$ 23,708</u>
Nonaccrual loans as a percentage of total loans	0.61%	0.67%
Nonperforming assets as a percentage of total loans and other property owned	1.30%	1.32%
Nonperforming assets as a percentage of capital	<u>6.04%</u>	<u>6.08%</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.

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 4,774	\$ 4,810
Past due	5,851	7,283
Total	<u>\$ 10,625</u>	<u>\$ 12,093</u>
<b>Impaired accrual loans:</b>		
Restructured	\$ 7,460	\$ 6,988
90 days or more past due	-	-
Total	<u>\$ 7,460</u>	<u>\$ 6,988</u>
Total impaired loans	<u>\$ 18,085</u>	<u>\$ 19,081</u>
Additional commitments to lend	<u>\$ -</u>	<u>\$ -</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:	March 31, 2019			Three Months Ended March 31, 2019	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ -	\$ -	\$ -	\$ -	\$ -
Production and intermediate-term	1,231	1,336	310	1,255	16
Processing and marketing	-	-	-	-	-
Farm-related business	-	-	-	-	-
Rural residential real estate	-	-	-	-	-
Total	\$ 1,231	\$ 1,336	\$ 310	\$ 1,255	\$ 16
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 12,817	\$ 14,785	\$ -	\$ 13,076	\$ 167
Production and intermediate-term	2,657	4,244	-	2,712	35
Processing and marketing	666	652	-	680	9
Farm-related business	305	397	-	311	4
Rural residential real estate	409	466	-	417	5
Total	\$ 16,854	\$ 20,544	\$ -	\$ 17,196	\$ 220
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 12,817	\$ 14,785	\$ -	\$ 13,076	\$ 167
Production and intermediate-term	3,888	5,580	310	3,967	51
Processing and marketing	666	652	-	680	9
Farm-related business	305	397	-	311	4
Rural residential real estate	409	466	-	417	5
Total	\$ 18,085	\$ 21,880	\$ 310	\$ 18,451	\$ 236

Impaired loans:	December 31, 2018			Year Ended December 31, 2018	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 255	\$ 255	\$ 54	\$ 264	\$ 17
Production and intermediate-term	332	488	32	343	21
Processing and marketing	-	-	-	-	-
Farm-related business	-	-	-	-	-
Rural residential real estate	-	-	-	-	-
Total	\$ 587	\$ 743	\$ 86	\$ 607	\$ 38
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 13,122	\$ 15,145	\$ -	\$ 13,571	\$ 857
Production and intermediate-term	3,949	5,469	-	4,085	259
Processing and marketing	667	652	-	689	43
Farm-related business	313	397	-	324	20
Rural residential real estate	443	505	-	459	29
Total	\$ 18,494	\$ 22,168	\$ -	\$ 19,128	\$ 1,208
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 13,377	\$ 15,400	\$ 54	\$ 13,835	\$ 874
Production and intermediate-term	4,281	5,957	32	4,428	280
Processing and marketing	667	652	-	689	43
Farm-related business	313	397	-	324	20
Rural residential real estate	443	505	-	459	29
Total	\$ 19,081	\$ 22,911	\$ 86	\$ 19,735	\$ 1,246

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*	Rural Residential Real Estate	Other (including Mission Related)	Total
<b>Activity related to the allowance for credit losses:</b>						
Balance at December 31, 2018	\$ 11,485	\$ 3,032	\$ 385	\$ 538	\$ 4	\$ 15,444
Charge-offs	(47)	(210)	—	—	—	(257)
Recoveries	104	19	1	6	—	130
Provision for loan losses	12	(1)	(13)	2	—	—
Balance at March 31, 2019	\$ 11,554	\$ 2,840	\$ 373	\$ 546	\$ 4	\$ 15,317
Balance at December 31, 2017	\$ 11,214	\$ 2,797	\$ 280	\$ 520	\$ 4	\$ 14,815
Charge-offs	(55)	(62)	—	(89)	—	(206)
Recoveries	150	131	1	5	—	287
Provision for loan losses	77	(206)	23	88	—	(18)
Balance at March 31, 2018	\$ 11,386	\$ 2,660	\$ 304	\$ 524	\$ 4	\$ 14,878
<b>Allowance on loans evaluated for impairment:</b>						
Individually	\$ —	\$ 310	\$ —	\$ —	\$ —	\$ 310
Collectively	11,554	2,530	373	546	4	15,007
Balance at March 31, 2019	\$ 11,554	\$ 2,840	\$ 373	\$ 546	\$ 4	\$ 15,317
Individually	\$ 54	\$ 32	\$ —	\$ —	\$ —	\$ 86
Collectively	11,431	3,000	385	538	4	15,358
Balance at December 31, 2018	\$ 11,485	\$ 3,032	\$ 385	\$ 538	\$ 4	\$ 15,444
<b>Recorded investment in loans evaluated for impairment:</b>						
Individually	\$ 12,948	\$ 4,896	\$ 971	\$ 409	\$ —	\$ 19,224
Collectively	1,348,858	295,403	43,539	63,788	438	1,752,026
Balance at March 31, 2019	\$ 1,361,806	\$ 300,299	\$ 44,510	\$ 64,197	\$ 438	\$ 1,771,250
Individually	\$ 13,598	\$ 4,285	\$ 980	\$ 445	\$ —	\$ 19,308
Collectively	1,334,837	350,257	44,930	62,904	437	1,793,365
Balance at December 31, 2018	\$ 1,348,435	\$ 354,542	\$ 45,910	\$ 63,349	\$ 437	\$ 1,812,673

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented.

Outstanding Recorded Investment	Three Months Ended March 31, 2019				
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
<b>Pre-modification:</b>					
Real estate mortgage	\$ —	\$ 243	\$ —	\$ 243	
Production and intermediate-term	171	58	—	229	
Total	\$ 171	\$ 301	\$ —	\$ 472	
<b>Post-modification:</b>					
Real estate mortgage	\$ —	\$ 245	\$ —	\$ 245	\$ —
Production and intermediate-term	164	91	—	255	—
Total	\$ 164	\$ 336	\$ —	\$ 500	\$ —
Outstanding Recorded Investment	Three Months Ended March 31, 2018				
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
<b>Pre-modification:</b>					
Real estate mortgage	\$ 203	\$ —	\$ —	\$ 203	
Production and intermediate-term	116	—	—	116	
Total	\$ 319	\$ —	\$ —	\$ 319	
<b>Post-modification:</b>					
Real estate mortgage	\$ 208	\$ —	\$ —	\$ 208	\$ —
Production and intermediate-term	116	—	—	116	—
Total	\$ 324	\$ —	\$ —	\$ 324	\$ —

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

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

	Three Months Ended March 31,	
	2019	2018
Real estate mortgage	\$ —	\$ 254
Production and intermediate-term	—	962
Total	\$ —	\$ 1,216

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

	Total TDRs		Nonaccrual TDRs	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Real estate mortgage	\$ 10,335	\$ 10,633	\$ 3,379	\$ 4,054
Production and intermediate-term	1,560	1,545	1,231	1,272
Farm-related business	3	3	3	3
Rural residential real estate	175	171	—	35
Total loans	\$ 12,073	\$ 12,352	\$ 4,613	\$ 5,364
Additional commitments to lend	\$ —	\$ —		

The following table presents information as of period end:

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

### Note 3 — Investments

#### Investments in Debt Securities

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have different eligibility requirements. At March 31, 2019, the Association held no RABs whose credit quality had deteriorated beyond the program limits.

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

	March 31, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 5,213	\$ 221	\$ —	\$ 5,434	6.55%

	December 31, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 5,280	\$ 139	\$ —	\$ 5,419	6.41%

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

	March 31, 2019		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ —	\$ —	—%
After one year through five years	—	—	—
After five years through ten years	956	994	5.50
After ten years	4,257	4,440	6.78
Total	\$ 5,213	\$ 5,434	6.55%

Some of these investments have 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. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified. The Association had no investments that were in a continuous unrealized loss position for the periods presented.

The recording of an impairment is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether

management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

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

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

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

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

#### ***Equity Investments in Other Farm Credit System Institutions***

Equity investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. These investments are carried at cost and evaluated for impairment based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 7.26 percent of the issued stock of the Bank as of March 31, 2019 net of any reciprocal investment. As of that date, the Bank's assets totaled \$32.7 billion and shareholders' equity totaled \$2.3 billion. The Bank's earnings were \$67 million for the first three months of 2019. In addition, the Association held investments of \$4,473 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 March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Employee Benefit Plans:</b>		
Balance at beginning of period	\$ (226)	\$ (374)
Other comprehensive income before reclassifications	-	-
Amounts reclassified from AOCI	-	2
Net current period other comprehensive income	-	2
Balance at end of period	\$ (226)	\$ (372)

	Reclassifications Out of Accumulated Other Comprehensive Income (b)		
	Three Months Ended March 31,		
	2019	2018	Income Statement Line Item
<b>Defined Benefit Pension Plans:</b>			
Periodic pension costs	\$ —	\$ (2)	See Note 7.
Net amounts reclassified	\$ —	\$ (2)	

(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, 2019				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Recurring Measurements</b>					
<b>Assets:</b>					
Assets held in trust funds	\$ 1,945	\$ 1,945	\$ —	\$ —	\$ 1,945
Recurring Assets	\$ 1,945	\$ 1,945	\$ —	\$ —	\$ 1,945
<b>Liabilities:</b>					
Recurring Liabilities	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Nonrecurring Measurements</b>					
<b>Assets:</b>					
Impaired loans	\$ 921	\$ —	\$ —	\$ 921	\$ 921
Other property owned	4,859	—	—	5,392	5,392
Nonrecurring Assets	\$ 5,780	\$ —	\$ —	\$ 6,313	\$ 6,313
<b>Other Financial Instruments</b>					
<b>Assets:</b>					
Cash	\$ 3,619	\$ 3,619	\$ —	\$ —	\$ 3,619
Investment securities, held-to-maturity	5,213	—	—	5,434	5,434
Loans	1,740,155	—	—	1,740,392	1,740,392
Other Financial Assets	\$ 1,748,987	\$ 3,619	\$ —	\$ 1,745,826	\$ 1,749,445
<b>Liabilities:</b>					
Notes payable to AgFirst Farm Credit Bank	\$ 1,411,760	\$ —	\$ —	\$ 1,403,886	\$ 1,403,886
Other Financial Liabilities	\$ 1,411,760	\$ —	\$ —	\$ 1,403,886	\$ 1,403,886

December 31, 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	\$ 2,006	\$ 2,006	\$ –	\$ –	\$ 2,006
Recurring Assets	\$ 2,006	\$ 2,006	\$ –	\$ –	\$ 2,006
<b>Liabilities:</b>					
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –
<b>Nonrecurring Measurements</b>					
<b>Assets:</b>					
Impaired loans	\$ 501	\$ –	\$ –	\$ 501	\$ 501
Other property owned	4,627	–	–	5,103	5,103
Nonrecurring Assets	\$ 5,128	\$ –	\$ –	\$ 5,604	\$ 5,604
<b>Other Financial Instruments</b>					
<b>Assets:</b>					
Cash	\$ 5,026	\$ 5,026	\$ –	\$ –	\$ 5,026
Investment securities, held-to-maturity	5,280	–	–	5,419	5,419
Loans	1,777,866	–	–	1,763,220	1,763,220
Other Financial Assets	\$ 1,788,172	\$ 5,026	\$ –	\$ 1,768,639	\$ 1,773,665
<b>Liabilities:</b>					
Notes payable to AgFirst Farm Credit Bank	\$ 1,461,549	\$ –	\$ –	\$ 1,439,810	\$ 1,439,810
Other Financial Liabilities	\$ 1,461,549	\$ –	\$ –	\$ 1,439,810	\$ 1,439,810

## 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.

### Investment Securities

The fair values of predominantly all Level 3 investment securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these Level 3 assets.

### Inputs to Valuation Techniques

Management determines the Association's valuation policies and procedures. The Bank performs the majority of the Association's valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

Quoted market prices are generally not available for the instruments presented below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.



**Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements**

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 6,313	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
Investment securities, held-to-maturity	Discounted cash flow	Prepayment rates Risk-adjusted discount rate
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

**Note 7 — Employee Benefit Plans**

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

	Three Months Ended March 31,	
	2019	2018
Pension	\$ 944	\$ 1,367
401(k)	309	225
Other postretirement benefits	234	234
Total	\$ 1,487	\$ 1,826

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

	Actual YTD Through 3/31/19	Projected Contributions For Remainder of 2019	Projected Total Contributions 2019
Pension	\$ 40	\$ 3,803	\$ 3,843
Other postretirement benefits	234	676	910
Total	\$ 274	\$ 4,479	\$ 4,753

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2019.

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

**Note 8 — Commitments and Contingent Liabilities**

From time to time, legal actions are pending against the Association in which claims for monetary 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.

**Note 9 — Subsequent Events**

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