
AgSouth Farm Credit, ACA

FIRST QUARTER 2018

TABLE OF CONTENTS

Report on Internal Control Over Financial Reporting2

Management’s Discussion and Analysis of
Financial Condition and Results of Operations3

Consolidated Financial Statements

Consolidated Balance Sheets 10

Consolidated Statements of Income..... 11

Consolidated Statements of Comprehensive Income 12

Consolidated Statements of Changes in Members’ Equity 13

Notes to the Consolidated Financial Statements..... 14

CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2018 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, 2018

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

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



Pat Calhoun
Chief Executive Officer



Bo Fennell
Chief Financial Officer

May 9, 2018

AgSouth Farm Credit, 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 AgSouth Farm Credit, ACA (Association) for the period ended March 31, 2018. This information should be read in conjunction with the accompanying financial statements, notes to the financial statements, and the 2017 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 poultry (broilers, turkeys and eggs), timber, sod and nursery, feed grains, soybeans and hay, cotton, horses, blueberries, fruits, nuts and beef cattle. Loans to producers of these commodities total \$1,438,356 or 84.84 percent of the Association's portfolio. Farm size varies, and many of the Association 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

USDA released their report on the Value of Production for Field and Miscellaneous Crops on February 26, 2018. The value of the United States field and miscellaneous crops was estimated to be \$141.4 billion in 2017, which was a slight decrease from 2016. Crop values in South Carolina totaled \$760 million, a 33 percent increase from 2016's hurricane damaged season and the total crop values in Georgia totaled \$2.1 billion in 2017, a 14 percent increase over 2016. Peanuts and cotton reflected the highest increases in both states year over year.

According to the 2018 USDA Prospective Plantings report released on March 29th, the United States soybean crop is estimated to be 89.0 million acres which is down 1 percent from last year. The United States corn crop is estimated to be 88.0 million acres, down 2 percent from 2017. The United States cotton crop is estimated to be 13.5 million acres, up 7 percent from last year. The United States peanut crop is estimated to be 1.54 million acres, down 18 percent from 2017. In South Carolina, the corn crop is estimated to be 340,000 acres, down 3 percent from 2017, while in Georgia corn is estimated to be 330,000, which is up 14 percent over 2017. South Carolina cotton crop is estimated to be 285,000 acres, up 14 percent from 2017, and cotton in Georgia is expected to be 1.45 million acres in 2018, up 13 percent. The peanut crop in South Carolina is estimated to be 100,000 acres, down 18 percent from 2017, and 720,000 acres in Georgia, down 14 percent from 2017. Soybeans to be planted in South Carolina are estimated to be 380,000 acres, this is down 5 percent from 2017, and 170,000 acres expected in Georgia, up 10 percent. Winter wheat planted in South Carolina is 75,000 acres, down 17 percent from 2017, and 180,000 acres in Georgia, up 13 percent from 2017.

Weather in both states for the first quarter of 2018 consisted of a cold January, a warmer than normal February, followed by a

very cool March. As of April 8, 2018, the National Agricultural Statistics Service (NASS) reported South Carolina Soil Moisture as being 81 percent adequate and Georgia as being 83 percent adequate – both of which are above the most recent five year average. Corn planting was delayed due to soil temperatures being too cold to plant; therefore, corn planting is considered 37 percent complete in South Carolina and 63 percent complete in Georgia as of first quarter end 2018. Peaches suffered a major production hit in March 2017 due to a very warm February followed by three days of extreme cold. While we had a similar weather pattern in 2018, it was not as severe as 2017. Peaches have reached 95 percent blooming stage and the crop is rated as 5 percent very poor, 5 percent poor, 46 percent fair, and 44 percent good in South Carolina and similarly in Georgia at 8 percent very poor, 17 percent poor, 23 percent fair, 48 percent good and 4 percent excellent.

The blueberry crop was hurt by the cold weather in March of 2018; however, not to the extent that it was in 2017. The Georgia blueberry crop is rated 13 percent very poor, 20 percent poor, 20 percent fair, 40 percent good and 7 percent excellent by the USDA as of first quarter end 2018.

The Vidalia sweet onion crop is rated 87 percent good and 13 percent fair as of the USDA 2018 April report.

Cattle conditions in both states is very good. Pasture conditions are rated near 60 percent good to excellent and 34 percent fair. Both live and feeder cattle prices have fallen from the 4th quarter 2017 highs of \$139.00 cwt back to mid-summer 2017 levels of \$114.00 cwt. The Cattle Inventory Report released in January showed all cattle and calves in the United States as of January 1, 2018 totaled 94.4 million head which was 1 percent above the 93.7 million head on January 1, 2017.

Domestic broiler growers placed 183.3 million chicks for meat production as of first quarter end 2018, which is up 1 percent from the comparable period a year earlier. Communication with integrators has indicated profit margins remain favorable primarily due to lower feed costs. Some Integrators are showing interest in adding additional poultry houses at this time.

Lumber markets remain strong. Prices have steadily increased since March 2017 and are nearing all-time highs previously reached in 1994 and 2004. Average timber stumpage prices have strengthened only slightly in the first quarter of 2018 over 2017. Pine pulpwood and saw-timber showing slight improvement of 1 to 2 percent, hardwood saw-timber is up 5 percent, and hardwood pulpwood is up nearly 4 percent over same period one year ago.

According to United States Census total, housing starts were up 3.5 percent through February 2018 compared to the same period in 2017. Residential remodeling activity is up by 5 percent compared to the same period in 2017.

The United States unemployment rate was 4.1 percent in March of 2018 for the sixth consecutive month. Unemployment in South Carolina is 4.4 percent and remains unchanged since the first quarter of 2017. The unemployment rate in Georgia is 4.5 percent. Although this is higher than in South Carolina and nationally, it has decreased from 5.3 percent since the first quarter of 2017.

ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of March 31, 2018, was \$1,695,443, a decrease of \$14,655 or less than one percent compared to \$1,710,098 at December 31, 2017. Net loans outstanding at March 31, 2018 were \$1,680,565 as compared to \$1,695,283 at December 31, 2017. Net loans accounted for 95.43 percent of total assets at March 31, 2018, as compared to 94.14 percent of total assets at December 31, 2017.

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 funds are now being processed and growth in the portfolio is anticipated in the second quarter of 2018. 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, 2017, the Association held Investment securities totaling \$5,533. These investments are Rural America Bonds made under the authority for Mission Related Investments granted by the Farm Credit Administration (FCA). At March 31, 2018, investment securities totaled \$5,470, a decrease of \$63 from December 31, 2017. The 1.14 percent decrease is from payments made year to date in 2018.

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 \$14,978 at December 31, 2017, to \$13,820 at March 31, 2018. 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, 2018, was \$14,878 compared to \$14,815 at December 31, 2017, and was considered by management to be adequate to cover possible losses. The slight increase in the allowance

account is the result of recoveries for the period outpacing current period charge offs. The reserve set aside for unfunded commitments is \$122; this 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 2018 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, but an additional general reserve was not 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 2018, the Association had originated \$34,542 in loans for the secondary market. Originations for the same period 2017 were \$36,864. The 6.30 percent decrease is the result of fewer refinance transactions due to rising interest rates, but the new home market continues to remain strong. As of March 31, 2018, the Association held \$3,692 in qualifying loans for sale. At December 31, 2017, loans held for sale totaled \$3,375.

Accrued Interest Receivable decreased \$1,642 or 9.74 percent from \$16,860 to \$15,218. The decrease is directly tied to the decrease in loans outstanding for the current period compared to December 31, 2017.

Investments in other Farm Credit institutions increased from \$23,568 at December 31, 2017 to \$23,720 at March 31, 2018. The increase of \$152, 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 \$676 from \$19,724 at December 31, 2017 to \$20,400 at March 31, 2018. The increase of 3.43 percent is the result of the increase associated with the new operations center in Statesboro, GA. The building and grounds around the new operations center will be finalized during the second quarter of 2018. The consolidation of all Administrative staff at the Statesboro, GA headquarters is now complete.

Other property owned increased to \$4,653 at March 31, 2018 from \$3,669 at December 31, 2017. The increase of \$984 or 26.82 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 and click on *Property For Sale*.

Accounts receivable decreased \$22,449 from \$25,710 at December 31, 2017 to \$3,261 at March 31, 2018. The decrease is the result of the patronage distribution receivable at December 31, 2017 from AgFirst and other Farm Credit institutions, which totaled \$12,124 in regular distribution and

\$13,279 in a special distribution. As of March 31, 2018, this line item included only one quarter of accrual of patronage from AgFirst and other Farm Credit institutions totaling \$3,038.

Other assets decreased \$164 from \$2,170 at December 31, 2017 to \$2,006 at March 31, 2018. The majority of other assets is made up of prepaid retirement expense which totaled \$1,341 as of March 31, 2018 compared to \$1,375 as of December 31, 2017.

On the liability side of the balance sheet, Notes payable to AgFirst Farm Credit Bank decreased from \$1,405,074 at December 31, 2017 to \$1,379,256 at March 31, 2018. The \$25,818 or 1.84 percent decrease is tied to the decrease in loans outstanding.

Accrued interest payable decreased \$25 or less than one percent from \$3,495 to \$3,470. The slight 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 \$9,325 from \$9,901 at December 31, 2017 to \$576 at March 31, 2018. The decrease is the result of the cash portion of the 2017 Patronage distribution on the Association's records at December 31, 2017 moving from Patronage refund payable to Other liabilities. This amount totaled \$9,720 at December 31, 2017. At March 31, 2018, no patronage distribution for 2018 has been declared.

Accounts payable decreased \$1,414 from \$2,310 at December 31, 2017 to \$896 at March 31, 2018. The 61.21 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, 2017 the payable related to the FCSIC totaled \$1,888, and at March 31, 2018 the payable was \$280.

Other liabilities increased \$5,294 from \$14,570 at December 31, 2017 to \$19,864 at March 31, 2018. The 36.34 percent increase is due to a payable established for the revolvment of the 2012 Allocated Surplus distribution and the cash portion of the 2017 Patronage distribution. These liabilities will decrease as checks are presented for payment at the commercial bank.

Capital stock and participation certificates increased from \$9,097 at December 31, 2017 to \$9,190 at March 31, 2018. The increase of \$93 or 1.02 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 \$121,876 at December 31, 2017 to \$102,436 at March 31, 2018. This is a decrease of \$19,440 or 15.95 percent. The reduction is from the decision made by the Board of Directors to revolve the 2012 series of Allocated Surplus in February 2018. This revolvment totaled

\$19,426. The checks and notices for this revolving were generated and mailed in March 2018.

Unallocated surplus increased \$10,856 or 4.62 percent from the December 31, 2017 balance of \$234,892. The balance of \$245,748 at March 31, 2018 includes the retention of a portion of 2017 fiscal year end earnings and earnings year to date in 2018.

RESULTS OF OPERATIONS

For the three months ended March 31, 2018

Net income for the three months ended March 31, 2018, totaled \$10,836 as compared to \$7,957 for the same period in 2017. This is an increase of \$2,879 or 36.18 percent. The following commentary explains the variance.

At March 31, 2018 interest income increased \$1,656 from \$23,205 at March 31, 2017 to \$24,861. This increase of 7.14 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 \$366 for the three months ended March 31, 2018, as compared to \$301 for the same period in 2017.

For the three months ended March 31, 2018, interest income on investments totaled \$90 compared to \$97 for the three months ended March 31, 2017. Investment income declined \$7 or 7.22 percent due to the lower outstanding balance of investments between the two reporting periods.

Interest expense for the three months ended March 31, 2018 increased \$1,233 from \$8,861 at March 31, 2017 to \$10,094 at March 31, 2018. The variance is 13.91 percent and is tied to the increase of the weighted average direct note rate between the two reporting periods.

Net interest income before the provision for loan loss increased \$423 for the three months ended March 31, 2018, as compared to the same period in 2017 due primarily to the increased earnings on a higher balance of average earning assets.

Net interest income after the provision for loan losses increased \$215 during the quarter ending March 31, 2018 compared to March 31, 2017. A net provision reversal for loan losses of \$18 was made in the quarter ending March 31, 2018. The provision entry represents an adjustment between the general provision and the unfunded commitments provision which is booked to Other Liabilities. In the same period in 2017, a provision reversal of \$226 was booked.

Noninterest income increased \$3,118 over the same period last year. The commentary that follows will detail the aggregate difference.

Loan fees decreased \$172 or 19.15 percent due to a decrease in late fees and SMM origination fees earned during the quarter

compared to the same period in 2017. Fees for financially related services increased \$207 from \$205 at March 31, 2017 compared to \$412 at March 31, 2018. The increase of 100.98 percent is due to an increase in commissions earned on the sale of crop insurance and lease commissions during the reporting period.

Patronage refunds from other Farm Credit institutions increased \$223 from \$3,105 at March 31, 2017 to \$3,328 at March 31, 2018. The increase of 7.18 percent is related to an increase in patronage refunds earned on loans sold to AgFirst and other Farm Credit Institutions. See *Note 2* for more information.

Gains on the sale of rural home loans decreased \$22 from \$485 at March 31, 2017 compared to \$463 at March 31, 2018. A slight decrease in originations between the two reporting periods resulted in the decreased gains.

Gains on the sale of premises and equipment for the period ending March 31, 2018 totaled \$35 compared to \$23 for the period ending March 31, 2017. The gains are tied to sales of excess Association automobiles disposed of during the reporting period.

Gains on other transactions totaled \$77 at March 31, 2018. For the same period in 2017, losses on other transactions totaled \$1,757. In June 2016, the Association had accrued an amount related to potential liabilities and contingencies in connection with outstanding legal proceedings. The liability was subsequently satisfied during the first quarter of 2017.

Other noninterest income was \$71 during the three months ended March 31, 2018, compared to \$24 for the three months ending March 31, 2017. This line item captures the volume premium paid by AgFirst for secondary market loans sold to AgFirst.

The Insurance Fund refund increased from \$0 as of March 31, 2017 to \$989 as of March 31, 2018. This line item includes a nonrecurring refund from the Farm Credit System Insurance Corporation of \$989.

Noninterest expense for the three months ended March 31, 2018 totaled \$10,050 and increased \$454 or 4.73 percent when compared to \$9,596 for the same period of 2017. Salaries and employee benefits expense are the largest portion of noninterest expense and it totaled \$6,794 for the three months ended March 31, 2018. Salaries and employee benefits increased \$244 between the two reporting periods. The majority of the 3.73 percent increase is tied to an increase in expense related to the pension plan between the reporting periods.

Occupancy and equipment expense at March 31, 2018 was \$753 compared to \$701 for the same period in 2017. This is an increase of \$52 or 7.42 percent. The increased is tied to the new Operations Center in Statesboro, GA, which is nearing completion at the end of the first quarter 2018.

The Insurance Fund premiums at March 31, 2017 was \$438 and at March 31, 2018 it was \$280. The \$158 or 36.07 percent decrease is due to the lower premium on accruing loans offset by the increase in average loan volume.

In the three months ending March 31, 2018, the Association experienced gains on the sale of Other Property Owned in the amount of \$4. During the same period of 2017, the Association booked gains on the sale of Other Property Owned of \$6. The losses and expenses incurred in 2017 included write-downs on some of the properties at sale or when a new appraisal was received justifying the write-down.

Other operating expenses increased \$314 from \$1,913 at March 31, 2017, compared to \$2,227 at March 31, 2018. The increase of 16.41 percent is attributed to an increase in purchased services, travel, data processing, and public and member relations 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, 2018 was \$1,379,256 as compared to \$1,405,074 at December 31, 2017. The \$25,818 decrease, or 1.84 percent, is tied to a decrease in loan volume.

CAPITAL RESOURCES

Total members' equity at December 31, 2017 totaled \$365,491. At March 31, 2018 total members' equity had decreased by \$8,489 to \$357,002. 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, 2017, allocated retained earnings totaled \$121,876 compared to \$102,436 at March 31, 2018. The decrease is due to the revolvment of the 2012 series of allocated surplus in the first quarter of 2018. At December 31, 2017, unallocated retained earnings totaled \$234,892. At March 31, 2018, the unallocated retained earnings had increased to \$245,748. The increase in unallocated retained earnings is due to the decision to retain a

portion of the 2017 earnings for capital purposes and year to date 2018 earnings.

Total capital stock and participation certificates were \$9,190 on March 31, 2018, compared to \$9,097 on December 31, 2017. 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 revolvment 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:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of March 31, 2018
Risk-adjusted ratios:				
CET1 Capital	4.5%	0.625%	5.125%	13.80%
Tier 1 Capital	6.0%	0.625%	6.625%	13.80%
Total Capital	8.0%	0.625%	8.625%	21.41%
Permanent Capital Ratio	7.0%	0.0%	7.0%	20.68%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	13.20%
UREE Leverage Ratio	1.5%	0.0%	1.5%	13.05%

*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 July 25, 2014, the FCA published a proposed rule in the Federal Register to revise the requirements governing the eligibility of investments for System banks and associations. The public comment period ended on October 23, 2014. The FCA expects to issue a final regulation in 2018. The stated objectives of the proposed rule are as follows:

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

- To comply with the requirements of Section 939A of the Dodd-Frank Act,
- To modernize the investment eligibility criteria for System banks, and
- To revise the investment regulation for System associations to improve their investment management practices so they are more resilient to risk.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

The following Accounting Standards Updates (ASUs) were issued by the Financial Accounting Standards Board (FASB) but have not yet been adopted:

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
<ul style="list-style-type: none"> • Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management’s estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to a CECL model. • The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. 	<ul style="list-style-type: none"> • The Association has begun implementation efforts by establishing a cross-discipline governance structure. The Association is currently identifying key interpretive issues, and assessing existing credit loss forecasting models and processes against the new guidance to determine what modifications may be required. • The Association expects that the new guidance will result in an increase in its allowance for credit losses due to several factors, including: <ol style="list-style-type: none"> 1. The allowance related to loans and commitments will most likely increase to cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of the increase is under evaluation, but will depend upon the nature and characteristics of the Association’s portfolio at the adoption date, and the macroeconomic conditions and forecasts at that date. • The Association expects to adopt the guidance in first quarter 2021.

ASU 2016-02 – Leases (Topic 842)

<ul style="list-style-type: none"> • Requires lessees to recognize leases on the balance sheet with lease liabilities and corresponding right-of-use assets based on the present value of lease payments. • Lessor accounting activities are largely unchanged from existing lease accounting. • The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification. • Also, expands qualitative and quantitative disclosures of leasing arrangements. • Requires adoption using a modified cumulative effect approach wherein the guidance is applied to all periods presented. • Effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. 	<ul style="list-style-type: none"> • The practical expedients allow entities to largely account for existing leases consistent with current guidance, except for the incremental balance sheet recognition for lessees. • The Association has started its implementation of the Update which has included an initial evaluation of leasing contracts and activities. • As a lessee the Association is developing its methodology to estimate the right-of-use assets and lease liabilities, which is based on the present value of lease payments but does not expect a material change to the timing of expense recognition. • Given the limited changes to lessor accounting, the Association does not expect material changes to recognition or measurement, but it is early in the implementation process and the impact will continue to be evaluated. • The Association is evaluating existing disclosures and may need to provide additional information as a result of adopting the Update. • The Association expects to adopt the guidance in first quarter 2019 using the modified retrospective method and practical expedients for transition.
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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. Copies of the Association’s annual and quarterly reports are also available upon request free of charge by calling 1-800-633-9091, ext. 2663, writing Alisa D. Gunter, CFO, AgSouth Farm Credit, ACA, P.O. Box 718, Statesboro, GA 30459, or accessing the Association’s website 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 (Speak Up) at 1-844-850-6496 or speakupAgSouthFC.ethix360.com.

AgSouth Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2018 <i>(unaudited)</i>	December 31, 2017 <i>(audited)</i>
Assets		
Cash	\$ 2,079	\$ 4,949
Investments in debt securities:		
Held to maturity (fair value of \$5,509 and \$5,456, respectively)	5,470	5,533
Loans	1,695,443	1,710,098
Allowance for loan losses	(14,878)	(14,815)
Net loans	1,680,565	1,695,283
Loans held for sale	3,692	3,375
Accrued interest receivable	15,218	16,860
Equity investments in other Farm Credit institutions	23,720	23,568
Premises and equipment, net	20,400	19,724
Other property owned	4,653	3,669
Accounts receivable	3,261	25,710
Other assets	2,006	2,170
Total assets	\$ 1,761,064	\$ 1,800,841
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,379,256	\$ 1,405,074
Accrued interest payable	3,470	3,495
Patronage refunds payable	576	9,901
Accounts payable	896	2,310
Other liabilities	19,864	14,570
Total liabilities	1,404,062	1,435,350
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	9,190	9,097
Retained earnings		
Allocated	102,436	121,876
Unallocated	245,748	234,892
Accumulated other comprehensive income (loss)	(372)	(374)
Total members' equity	357,002	365,491
Total liabilities and members' equity	\$ 1,761,064	\$ 1,800,841

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>	For the three months ended March 31,	
	2018	2017
Interest Income		
Loans	\$ 24,771	\$ 23,108
Investments	90	97
Total interest income	24,861	23,205
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	10,028	8,836
Other	66	25
Total interest expense	10,094	8,861
Net interest income	14,767	14,344
Provision for (reversal of allowance for) loan losses	(18)	(226)
Net interest income after provision for (reversal of allowance for) loan losses	14,785	14,570
Noninterest Income		
Loan fees	726	898
Fees for financially related services	412	205
Patronage refunds from other Farm Credit institutions	3,328	3,105
Gains (losses) on sales of rural home loans, net	463	485
Gains (losses) on sales of premises and equipment, net	35	23
Gains (losses) on other transactions	77	(1,757)
Insurance Fund refund	989	—
Other noninterest income	71	24
Total noninterest income	6,101	2,983
Noninterest Expense		
Salaries and employee benefits	6,794	6,550
Occupancy and equipment	753	701
Insurance Fund premiums	280	438
(Gains) losses on other property owned, net	(4)	(6)
Other operating expenses	2,227	1,913
Total noninterest expense	10,050	9,596
Income before income taxes	10,836	7,957
Provision for income taxes	—	—
Net income	\$ 10,836	\$ 7,957

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

AgSouth Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended March 31,	
	2018	2017
Net income	\$ 10,836	\$ 7,957
Other comprehensive income net of tax		
Employee benefit plans adjustments	2	39
Comprehensive income	\$ 10,838	\$ 7,996

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

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

(unaudited)

(dollars in thousands)

	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2016	\$ 2	\$ 8,493	\$ 118,570	\$ 212,028	\$ (393)	\$ 338,700
Comprehensive income				7,957	39	7,996
Capital stock/participation certificates issued/(retired), net		139				139
Retained earnings retired			(19,349)			(19,349)
Patronage distribution adjustment			(1)	3		2
Balance at March 31, 2017	\$ 2	\$ 8,632	\$ 99,220	\$ 219,988	\$ (354)	\$ 327,488
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
Balance at March 31, 2018	\$ —	\$ 9,190	\$ 102,436	\$ 245,748	\$ (372)	\$ 357,002

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

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, 2017, are contained in the 2017 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation

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

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

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

Significant Accounting Policies

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

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

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

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

Accounting Standards Updates (ASUs) Issued During the Period

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

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

ASUs Pending Effective Date

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

Potential effects of ASUs issued in previous periods:

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

Accounting Standards Effective During the Period

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

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

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

Transition Information

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

Transition Information

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

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

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

	March 31, 2018	December 31, 2017
Real estate mortgage	\$ 1,305,869	\$ 1,308,602
Production and intermediate-term	294,066	307,691
Processing and marketing	18,557	15,763
Farm-related business	15,974	16,477
Rural residential real estate	60,517	61,100
Other (including Mission Related)	460	465
Total loans	<u>\$ 1,695,443</u>	<u>\$ 1,710,098</u>

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

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

March 31, 2018								
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ -	\$ 171,454	\$ -	\$ 10,098	\$ -	\$ -	\$ -	\$ 181,552
Production and intermediate-term	-	53,810	636	-	3,274	-	3,910	53,810
Processing and marketing	-	13,348	-	8,710	-	-	-	22,058
Farm-related business	-	625	-	8,775	-	-	-	9,400
Total	\$ -	\$ 239,237	\$ 636	\$ 27,583	\$ 3,274	\$ -	\$ 3,910	\$ 266,820

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	\$ -	\$ 175,459	\$ -	\$ 17,819	\$ -	\$ -	\$ -	\$ 193,278
Production and intermediate-term	-	49,732	636	-	3,504	-	4,140	49,732
Processing and marketing	-	14,029	-	1,833	-	-	-	15,862
Farm-related business	-	9,167	-	-	-	-	-	9,167
Total	\$ -	\$ 248,387	\$ 636	\$ 19,652	\$ 3,504	\$ -	\$ 4,140	\$ 268,039

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

March 31, 2018				
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 30,809	\$ 230,632	\$ 1,044,428	\$ 1,305,869
Production and intermediate-term	128,526	124,282	41,258	294,066
Processing and marketing	9,881	2,086	6,590	18,557
Farm-related business	857	10,985	4,132	15,974
Rural residential real estate	4,158	1,969	54,390	60,517
Other (including Mission Related)	-	-	460	460
Total loans	\$ 174,231	\$ 369,954	\$ 1,151,258	\$ 1,695,443
Percentage	10.28%	21.82%	67.90%	100.00%

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

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

	March 31, 2018	December 31, 2017		March 31, 2018	December 31, 2017
Real estate mortgage:			Rural residential real estate:		
Acceptable	97.61%	97.12%	Acceptable	98.03%	98.03%
OAEM	1.37	1.71	OAEM	0.98	0.86
Substandard/doubtful/loss	1.02	1.17	Substandard/doubtful/loss	0.99	1.11
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Other (including Mission Related):		
Acceptable	95.39%	95.42%	Acceptable	100.00%	100.00%
OAEM	3.78	3.74	OAEM	-	-
Substandard/doubtful/loss	0.83	0.84	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
Processing and marketing:			Total loans:		
Acceptable	93.02%	91.83%	Acceptable	97.18%	96.80%
OAEM	3.59	8.17	OAEM	1.81	2.11
Substandard/doubtful/loss	3.39	-	Substandard/doubtful/loss	1.01	1.09
	100.00%	100.00%		100.00%	100.00%
Farm-related business:					
Acceptable	97.23%	97.60%			
OAEM	2.75	2.38			
Substandard/doubtful/loss	0.02	0.02			
	100.00%	100.00%			

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

March 31, 2018						
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 4,406	\$ 3,101	\$ 7,507	\$ 1,309,392	\$ 1,316,899	\$ —
Production and intermediate-term	3,024	2,217	5,241	292,431	297,672	—
Processing and marketing	387	—	387	18,380	18,767	—
Farm-related business	57	1	58	16,000	16,058	—
Rural residential real estate	350	199	549	60,224	60,773	—
Other (including Mission Related)	—	—	—	462	462	—
Total	\$ 8,224	\$ 5,518	\$ 13,742	\$ 1,696,889	\$ 1,710,631	\$ —

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	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 6,402	\$ 3,894	\$ 10,296	\$ 1,309,635	\$ 1,319,931	\$ —
Production and intermediate-term	2,287	1,521	3,808	308,801	312,609	—
Processing and marketing	340	—	340	15,711	16,051	—
Farm-related business	165	3	168	16,393	16,561	—
Rural residential real estate	697	340	1,037	60,272	61,309	—
Other (including Mission Related)	—	—	—	466	466	—
Total	\$ 9,891	\$ 5,758	\$ 15,649	\$ 1,711,278	\$ 1,726,927	\$ —

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

	March 31, 2018	December 31, 2017
Nonaccrual loans:		
Real estate mortgage	\$ 9,409	\$ 10,751
Production and intermediate-term	3,921	3,671
Farm-related business	3	3
Rural residential real estate	487	553
Total	\$ 13,820	\$ 14,978
Accruing restructured loans:		
Real estate mortgage	\$ 5,940	\$ 5,946
Production and intermediate-term	727	757
Rural residential real estate	159	160
Total	\$ 6,826	\$ 6,863
Accruing loans 90 days or more past due:		
Total	\$ —	\$ —
Total nonperforming loans	\$ 20,646	\$ 21,841
Other property owned	4,653	3,669
Total	\$ 25,299	\$ 25,510
Nonaccrual loans as a percentage of total loans	0.82%	0.88%
Nonperforming assets as a percentage of total loans and other property owned	1.49%	1.49%
Nonperforming assets as a percentage of capital	7.09%	6.98%

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

	March 31, 2018	December 31, 2017
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 6,462	\$ 6,634
Past due	7,358	8,344
Total	\$ 13,820	\$ 14,978
Impaired accrual loans:		
Restructured	\$ 6,826	\$ 6,863
90 days or more past due	—	—
Total	\$ 6,826	\$ 6,863
Total impaired loans	\$ 20,646	\$ 21,841
Additional commitments to lend	\$ —	\$ —

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, 2018			Three Months Ended March 31, 2018	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	\$ 813	\$ 877	\$ 41	\$ 815	\$ 18
Production and intermediate-term	599	703	107	600	14
Farm-related business	—	—	—	—	—
Rural residential real estate	—	—	—	—	—
Total	\$ 1,412	\$ 1,580	\$ 148	\$ 1,415	\$ 32
With no related allowance for credit losses:					
Real estate mortgage	\$ 14,536	\$ 16,490	\$ —	\$ 14,568	\$ 335
Production and intermediate-term	4,049	5,250	—	4,058	93
Farm-related business	3	89	—	3	—
Rural residential real estate	646	882	—	648	15
Total	\$ 19,234	\$ 22,711	\$ —	\$ 19,277	\$ 443
Total:					
Real estate mortgage	\$ 15,349	\$ 17,367	\$ 41	\$ 15,383	\$ 353
Production and intermediate-term	4,648	5,953	107	4,658	107
Farm-related business	3	89	—	3	—
Rural residential real estate	646	882	—	648	15
Total	\$ 20,646	\$ 24,291	\$ 148	\$ 20,692	\$ 475

Impaired loans:	December 31, 2017			Year Ended December 31, 2017	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	\$ 1,109	\$ 1,180	\$ 31	\$ 1,281	\$ 74
Production and intermediate-term	608	695	148	702	40
Farm-related business	—	—	—	—	—
Rural residential real estate	—	—	—	—	—
Total	\$ 1,717	\$ 1,875	\$ 179	\$ 1,983	\$ 114
With no related allowance for credit losses:					
Real estate mortgage	\$ 15,588	\$ 19,436	\$ —	\$ 18,009	\$ 1,037
Production and intermediate-term	3,820	5,121	—	4,413	254
Farm-related business	3	90	—	3	—
Rural residential real estate	713	849	—	824	48
Total	\$ 20,124	\$ 25,496	\$ —	\$ 23,249	\$ 1,339
Total:					
Real estate mortgage	\$ 16,697	\$ 20,616	\$ 31	\$ 19,290	\$ 1,111
Production and intermediate-term	4,428	5,816	148	5,115	294
Farm-related business	3	90	—	3	—
Rural residential real estate	713	849	—	824	48
Total	\$ 21,841	\$ 27,371	\$ 179	\$ 25,232	\$ 1,453

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
Activity related to the allowance for credit losses:						
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
Balance at December 31, 2016	\$ 11,297	\$ 2,271	\$ 178	\$ 426	\$ 11	\$ 14,183
Charge-offs	(55)	(13)	—	(49)	—	(117)
Recoveries	118	7	1	—	7	133
Provision for loan losses	(145)	(97)	(5)	29	(8)	(226)
Balance at March 31, 2017	\$ 11,215	\$ 2,168	\$ 174	\$ 406	\$ 10	\$ 13,973
Allowance on loans evaluated for impairment:						
Individually	\$ 41	\$ 107	\$ —	\$ —	\$ —	\$ 148
Collectively	11,345	2,553	304	524	4	14,730
Balance at March 31, 2018	\$ 11,386	\$ 2,660	\$ 304	\$ 524	\$ 4	\$ 14,878
Individually	\$ 31	\$ 148	\$ —	\$ —	\$ —	\$ 179
Collectively	11,183	2,649	280	520	4	14,636
Balance at December 31, 2017	\$ 11,214	\$ 2,797	\$ 280	\$ 520	\$ 4	\$ 14,815
Recorded investment in loans evaluated for impairment:						
Individually	\$ 15,295	\$ 4,718	\$ 3	\$ 647	\$ —	\$ 20,663
Collectively	1,301,604	292,954	34,822	60,126	462	1,689,968
Balance at March 31, 2018	\$ 1,316,899	\$ 297,672	\$ 34,825	\$ 60,773	\$ 462	\$ 1,710,631
Individually	\$ 18,411	\$ 4,438	\$ 3	\$ 715	\$ —	\$ 23,567
Collectively	1,301,520	308,171	32,609	60,594	466	1,703,360
Balance at December 31, 2017	\$ 1,319,931	\$ 312,609	\$ 32,612	\$ 61,309	\$ 466	\$ 1,726,927

*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, 2018				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
Pre-modification:					
Real estate mortgage	\$ 203	\$ —	\$ —	\$ 203	
Production and intermediate-term	116	—	—	116	
Total	\$ 319	\$ —	\$ —	\$ 319	
Post-modification:					
Real estate mortgage	\$ 208	\$ —	\$ —	\$ 208	\$ —
Production and intermediate-term	116	—	—	116	—
Total	\$ 324	\$ —	\$ —	\$ 324	\$ —
Outstanding Recorded Investment	Three months ended March 31, 2017				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
Pre-modification:					
Real estate mortgage	\$ —	\$ 225	\$ —	\$ 225	
Rural residential real estate	37	—	—	37	
Total	\$ 37	\$ 225	\$ —	\$ 262	
Post-modification:					
Real estate mortgage	\$ —	\$ 225	\$ —	\$ 225	\$ —
Rural residential real estate	37	—	—	37	—
Total	\$ 37	\$ 225	\$ —	\$ 262	\$ —

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,	
	2018	2017
Real estate mortgage	\$ 254	\$ 522
Production and intermediate-term	962	809
Rural residential real estate	—	9
Total	\$ 1,216	\$ 1,340

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, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Real estate mortgage	\$ 10,409	\$ 10,666	\$ 4,469	\$ 4,720
Production and intermediate-term	2,020	1,999	1,293	1,242
Farm-related business	3	3	3	3
Rural residential real estate	300	302	141	142
Total loans	\$ 12,732	\$ 12,970	\$ 5,906	\$ 6,107
Additional commitments to lend	\$ —	\$ —		

The following table presents information as of period end:

	March 31, 2018
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ —
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ 293

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 program approved by the FCA. In its Conditions of Approval for the program, the FCA 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. At March 31, 2018, the Association held no RABs whose credit quality had deteriorated beyond the program limits.

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

	March 31, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 5,470	\$ 39	\$ —	\$ 5,509	6.48%

	December 31, 2017				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 5,533	\$ 91	\$ (168)	\$ 5,456	6.41%

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

	March 31, 2018		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ —	\$ —	—%
After one year through five years	—	—	—
After five years through ten years	1,052	1,080	5.22
After ten years	4,418	4,429	6.78
Total	\$ 5,470	\$ 5,509	6.48 %

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. There were no securities in a continuous unrealized loss position at March 31, 2018.

December 31, 2017

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	\$ -	\$ -	\$ 1,076	\$ (168)

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 7.18 percent of the issued stock of the Bank as of March 31, 2018 net of any reciprocal investment. As of that date, the Bank's assets totaled \$32.0 billion and shareholders' equity totaled \$2.3 billion. The Bank's earnings were \$79.2 million for the first three months of 2018. In addition, the Association held investments of \$4,759 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets. The contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

	Changes in Accumulated Other Comprehensive Income by Component (a)	
	Three Months Ended March 31,	
	2018	2017
Employee Benefit Plans:		
Balance at beginning of period	\$ (374)	\$ (393)
Other comprehensive income before reclassifications	—	—
Amounts reclassified from AOCI	2	39
Net current period other comprehensive income	2	39
Balance at end of period	\$ (372)	\$ (354)

	Reclassifications Out of Accumulated Other Comprehensive Income (b)		
	Three Months Ended March 31,		
	2018	2017	Income Statement Line Item
Defined Benefit Pension Plans:			
Periodic pension costs	\$ (2)	\$ (39)	See Note 7.
Net amounts reclassified	\$ (2)	\$ (39)	

(a) Amounts in parentheses indicate debits to AOCI.

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

Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

March 31, 2018					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	\$ 1,952	\$ 1,952	\$ –	\$ –	\$ 1,952
Recurring Assets	\$ 1,952	\$ 1,952	\$ –	\$ –	\$ 1,952
Liabilities:					
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	\$ 1,264	\$ –	\$ –	\$ 1,264	\$ 1,264
Other property owned	4,653	–	–	5,006	5,006
Nonrecurring Assets	\$ 5,917	\$ –	\$ –	\$ 6,270	\$ 6,270
Other Financial Instruments					
Assets:					
Cash	\$ 2,079	\$ 2,079	\$ –	\$ –	\$ 2,079
Investment securities, held-to-maturity	5,470	–	–	5,509	5,509
Loans	1,682,993	–	–	1,666,097	1,666,097
Other Financial Assets	\$ 1,690,542	\$ 2,079	\$ –	\$ 1,671,606	\$ 1,673,685
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	\$ 1,379,256	\$ –	\$ –	\$ 1,344,655	\$ 1,344,655
Other Financial Liabilities	\$ 1,379,256	\$ –	\$ –	\$ 1,344,655	\$ 1,344,655

December 31, 2017					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	\$ 1,979	\$ 1,979	\$ –	\$ –	\$ 1,979
Recurring Assets	\$ 1,979	\$ 1,979	\$ –	\$ –	\$ 1,979
Liabilities:					
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	\$ 1,538	\$ –	\$ –	\$ 1,538	\$ 1,538
Other property owned	3,669	–	–	3,931	3,931
Nonrecurring Assets	\$ 5,207	\$ –	\$ –	\$ 5,469	\$ 5,469
Other Financial Instruments					
Assets:					
Cash	\$ 4,949	\$ 4,949	\$ –	\$ –	\$ 4,949
Investment securities, held-to-maturity	5,533	–	–	5,456	5,456
Loans	1,697,120	–	–	1,695,034	1,695,034
Other Financial Assets	\$ 1,707,602	\$ 4,949	\$ –	\$ 1,700,490	\$ 1,705,439
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	\$ 1,405,074	\$ –	\$ –	\$ 1,386,868	\$ 1,386,868
Other Financial Liabilities	\$ 1,405,074	\$ –	\$ –	\$ 1,386,868	\$ 1,386,868

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	\$ 6,270	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,	
	2018	2017
Pension	\$ 1,367	\$ 1,139
401(k)	225	239
Other postretirement benefits	234	209
Total	\$ 1,826	\$ 1,587

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

	Actual YTD Through 3/31/18	Projected Contributions For Remainder of 2018	Projected Total Contributions 2018
Pension	\$ 40	\$ 5,495	\$ 5,535
Other postretirement benefits	234	672	906
Total	\$ 274	\$ 6,167	\$ 6,441

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 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 — 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 \$890 for the three months ended March 31, 2018.

Note 10 — Subsequent Events

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