Southwest Georgia Farm Credit, ACA

SECOND QUARTER 2018

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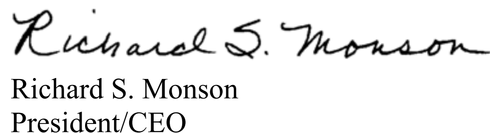
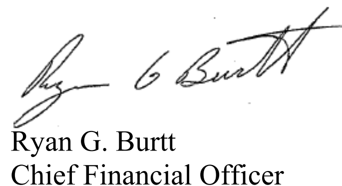
CERTIFICATION

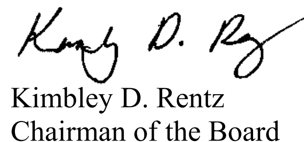
The undersigned certify that we have reviewed the June 30, 2018 quarterly report of Southwest Georgia Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Richard S. Monson
President/CEO



Ryan G. Burtt
Chief Financial Officer



Kimbley D. Rentz
Chairman of the Board

August 8, 2018

Southwest Georgia Farm Credit, ACA

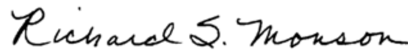
Report on Internal Control Over Financial Reporting

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

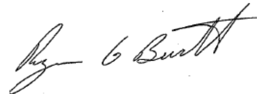
Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of June 30, 2018. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

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



Richard S. Monson
Chief Executive Officer



Ryan G. Burtt
Chief Financial Officer

August 8, 2018

Southwest Georgia 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 Southwest Georgia Farm Credit, ACA (Association) for the period ended June 30, 2018. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2017 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including timber, landlords, poultry, cotton, livestock, peanuts, fruit and nut, vegetables, and dairy. Farm size varies and many of the borrowers in the region have diversified farming operations. These factors, along with the opportunities for non-farm income in the area, reduce the level of dependency on any given commodity.

ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of June 30, 2018, was $437,735, an increase of $23,398 as compared to $414,337 at December 31, 2017. Net loans outstanding at June 30, 2018, were $433,709 as compared to $410,280 at December 31, 2017. Net loans and investments accounted for 94 percent of total assets at June 30, 2018, as compared to 91 percent of total assets at December 31, 2017.

Total assets at June 30, 2018 were $468,030 compared to $457,561 at December 31, 2017, an increase of $10,469 or 2.29 percent. The increase in total assets is primarily attributed to the growth in association loan volume.

Investment securities classed as held to maturity as of June 30, 2018 were $6,047, a decrease of $31 as compared to $6,078 at December 31, 2017. There is an inherent risk in the extension of any type of credit. The current year (2018) continues to show satisfactory credit quality within the Association's portfolio. Loans classified under the Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" are 99.27 percent of total loans and accrued interest at June 30, 2018 as compared to 98.81 percent at December 31, 2017.

Nonaccrual loans as of June 30, 2018 were $801, a decrease of $270 as compared to $1,071 at December 31, 2017. The decrease is primarily the result of several chargeoffs and transfers to Other Property Owned.,

As of June 30, 2018, the association has properties classed as Other Property Owned totaling $230. The properties consist of real estate in Georgia, and other tangible collateral. The Association is actively marketing the properties for sale. During the year $88 of sales were reported, $88 valuation write downs were recognized and $101 of property transferred in.

The Association maintains an allowance for loan losses at a level considered sufficient to absorb possible losses within the loan portfolio based on current and expected future conditions. The Association increases the allowance by providing a provision for loan losses in the income statement. Loan losses are recorded against and serve to decrease the allowance when management determines that any portion of a loan is uncollectible. Any subsequent recoveries are added to the allowance. The Risk Management Committee (RIMCO), which is comprised of members of the Board of Directors, senior management, and senior lending staff, meets quarterly to evaluate the adequacy of the allowance account. The evaluation considers factors which include, among many other things, loan loss experience, portfolio quality, loan portfolio composition, current agricultural production conditions, and general economic conditions.

After review, RIMCO determined the allowance account was sufficient to absorb any expected losses in the portfolio. The allowance for loan losses at June 30, 2018, was $4,026 compared to $4,057 as of December 31, 2017 a decrease of $31. The association has realized $30 in recoveries, $0 in provisions and there have been $61 in charge-offs this year.

RESULTS OF OPERATIONS

For the three months ended June 30, 2018

At June 30, 2018, total interest income was $5,435, an increase of $669 as compared to $4,766 for the same period in 2017. Of the $5,435 in total interest income $94 was from investment

securities and $5,341 was from loans. The increase in total interest income primarily resulted from the growth in average loan volume.

Interest expense was $2,819 an increase of $474, as compared to $2,345 for the same period in 2017. This increase is primarily the result of the increase in average loan volume.

Non-interest income for the three months ended June 30, 2018, totaled $2,043 an increase of $7 as compared to $2,036 for the same period in 2017. The increase is primarily related to the Gains on Sales of Assets $19 as well as the growth of $8 in fee income.

Non-interest expense for the three months ended June 30, 2018 totaled $2,653, an increase of $246 as compared to $2,407 for the same period in 2017. The increase is primarily due to increases of $333 in Salary & Benefits and $1 in Occupancy and Equipment.

Net income for the three months ended June 30, 2018, totaled $2,006, a decrease of $44 as compared to $2,050 for the same period in 2017.

For the six months ended June 30, 2018

At June 30, 2018, total interest income was $10,335 an increase of $1,350 as compared to $8,985 for the same period in 2017. Of the $10,335 in total interest income $188 was from investment securities and $10,147 was from loans. The increase in total interest income is primarily related to the increase in Association average loan volume.

Interest expense was $5,316, an increase of $958 as compared to $4,358 for the same period in 2017.

Non-interest income for the six months ended June 30, 2018, totaled $4,293, an increase of $280 as compared to $4,013 for the same period in 2017. The increase is primarily attributed to an extraordinary insurance refund, increased Patronage refunds from other Farm Credit institutions and increased loan fee income.

Non-interest expense for the six months ended June 30, 2018 totaled $5,138, an increase of $466 as compared to $4,672 for the same period in 2017. The increase is primarily due to increases of $528 in Salary and Benefits and $103 in Other Operating expenses.

Net income for the six months ended June 30, 2018, totaled $4,174, an increase of $206 as compared to $3,968 for the same period in 2017. The increase primarily resulted from the growth in average loan volume.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at June 30, 2018, was $378,544, an increase of $16,899 as compared to $361,645 at December 31, 2017. The increase is primarily the result of the growth in association loan volume. The Association has no lines of credit with third parties as of June 30, 2018.

CAPITAL RESOURCES

Total members' equity at June 30, 2018, increased $3,124 to $86,138 from the December 31, 2017, total of $83,014. Total capital stock and participation certificates were $1,329 as of June 30, 2018, an increase of $58 compared to $1,271 at December 31, 2017.

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

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

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

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk-adjusted asset base. Risk adjusted assets means the total dollar amount of the institution's assets are adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded minimum regulatory standard for all the ratios.

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of June 30, 2018
Risk-adjusted ratios:				
CET1 Capital	4.5%	0.625%	5.125%	15.03%
Tier 1 Capital	6.0%	0.625%	6.625%	15.03%
Total Capital	8.0%	0.625%	8.625%	17.26%
Permanent Capital Ratio	7.0%	0.0%	7.0%	16.45%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	14.30%
UREE Leverage Ratio	1.5%	0.0%	1.5%	16.63%

** - The capital conservation buffers have a 3 year phase-in period and will become fully effective January 1, 2020. Risk-adjusted ratio minimums will increase 0.625% each year until fully phased in. There is no phase-in period for the tier 1 leverage ratio.*

If the capital ratios fall below the minimum regulatory requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

REGULATORY MATTERS

On May 10, 2018, the Farm Credit Administration adopted a final rule that primarily implements the requirements of Section 939A of the Dodd-Frank Act and grants associations greater flexibility regarding the risk management purposes for investments. The regulation also sets forth the types of eligible investments and establishes a portfolio limit on the amount of investments they may hold. Only securities that are issued by, or are unconditionally guaranteed or insured as to the timely payment of principal and interest by, the U.S. government or its agencies are eligible for risk management purposes. An association may purchase and hold investments not to exceed 10 percent of its 90-day average daily balance of outstanding loans on the last business day of the quarter. The final rule will become effective January 1, 2019.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2017 Annual Report to Shareholders for recently issued accounting pronouncements. Additional information is provided in the 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	
• 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.	• 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: 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)	
• 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.	• The practical expedients allow entities to largely account for existing leases consistent with current guidance, except for the incremental balance sheet recognition for lessees. • The Association has started its implementation of the Update which has included an initial evaluation of leasing contracts and activities. • As a lessee the Association is developing its methodology to estimate the right-of-use assets and lease liabilities, which is based on the present value of lease payments but does not expect a material change to the timing of expense recognition. • Given the limited changes to lessor accounting, the Association does not expect material changes to recognition or measurement, but it is early in the implementation process and the impact will continue to be evaluated. • The Association is evaluating existing disclosures and may need to provide additional information as a result of adopting the Update. • The Association expects to adopt the guidance in first quarter 2019 using the modified retrospective method and practical expedients for transition.

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-229-246-0384 or 1-866-304-3276, writing Belinda Harper, Treasurer, Southwest Georgia Farm Credit, ACA, 305 Colquitt Highway, Bainbridge, Georgia 39817 or accessing the website, *www.swgafarmcredit.com*. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Southwest Georgia Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	June 30, 2018	December 31, 2017
	(unaudited)	*(audited)*
Assets		
Cash	**$ 383**	$ 4,617
Investments in debt securities:		
Held to maturity (fair value of $6,361 and $6,425, respectively)	**6,047**	6,078
Loans	**437,735**	414,337
Allowance for loan losses	**(4,026)**	(4,057)
Net loans	**433,709**	410,280
Accrued interest receivable	**5,186**	5,814
Equity investments in other Farm Credit institutions	**15,762**	15,761
Premises and equipment, net	**3,137**	3,078
Other property owned	**230**	129
Accounts receivable	**3,544**	11,757
Other assets	**32**	47
Total assets	**$ 468,030**	$ 457,561
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 378,544**	$ 361,645
Accrued interest payable	**979**	861
Patronage refunds payable	**34**	5,044
Accounts payable	**253**	588
Other liabilities	**2,082**	6,409
Total liabilities	**381,892**	374,547
Commitments and contingencies (Note 7)		
Members' Equity		
Capital stock and participation certificates	**1,329**	1,271
Retained earnings		
Allocated	**14,929**	16,037
Unallocated	**69,880**	65,706
Total members' equity	**86,138**	83,014
Total liabilities and members' equity	**$ 468,030**	$ 457,561

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

Southwest Georgia Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2018	For the three months ended June 30, 2017	For the six months ended June 30, 2018	For the six months ended June 30, 2017
Interest Income				
Loans	**$ 5,341**	$ 4,671	**$ 10,147**	$ 8,791
Investments	**94**	95	**188**	194
Total interest income	**5,435**	4,766	**10,335**	8,985
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**2,819**	2,345	**5,316**	4,358
Net interest income	**2,616**	2,421	**5,019**	4,627
Provision for loan losses	**—**	—	**—**	—
Net interest income after provision for loan losses	**2,616**	2,421	**5,019**	4,627
Noninterest Income				
Loan fees	**203**	195	**393**	357
Fees for financially related services	**5**	—	**8**	4
Patronage refunds from other Farm Credit institutions	**1,797**	1,826	**3,616**	3,598
Gains (losses) on sales of premises and equipment, net	**23**	4	**20**	4
Insurance Fund refund	**—**	—	**235**	—
Other noninterest income	**15**	11	**21**	50
Total noninterest income	**2,043**	2,036	**4,293**	4,013
Noninterest Expense				
Salaries and employee benefits	**1,758**	1,425	**3,301**	2,773
Occupancy and equipment	**141**	140	**307**	290
Insurance Fund premiums	**77**	120	**150**	226
(Gains) losses on other property owned, net	**(25)**	14	**(66)**	40
Other operating expenses	**702**	708	**1,446**	1,343
Total noninterest expense	**2,653**	2,407	**5,138**	4,672
Net income	**2,006**	2,050	**4,174**	3,968
Other comprehensive income	**—**	—	**—**	—
Comprehensive income	**$ 2,006**	$ 2,050	**$ 4,174**	$ 3,968

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

Southwest Georgia Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
			Allocated	Unallocated	
Balance at December 31, 2016	$ 1	$ 1,174	$ 17,434	$ 57,877	$ 76,486
Comprehensive income				3,968	3,968
Protected borrower stock issued/(retired), net	(1)				(1)
Capital stock/participation certificates issued/(retired), net		68			68
Retained earnings retired			(1,397)		(1,397)
Balance at June 30, 2017	$ —	$ 1,242	$ 16,037	$ 61,845	$ 79,124
Balance at December 31, 2017	**$ —**	**$ 1,271**	**$ 16,037**	**$ 65,706**	**$ 83,014**
Comprehensive income				**4,174**	**4,174**
Capital stock/participation certificates issued/(retired), net		**58**			**58**
Retained earnings retired			**(1,108)**		**(1,108)**
Balance at June 30, 2018	**$ —**	**$ 1,329**	**$ 14,929**	**$ 69,880**	**$ 86,138**

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

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 Southwest Georgia 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 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 5, *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 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 reviewed ancillary revenues affected by this Update and noted that there were no contracts in scope as of January 1, 2018.

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 failure of an obligor to meet the 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:

	June 30, 2018	December 31, 2017
Real estate mortgage	$ 243,598	$ 230,267
Production and intermediate-term	128,782	116,018
Loans to cooperatives	825	583
Processing and marketing	33,987	31,476
Farm-related business	12,651	19,123
Communication	8,181	8,649
Power and water/waste disposal	3,827	3,940
Rural residential real estate	2,355	1,793
International	1,752	1,752
Lease receivables	1,777	736
Total loans	$ 437,735	$ 414,337

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:

	June 30, 2018							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 19,567	$ 147,421	$ 3,221	$ –	$ 1,784	$ –	$ 24,572	$ 147,421
Production and intermediate-term	13,343	66,333	1,629	–	–	–	14,972	66,333
Loans to cooperatives	828	–	–	–	–	–	828	–
Processing and marketing	20,276	74,518	–	380	–	–	20,276	74,898
Farm-related business	–	12,467	–	307	–	–	–	12,774
Communication	8,204	–	–	–	–	–	8,204	–
Power and water/waste disposal	3,840	–	–	–	–	–	3,840	–
International	1,754	–	–	–	–	–	1,754	–
Lease receivables	–	–	1,777	–	–	–	1,777	–
Total	$ 67,812	$ 300,739	$ 6,627	$ 687	$ 1,784	$ –	$ 76,223	$ 301,426

	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	$ 18,193	$ 145,983	$ 3,362	$ –	$ 1,869	$ –	$ 23,424	$ 145,983
Production and intermediate-term	14,549	81,402	1,046	–	–	–	15,595	81,402
Loans to cooperatives	586	–	–	–	–	–	586	–
Processing and marketing	19,340	52,446	–	405	–	–	19,340	52,851
Farm-related business	–	12,376	–	334	–	–	–	12,710
Communication	8,676	–	–	–	–	–	8,676	–
Power and water/waste disposal	3,953	–	–	–	–	–	3,953	–
International	1,754	–	–	–	–	–	1,754	–
Lease receivables	–	–	736	–	–	–	736	–
Total	$ 67,051	$ 292,207	$ 5,144	$ 739	$ 1,869	$ –	$ 74,064	$ 292,946

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:

	June 30, 2018			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 413	$ 38,726	$ 204,459	$ 243,598
Production and intermediate-term	38,579	69,532	20,671	128,782
Loans to cooperatives	–	825	–	825
Processing and marketing	301	24,635	9,051	33,987
Farm-related business	1,611	10,307	733	12,651
Communication	2,325	5,856	–	8,181
Power and water/waste disposal	–	–	3,827	3,827
Rural residential real estate	3	147	2,205	2,355
International	–	1,404	348	1,752
Lease receivables	–	655	1,122	1,777
Total loans	$ 43,232	$ 152,087	$ 242,416	$ 437,735
Percentage	9.88%	34.74%	55.38%	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:

	June 30, 2018	December 31, 2017
Real estate mortgage:		
Acceptable	97.61%	98.27%
OAEM	1.78	1.25
Substandard/doubtful/loss	0.61	0.48
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	98.05%	97.86%
OAEM	0.75	1.02
Substandard/doubtful/loss	1.20	1.12
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	96.46%	87.72%
OAEM	3.54	–
Substandard/doubtful/loss	–	12.28
	100.00%	100.00%
Communication		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	June 30, 2018	December 31, 2017
Power and water/waste disposal:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	92.94%	90.70%
OAEM	–	–
Substandard/doubtful/loss	7.06	9.30
	100.00%	100.00%
International:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Lease receivables:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	97.95%	97.83%
OAEM	1.32	0.98
Substandard/doubtful/loss	0.73	1.19
	100.00%	100.00%

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

	June 30, 2018					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 938	$ –	$ 938	$ 245,497	$ 246,435	$ –
Production and intermediate-term	305	334	639	130,060	130,699	–
Loans to cooperatives	–	–	–	831	831	–
Processing and marketing	–	–	–	34,180	34,180	–
Farm-related business	–	–	–	12,785	12,785	–
Communication	–	–	–	8,215	8,215	–
Power and water/waste disposal	–	–	–	3,829	3,829	–
Rural residential real estate	167	–	167	2,198	2,365	–
International	–	–	–	1,755	1,755	–
Lease receivables	–	–	–	1,784	1,784	–
Total	$ 1,410	$ 334	$ 1,744	$ 441,134	$ 442,878	$ –

	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	$ 1,474	$ 119	$ 1,593	$ 231,935	$ 233,528	$ –
Production and intermediate-term	314	899	1,213	116,720	117,933	–
Loans to cooperatives	–	–	–	586	586	–
Processing and marketing	–	–	–	31,865	31,865	–
Farm-related business	267	–	267	19,015	19,282	–
Communication	–	–	–	8,679	8,679	–
Power and water/waste disposal	–	–	–	3,942	3,942	–
Rural residential real estate	–	–	–	1,800	1,800	–
International	–	–	–	1,754	1,754	–
Lease receivables	–	–	–	739	739	–
Total	$ 2,055	$ 1,018	$ 3,073	$ 417,035	$ 420,108	$ –

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

	June 30, 2018	December 31, 2017
Nonaccrual loans:		
Real estate mortgage	$ 224	$ 117
Production and intermediate-term	577	954
Total	$ 801	$ 1,071
Accruing restructured loans:		
Real estate mortgage	$ 2,087	$ 1,394
Production and intermediate-term	12	13
Total	$ 2,099	$ 1,407
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 2,900	$ 2,478
Other property owned	230	129
Total nonperforming assets	$ 3,130	$ 2,607
Nonaccrual loans as a percentage of total loans	0.18%	0.26%
Nonperforming assets as a percentage of total loans and other property owned	0.71%	0.63%
Nonperforming assets as a percentage of capital	3.63%	3.14%

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.

	June 30, 2018	December 31, 2017
Impaired nonaccrual loans:		
Current as to principal and interest	$ 435	$ 53
Past due	366	1,018
Total	$ 801	$ 1,071
Impaired accrual loans:		
Restructured	$ 2,099	$ 1,407
90 days or more past due	–	–
Total	$ 2,099	$ 1,407
Total impaired loans	$ 2,900	$ 2,478
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.

	June 30, 2018			Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:							
Real estate mortgage	$ 1,478	$ 1,547	$ 35	$ 1,205	$ 2	$ 1,229	$ 6
Production and intermediate-term	371	367	133	303	–	309	2
Total	$ 1,849	$ 1,914	$ 168	$ 1,508	$ 2	$ 1,538	$ 8
With no related allowance for credit losses:							
Real estate mortgage	$ 833	$ 870	$ –	$ 680	$ -	$ 693	$ 4
Production and intermediate-term	218	266	–	177	1	181	1
Total	$ 1,051	$ 1,136	$ –	$ 857	$ 1	$ 874	$ 5
Total:							
Real estate mortgage	$ 2,311	$ 2,417	$ 35	$ 1,885	$ 2	$ 1,922	$ 10
Production and intermediate-term	589	633	133	480	1	490	3
Total	$ 2,900	$ 3,050	$ 168	$ 2,365	$ 3	$ 2,412	$ 13

	December 31, 2017			Year Ended December 31, 2017	
Impaired loans:	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	$ 1,287	$ 1,273	$ 53	$ 1,276	$ 27
Production and intermediate-term	709	732	73	704	15
Total	$ 1,996	$ 2,005	$ 126	$ 1,980	$ 42
With no related allowance for credit losses:					
Real estate mortgage	$ 224	$ 271	$ –	$ 222	$ 5
Production and intermediate-term	258	324	–	256	5
Total	$ 482	$ 595	$ –	$ 478	$ 10
Total:					
Real estate mortgage	$ 1,511	$ 1,544	$ 53	$ 1,498	$ 32
Production and intermediate-term	967	1,056	73	960	20
Total	$ 2,478	$ 2,600	$ 126	$ 2,458	$ 52

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and water/waste disposal	Rural Residential Real Estate	International	Lease Receivables	Total
Activity related to the allowance for credit losses:									
Balance at March 31, 2018	$ 2,310	$ 1,070	$ 502	$ 81	$ 37	$ 19	$ 17	$ 7	$ 4,043
Charge-offs	–	(20)	–	–	–	–	–	–	(20)
Recoveries	–	3	–	–	–	–	–	–	3
Provision for loan losses	(135)	221	(83)	(9)	(3)	2	(2)	9	–
Balance at June 30, 2018	$ 2,175	$ 1,274	$ 419	$ 72	$ 34	$ 21	$ 15	$ 16	$ 4,026
Balance at December 31, 2017	$ 2,239	$ 1,176	$ 484	$ 81	$ 37	$ 17	$ 16	$ 7	$ 4,057
Charge-offs	(41)	(20)	–	–	–	–	–	–	(61)
Recoveries	1	27	–	–	2	–	–	–	30
Provision for loan losses	(24)	91	(65)	(9)	(5)	4	(1)	9	–
Balance at June 30, 2018	$ 2,175	$ 1,274	$ 419	$ 72	$ 34	$ 21	$ 15	$ 16	$ 4,026
Balance at March 31, 2017	$ 2,295	$ 1,064	$ 576	$ 65	$ 9	$ 15	$ 18	$ 3	$ 4,045
Charge-offs	(4)	(15)	–	–	–	–	–	–	(19)
Recoveries	–	4	–	–	–	–	–	–	4
Provision for loan losses	(113)	136	(28)	13	(1)	(2)	(2)	(3)	–
Balance at June 30, 2017	$ 2,178	$ 1,189	$ 548	$ 78	$ 8	$ 13	$ 16	$ –	$ 4,030
Balance at December 31, 2016	$ 2,305	$ 1,014	$ 616	$ 50	$ 10	$ 15	$ 18	$ 3	$ 4,031
Charge-offs	(4)	(18)	–	–	–	–	–	–	(22)
Recoveries	–	21	–	–	–	–	–	–	21
Provision for loan losses	(123)	172	(68)	28	(2)	(2)	(2)	(3)	–
Balance at June 30, 2017	$ 2,178	$ 1,189	$ 548	$ 78	$ 8	$ 13	$ 16	$ –	$ 4,030
Allowance on loans evaluated for impairment:									
Individually	$ 35	$ 133	$ –	$ –	$ –	$ –	$ –	$ –	$ 168
Collectively	2,140	1,141	419	72	34	21	15	16	3,858
Balance at June 30, 2018	$ 2,175	$ 1,274	$ 419	$ 72	$ 34	$ 21	$ 15	$ 16	$ 4,026
Individually	$ 53	$ 73	$ –	$ –	$ –	$ –	$ –	$ –	$ 126
Collectively	2,186	1,103	484	81	37	17	16	7	3,931
Balance at December 31, 2017	$ 2,239	$ 1,176	$ 484	$ 81	$ 37	$ 17	$ 16	$ 7	$ 4,057
Recorded investment in loans evaluated for impairment:									
Individually	$ 2,311	$ 589	$ –	$ –	$ –	$ –	$ –	$ –	$ 2,900
Collectively	244,124	130,110	47,796	8,215	3,829	2,365	1,755	1,784	439,978
Balance at June 30, 2018	$ 246,435	$ 130,699	$ 47,796	$ 8,215	$ 3,829	$ 2,365	$ 1,755	$ 1,784	$ 442,878
Individually	$ 1,511	$ 967	$ –	$ –	$ –	$ –	$ –	$ –	$ 2,478
Collectively	232,017	116,966	51,733	8,679	3,942	1,800	1,754	739	417,630
Balance at December 31, 2017	$ 233,528	$ 117,933	$ 51,733	$ 8,679	$ 3,942	$ 1,800	$ 1,754	$ 739	$ 420,108

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

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

	Three Months Ended June 30, 2018				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 734	$ –	$ 734	
Total	$ –	$ 734	$ –	$ 734	
Post-modification:					
Real estate mortgage	$ –	$ 734	$ –	$ 734	$ –
Total	$ –	$ 734	$ –	$ 734	$ –

Outstanding Recorded Investment	Six Months Ended June 30, 2018 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	$ 1,249	$ –	$ 1,249	
Production and intermediate-term	–	163	–	163	
Total	$ –	$ 1,412	$ –	$ 1,412	
Post-modification:					
Real estate mortgage	$ –	$ 1,173	$ –	$ 1,173	$ (37)
Production and intermediate-term	–	113	–	113	–
Total	$ –	$ 1,286	$ –	$ 1,286	$ (37)

Outstanding Recorded Investment	Three Months Ended June 30, 2017 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Production and intermediate-term	$ –	$ 22	$ –	$ 22	
Total	$ –	$ 22	$ –	$ 22	
Post-modification:					
Production and intermediate-term	$ –	$ 13	$ –	$ 13	$ –
Total	$ –	$ 13	$ –	$ 13	$ –

Outstanding Recorded Investment	Six Months Ended June 30, 2017 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Production and intermediate-term	$ –	$ 22	$ –	$ 22	
Total	$ –	$ 22	$ –	$ 22	
Post-modification:					
Production and intermediate-term	$ –	$ 13	$ –	$ 13	$ –
Total	$ –	$ 13	$ –	$ 13	$ –

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

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

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

	Total TDRs		Nonaccrual TDRs	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Real estate mortgage	$ 2,311	$ 1,394	$ 224	$ –
Production and intermediate-term	135	149	123	136
Total loans	$ 2,446	$ 1,543	$ 347	$ 136
Additional commitments to lend	$ –	$ –		

The following table presents information as of period end:

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

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 June 30, 2018, the Association held one RAB totaling $852 whose credit quality has deteriorated beyond the program limits.

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

	June 30, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 6,047	$ 314	$ –	$ 6,361	6.04%

	December 31, 2017				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 6,078	$ 452	$ (105)	$ 6,425	6.03%

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

	June 30, 2018		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ 1,292	$ 1,294	5.75%
After one year through five years	–	–	–
After five years through ten years	–	–	–
After ten years	4,755	5,067	6.11
Total	$ 6,047	$ 6,361	6.04%

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

An investment is considered impaired if its fair value is less than its cost. The following table shows the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category 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 June 30, 2018.

	December 31, 2017			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ –	$ –	$ 660	$ (105)

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 5.55 percent of the issued stock of the Bank as of June 30, 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 $152 million for the first six months of 2018. In addition, the Association held investments of $1,108 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 — 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.

	June 30, 2018				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Recurring Assets	$ –	$ –	$ –	$ –	$ –
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 1,681	$ –	$ –	$ 1,681	$ 1,681
Other property owned	230	–	–	246	246
Nonrecurring Assets	$ 1,911	$ –	$ –	$ 1,927	$ 1,927
Other Financial Instruments					
Assets:					
Cash	$ 383	$ 383	$ –	$ –	$ 383
Investments in debt securities, held-to-maturity	6,047	–	–	6,361	6,361
Loans	432,028	–	–	417,952	417,952
Other Financial Assets	$ 438,458	$ 383	$ –	$ 424,313	$ 424,696
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 378,544	$ –	$ –	$ 366,789	$ 366,789
Other Financial Liabilities	$ 378,544	$ –	$ –	$ 366,789	$ 366,789

	December 31, 2017				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Recurring Assets	$ –	$ –	$ –	$ –	$ –
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 1,870	$ –	$ –	$ 1,870	$ 1,870
Other property owned	129	–	–	142	142
Nonrecurring Assets	$ 1,999	$ –	$ –	$ 2,012	$ 2,012
Other Financial Instruments					
Assets:					
Cash	$ 4,617	$ 4,617	$ –	$ –	$ 4,617
Investments in debt securities, held-to-maturity	6,078	–	–	6,425	6,425
Loans	408,410	–	–	399,660	399,660
Other Financial Assets	$ 419,105	$ 4,617	$ –	$ 406,085	$ 410,702
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 361,645	$ –	$ –	$ 358,408	$ 358,408
Other Financial Liabilities	$ 361,645	$ –	$ –	$ 358,408	$ 358,408

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Investments in Debt Securities
The fair values of predominantly all Level 3 investments in debt securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities. These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

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

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 1,927	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

** Ranges for this type of input are not useful because each collateral property is unique.*

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Investments in debt securities, held-to-maturity	Discounted cash flow	Prepayment rates
		Risk adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity

Note 6 — Employee Benefit Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Pension	$ 224	$ 166	$ 454	$ 332
401(k)	62	53	162	134
Other postretirement benefits	31	25	57	49
Total	$ 317	$ 244	$ 673	$ 515

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

	Actual YTD Through 6/30/18	Projected Contributions For Remainder of 2018	Projected Total Contributions 2018
Pension	$ –	$ 907	$ 907
Other postretirement benefits	57	43	100
Total	$ 57	$ 950	$ 1,007

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 7 — Commitments and Contingent Liabilities

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

Note 8 — Subsequent Events

The Association evaluated subsequent events and determined there were none requiring disclosure through August 8, 2018, which was the date the financial statements were issued.