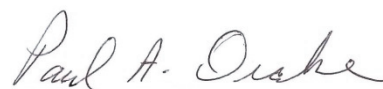

AgCarolina Farm Credit, ACA
FIRST QUARTER 2019

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2019 quarterly report of AgCarolina 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.



Paul A. Drake
Chairman of the Board



David W. Corum
President
Chief Executive Officer



Matthew J. Currin
Senior Vice President
Chief Financial Officer

May 9, 2019

AgCarolina 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 March 31, 2019. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

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



David W. Corum
President
Chief Executive Officer



Matthew J. Currin
Senior Vice President
Chief Financial Officer

May 9, 2019

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of AgCarolina Farm Credit, ACA (Association) for the three months ended March 31, 2019. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2018 annual report of the Association.

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 five predominant commodities in the portfolio are tobacco, forestry, poultry, soybeans and corn, which constitute \$573,091 or 50.88 percent, of the loan portfolio as of March 31, 2019. Other major farm commodities include swine, cotton, and sweet potatoes. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on a given commodity.

The net loan volume of the Association as of March 31, 2019 was \$1,089,049, a decrease of \$56,397 or 4.92 percent as compared to \$1,145,446 at December 31, 2018. Net loans accounted for 95.83 percent of total assets at March 31, 2019 as compared to 94.62 percent of total assets at December 31, 2018. The decrease in net loan volume during the reporting period is primarily attributed to seasonal lending. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak in August and declines in the fall and winter months as farm commodities are marketed and proceeds are applied to the operating loans.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, however, and credit administration remains satisfactory. Nonaccrual loans decreased to \$24,850 from December 31, 2018 to March 31, 2019. The balance has decreased due to payments being collected on larger loans.

Association management maintains an allowance for loan losses at a level considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2019 was \$14,506, as compared to \$14,516 at December 31, 2018, a

decrease of \$10, mainly due to net charge-offs of that amount. The allowance remained flat through this period. The ratio of the allowance for loan losses to total loans at March 31, 2019 was 1.31 percent, which was slightly higher than the prior year end. The allowance was considered by management to be adequate to cover possible losses.

Other property owned was \$986 as of March 31, 2019, which remained flat from the outstanding balance at December 31, 2018.

RESULTS OF OPERATIONS

For the three months ended March 31, 2019

Net income for the three months ended March 31, 2019 totaled \$5,142, a decrease of \$430 or 7.72 percent, as compared to the same period of 2018. The primary reasons for the decrease in net income as compared to the previous period is due to a decrease in noninterest income as well as an increase in operating expenses.

For the three months ended March 31, 2019, total interest income increased by \$1,278 compared to the same period of 2018. The increase in interest income is mainly due to increased market rates and slight growth year-over-year. Interest income from nonaccrual loans was \$80 for the three months ended March 31, 2019, a decrease of \$119 from the same period of 2018. Interest expense increased \$1,118 for the three months ended March 31, 2019, as compared to the same period of 2018. The increase in interest expense is mainly attributed to the increase in the direct note due to loan volume growth as well as increased interest rates.

Noninterest income for the three months ended March 31, 2019 totaled \$3,374 as compared to \$3,519 for the same period of 2018, a decrease of \$145. The overall decrease is primarily due to a decrease in Insurance Fund refunds and fee income, which was offset by an increase in net gains. Loan fees and fees for financially related services decreased a combined \$81 for the period as compared to the prior year.

Noninterest expense for the three months ended March 31, 2019 was \$5,810, an increase of \$444, or 8.27 percent as compared to the same period of 2018. This increase is due to normal increases in salaries of \$428.

LIQUIDITY AND FUNDING SOURCES

Liquidity

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with AgFirst Farm Credit Bank (Bank) and from income generated by operations. Sufficient liquid funds have been available to meet all financial obligations.

Funding Sources

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association.

The total notes payable to the Bank at March 31, 2019 was \$850,915 as compared to \$917,038 at December 31, 2018. The 7.21 percent decrease during the period was a result of a decrease in loan volume since December 31, 2018.

The Association has no lines of credit outstanding with third parties as of March 31, 2019.

CAPITAL RESOURCES

Total members' equity at March 31, 2019, increased 3.37 percent to \$272,509 from the December 31, 2018, total of \$263,618. The increase is attributed to the net of an increase in retained earnings related to net income and an increase in preferred stock. Preferred stock was \$27,609 as of March 31, 2019, as compared to \$23,795 on December 31, 2018, for an increase of 16.03 percent.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum capital ratios, which are shown in the table below. As of March 31, 2019, all capital ratios were well above the minimum regulatory requirements.

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, 2019
Risk-adjusted ratios:				
CET1 Capital	4.5%	0.625%	5.125%	20.25%
Tier 1 Capital	6.0%	0.625%	6.625%	20.25%
Total Capital	8.0%	0.625%	8.625%	21.50%
Permanent Capital Ratio	7.0%	0.0%	7.0%	22.96%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	20.55%
UREE Leverage Ratio	1.5%	0.0%	1.5%	20.72%

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

REGULATORY MATTERS

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
<i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i>	
<ul style="list-style-type: none"> • Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management’s estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to a CECL model. • The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. 	<ul style="list-style-type: none"> • Implementation efforts have begun by establishing a cross-discipline governance structure. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. • The new guidance is expected to result in an increase in allowance for credit losses due to several factors, including: <ol style="list-style-type: none"> 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 any 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 financial instrument portfolios, and the macroeconomic conditions and forecasts at the adoption date. • The guidance is expected to be adopted in first quarter 2021.

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 1-919-250-9500, writing Matthew J. Currin, AgCarolina Farm Credit, ACA, P. O. Box 14789, Raleigh, NC 27620, or accessing the website, www.agcarolina.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.

AgCarolina Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2019 <i>(unaudited)</i>	December 31, 2018 <i>(audited)</i>
Assets		
Cash	\$ 2,038	\$ 3,029
Loans	1,103,555	1,159,962
Allowance for loan losses	(14,506)	(14,516)
Net loans	1,089,049	1,145,446
Other investments	1,590	—
Accrued interest receivable	13,625	18,361
Equity investments in other Farm Credit institutions	13,154	13,118
Premises and equipment, net	10,655	10,503
Other property owned	986	986
Accounts receivable	2,163	15,019
Other assets	3,192	4,174
Total assets	\$ 1,136,452	\$ 1,210,636
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 850,915	\$ 917,038
Lease obligations	33	—
Accrued interest payable	2,345	2,500
Patronage refunds payable	83	19,053
Accounts payable	873	1,625
Other liabilities	9,694	6,802
Total liabilities	863,943	947,018
Commitments and contingencies (Note 7)		
Members' Equity		
Capital stock and participation certificates	31,169	27,306
Retained earnings		
Allocated	168,579	167,917
Unallocated	72,761	68,395
Total members' equity	272,509	263,618
Total liabilities and members' equity	\$ 1,136,452	\$ 1,210,636

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

AgCarolina Farm Credit, ACA
Consolidated Statements of
Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended March 31,	
	2019	2018
Interest Income		
Loans	\$ 14,525	\$ 13,247
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	6,945	5,827
Net interest income	7,580	7,420
Provision for loan losses	—	—
Net interest income after provision for loan losses	7,580	7,420
Noninterest Income		
Loan fees	790	886
Fees for financially related services	75	59
Patronage refunds from other Farm Credit institutions	1,832	1,789
Gains (losses) on sales of premises and equipment, net	29	102
Gains (losses) on other transactions	393	(53)
Insurance Fund refunds	255	736
Total noninterest income	3,374	3,519
Noninterest Expense		
Salaries and employee benefits	4,163	3,890
Occupancy and equipment	263	222
Insurance Fund premiums	196	191
(Gains) losses on other property owned, net	5	3
Other operating expenses	1,183	1,061
Total noninterest expense	5,810	5,367
Income before income taxes	5,144	5,572
Provision for income taxes	2	—
Net income	5,142	5,572
Other comprehensive income	—	—
Comprehensive income	\$ 5,142	\$ 5,572

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

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

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
		Allocated	Unallocated	
Balance at December 31, 2017	\$ 35,474	\$ 159,279	\$ 67,796	\$ 262,549
Comprehensive income			5,572	5,572
Capital stock/participation certificates issued/(retired), net	3,143			3,143
Dividends declared/paid	102		(102)	—
Patronage distribution adjustment		152	(152)	—
Balance at March 31, 2018	\$ 38,719	\$ 159,431	\$ 73,114	\$ 271,264
Balance at December 31, 2018	\$ 27,306	\$ 167,917	\$ 68,395	\$ 263,618
Comprehensive income			5,142	5,142
Capital stock/participation certificates issued/(retired), net	3,749			3,749
Dividends declared/paid	114		(114)	—
Patronage distribution adjustment		662	(662)	—
Balance at March 31, 2019	\$ 31,169	\$ 168,579	\$ 72,761	\$ 272,509

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

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

Basis of Presentation

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

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

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

Significant Accounting Policies

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

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

other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 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 ASU was issued by the Financial Accounting Standards Board (FASB) since the most recent year end:

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

ASUs Pending Effective Date

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

Potential effects of ASUs issued in previous periods:

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

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

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

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

Accounting Standards Effective During the Period

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

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

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

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

Transition Information

- The guidance was adopted using the optional modified retrospective method and practical expedients for transition. Under this transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.
- The package of practical expedients was elected, which allowed existing leases to be largely accounted for consistent with current guidance, except for the incremental balance sheet recognition for lessees.
- There will not be a material change to the timing of future expense recognition.
- Upon adoption, a cumulative-effect adjustment to equity of less than \$1 was recorded. In addition, a Right of Use Asset in the amount of \$43 and Lease Liability in the amount of \$42 were recognized.

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

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

	March 31, 2019	December 31, 2018
Real estate mortgage	\$ 634,867	\$ 640,447
Production and intermediate-term	376,646	427,991
Loans to cooperatives	4,523	2,360
Processing and marketing	40,365	41,784
Farm-related business	11,229	11,161
Communication	1,804	1,846
Power and water/waste disposal	15	7
Rural residential real estate	34,106	34,366
Total loans	<u>\$ 1,103,555</u>	<u>\$ 1,159,962</u>

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

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

	March 31, 2019							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 12,345	\$ 51,842	\$ —	\$ 3,732	\$ —	\$ —	\$ 12,345	\$ 55,574
Production and intermediate-term	14,703	69,519	3,175	199,828	—	—	17,878	269,347
Loans to cooperatives	4,530	—	—	—	—	—	4,530	—
Processing and marketing	13,159	15,793	533	—	—	—	13,692	15,793
Farm-related business	498	—	127	—	—	—	625	—
Communication	1,808	—	—	—	—	—	1,808	—
Power and water/waste disposal	17	—	—	—	—	—	17	—
Total	<u>\$ 47,060</u>	<u>\$ 137,154</u>	<u>\$ 3,835</u>	<u>\$ 203,560</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 50,895</u>	<u>\$ 340,714</u>

December 31, 2018

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 10,482	\$ 52,543	\$ -	\$ 3,834	\$ -	\$ -	\$ 10,482	\$ 56,377
Production and intermediate-term	14,319	58,857	3,134	184,470	-	-	17,453	243,327
Loans to cooperatives	2,363	-	-	-	-	-	2,363	-
Processing and marketing	12,674	15,793	533	-	-	-	13,207	15,793
Farm-related business	766	-	137	-	-	-	903	-
Communication	1,848	-	-	-	-	-	1,848	-
Power and water/waste disposal	8	-	-	-	-	-	8	-
Total	\$ 42,460	\$ 127,193	\$ 3,804	\$ 188,304	\$ -	\$ -	\$ 46,264	\$ 315,497

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

	March 31, 2019			
	Due Less Than 1 Year	Due 1 Through 5 Years	Due After 5 Years	Total
Real estate mortgage	\$ 17,656	\$ 93,620	\$ 523,591	\$ 634,867
Production and intermediate-term	144,509	190,983	41,154	376,646
Loans to cooperatives	65	1,261	3,197	4,523
Processing and marketing	7,821	18,336	14,208	40,365
Farm-related business	3,542	4,805	2,882	11,229
Communication	-	-	1,804	1,804
Power and water/waste disposal	-	15	-	15
Rural residential real estate	793	2,241	31,072	34,106
Total loans	\$ 174,386	\$ 311,261	\$ 617,908	\$ 1,103,555
Percentage	15.80%	28.21%	55.99%	100.00%

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

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

	March 31, 2019	December 31, 2018		March 31, 2019	December 31, 2018
Real estate mortgage:			Farm-related business:		
Acceptable	87.43%	87.20%	Acceptable	98.82%	96.90%
OAEM	5.68	6.17	OAEM	-	1.87
Substandard/doubtful/loss	6.89	6.63	Substandard/doubtful/loss	1.18	1.23
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Communication:		
Acceptable	85.55%	85.67%	Acceptable	100.00%	100.00%
OAEM	5.93	5.91	OAEM	-	-
Substandard/doubtful/loss	8.52	8.42	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
Loans to cooperatives:			Power and water/waste disposal		
Acceptable	100.00%	100.00%	Acceptable	100.00%	100.00%
OAEM	-	-	OAEM	-	-
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
Processing and marketing:			Rural residential real estate:		
Acceptable	97.77%	97.40%	Acceptable	97.53%	97.30%
OAEM	-	-	OAEM	1.25	1.43
Substandard/doubtful/loss	2.23	2.60	Substandard/doubtful/loss	1.22	1.27
	100.00%	100.00%		100.00%	100.00%
			Total loans:		
			Acceptable	87.66%	87.43%
			OAEM	5.34	5.65
			Substandard/doubtful/loss	7.00	6.92
				100.00%	100.00%

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

March 31, 2019					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	\$ 3,978	\$ 6,734	\$ 10,712	\$ 632,290	\$ 643,002
Production and intermediate-term	5,018	7,782	12,800	368,839	381,639
Loans to cooperatives	-	-	-	4,532	4,532
Processing and marketing	-	574	574	39,957	40,531
Farm-related business	105	56	161	11,262	11,423
Communication	-	-	-	1,805	1,805
Power and water/waste disposal	-	-	-	16	16
Rural residential real estate	112	29	141	34,091	34,232
Total	\$ 9,213	\$ 15,175	\$ 24,388	\$ 1,092,792	\$ 1,117,180

December 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
Real estate mortgage	\$ 5,094	\$ 7,697	\$ 12,791	\$ 637,563	\$ 650,354
Production and intermediate-term	3,609	4,928	8,537	427,372	435,909
Loans to cooperatives	-	-	-	2,362	2,362
Processing and marketing	-	723	723	41,336	42,059
Farm-related business	-	58	58	11,253	11,311
Communication	-	-	-	1,846	1,846
Power and water/waste disposal	-	-	-	7	7
Rural residential real estate	204	106	310	34,165	34,475
Total	\$ 8,907	\$ 13,512	\$ 22,419	\$ 1,155,904	\$ 1,178,323

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

	March 31, 2019	December 31, 2018
Nonaccrual loans:		
Real estate mortgage	\$ 13,437	\$ 15,365
Production and intermediate-term	10,579	12,433
Processing and marketing	574	723
Farm-related business	56	58
Rural residential real estate	204	221
Total	\$ 24,850	\$ 28,800
Accruing restructured loans:		
Real estate mortgage	\$ 2,150	\$ 2,246
Production and intermediate-term	306	327
Total	\$ 2,456	\$ 2,573
Accruing loans 90 days or more past due:		
Production and intermediate-term	\$ -	\$ -
Total	\$ -	\$ -
Total nonperforming loans	\$ 27,306	\$ 31,373
Other property owned	986	986
Nonperforming assets	\$ 28,292	\$ 32,359
Nonaccrual loans as a percentage of total loans	2.25%	2.48%
Nonperforming assets as a percentage of total loans and other property owned	2.56%	2.79%
Nonperforming assets as a percentage of capital	10.38%	12.27%

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, 2019	December 31, 2018
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 7,471	\$ 10,868
Past due	17,379	17,932
Total	\$ 24,850	\$ 28,800
Impaired accrual loans:		
Restructured	\$ 2,456	\$ 2,573
90 days or more past due	-	-
Total	\$ 2,456	\$ 2,573
Total impaired loans	\$ 27,306	\$ 31,373
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, 2019			Three Months Ended March 31, 2019	
	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	\$ 2,923	\$ 3,074	\$ 297	\$ 3,076	\$ 13
Production and intermediate-term	4,452	5,052	2,033	4,686	19
Processing and marketing	—	—	—	—	—
Farm-related business	—	—	—	—	—
Rural residential real estate	—	—	—	—	—
Total	\$ 7,375	\$ 8,126	\$ 2,330	\$ 7,762	\$ 32
With no related allowance for credit losses:					
Real estate mortgage	\$ 12,664	\$ 15,142	\$ —	\$ 13,328	\$ 54
Production and intermediate-term	6,433	8,224	—	6,771	28
Processing and marketing	574	695	—	604	2
Farm-related business	56	60	—	59	—
Rural residential real estate	204	408	—	215	1
Total	\$ 19,931	\$ 24,529	\$ —	\$ 20,977	\$ 85
Total impaired loans:					
Real estate mortgage	\$ 15,587	\$ 18,216	\$ 297	\$ 16,404	\$ 67
Production and intermediate-term	10,885	13,276	2,033	11,457	47
Processing and marketing	574	695	—	604	2
Farm-related business	56	60	—	59	—
Rural residential real estate	204	408	—	215	1
Total	\$ 27,306	\$ 32,655	\$ 2,330	\$ 28,739	\$ 117

Impaired loans:	December 31, 2018			Year Ended December 31, 2018	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	\$ 1,841	\$ 1,844	\$ 940	\$ 3,905	\$ 1,933*
Production and intermediate-term	4,801	5,364	1,967	3,912	101
Processing and marketing	—	—	—	—	—
Farm-related business	58	60	—	47	1
Rural residential real estate	—	—	—	—	—
Total	\$ 6,700	\$ 7,268	\$ 2,907	\$ 7,864	\$ 2,035
With no related allowance for credit losses:					
Real estate mortgage	\$ 15,770	\$ 18,095	\$ —	\$ 14,218	\$ 1,025*
Production and intermediate-term	7,959	9,500	—	6,486	167
Processing and marketing	723	832	—	589	15
Farm-related business	—	—	—	—	—
Rural residential real estate	221	411	—	180	5
Total	\$ 24,673	\$ 28,838	\$ —	\$ 21,473	\$ 1,212
Total impaired loans:					
Real estate mortgage	\$ 17,611	\$ 19,939	\$ 940	\$ 18,123	\$ 2,958
Production and intermediate-term	12,760	14,864	1,967	10,398	268
Processing and marketing	723	832	—	589	15
Farm-related business	58	60	—	47	1
Rural residential real estate	221	411	—	180	5
Total	\$ 31,373	\$ 36,106	\$ 2,907	\$ 29,337	\$ 3,247

*Large portion of amounts related to two large impaired loan liquidations.

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	Total
Activity related to the allowance for credit losses:							
Balance at December 31, 2018	\$ 7,347	\$ 6,262	\$ 549	\$ 18	\$ –	\$ 340	\$ 14,516
Charge-offs	(21)	(2)	–	–	–	–	(23)
Recoveries	4	9	–	–	–	–	13
Provision for loan losses	(25)	(76)	66	2	–	33	–
Balance at March 31, 2019	\$ 7,305	\$ 6,193	\$ 615	\$ 20	\$ –	\$ 373	\$ 14,506
Balance at December 31, 2017	\$ 7,271	\$ 4,217	\$ 450	\$ 18	\$ 1	\$ 314	\$ 12,271
Charge-offs	–	(16)	–	–	–	–	(16)
Recoveries	75	45	–	–	–	–	120
Provision for loan losses	179	(265)	76	1	–	9	–
Balance at March 31, 2018	\$ 7,525	\$ 3,981	\$ 526	\$ 19	\$ 1	\$ 323	\$ 12,375
Allowance on loans evaluated for impairment:							
Individually	\$ 297	\$ 2,033	\$ –	\$ –	\$ –	\$ –	\$ 2,330
Collectively	7,008	4,160	615	20	–	373	12,176
Balance at March 31, 2019	\$ 7,305	\$ 6,193	\$ 615	\$ 20	\$ –	\$ 373	\$ 14,506
Individually	\$ 940	\$ 1,967	\$ –	\$ –	\$ –	\$ –	\$ 2,907
Collectively	6,407	4,295	549	18	–	340	11,609
Balance at December 31, 2018	\$ 7,347	\$ 6,262	\$ 549	\$ 18	\$ –	\$ 340	\$ 14,516
Recorded investment in loans evaluated for impairment:							
Individually	\$ 15,587	\$ 10,885	\$ 630	\$ –	\$ –	\$ 204	\$ 27,306
Collectively	627,415	370,754	55,856	1,805	16	34,028	1,089,874
Balance at March 31, 2019	\$ 643,002	\$ 381,639	\$ 56,486	\$ 1,805	\$ 16	\$ 34,232	\$ 1,117,180
Individually	\$ 17,611	\$ 12,760	\$ 781	\$ –	\$ –	\$ 221	\$ 31,373
Collectively	632,743	423,149	54,951	1,846	7	34,254	1,146,950
Balance at December 31, 2018	\$ 650,354	\$ 435,909	\$ 55,732	\$ 1,846	\$ 7	\$ 34,475	\$ 1,178,323

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

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

Outstanding Recorded Investment	Three Months Ended March 31, 2019				
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ –	\$ 33	\$ –	\$ 33	
Total	\$ –	\$ 33	\$ –	\$ 33	
Post-modification:					
Real estate mortgage	\$ –	\$ 33	\$ –	\$ 33	\$ –
Total	\$ –	\$ 33	\$ –	\$ 33	\$ –
Outstanding Recorded Investment	Three Months Ended March 31, 2018				
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Production and intermediate-term	\$ –	\$ 91	\$ –	\$ 91	
Total	\$ –	\$ 91	\$ –	\$ 91	
Post-modification:					
Production and intermediate-term	\$ –	\$ 91	\$ –	\$ 91	\$ –
Total	\$ –	\$ 91	\$ –	\$ 91	\$ –

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

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

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

	Total TDRs		Nonaccrual TDRs	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Real estate mortgage	\$ 3,594	\$ 4,036	\$ 1,444	\$ 1,790
Production and intermediate-term	1,619	1,848	1,313	1,521
Processing and marketing	574	723	574	723
Total loans	\$ 5,787	\$ 6,607	\$ 3,331	\$ 4,034
Additional commitments to lend	\$ —	\$ —		

The following table presents information as of period end:

	March 31, 2019
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ 20
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ —

Note 3 Investments

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 4.59 percent of the issued stock of the Bank as of March 31, 2019 net of any reciprocal investment. As of that date, the Bank's assets totaled \$32.7 billion and shareholders' equity totaled \$2.3 billion. The Bank's earnings were \$67 million for the first three months of 2019. In addition, the Association held investments of \$680 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 could also include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

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

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

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

		March 31, 2019				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements						
Assets held in trust funds	\$	3,088	\$ 3,088	\$ -	\$ -	\$ 3,088
Assets held in mutual funds		1,590	1,590	-	-	1,590
Recurring Assets	\$	4,678	\$ 4,678	\$ -	\$ -	\$ 4,678
Liabilities:						
Recurring Liabilities	\$	-	\$ -	\$ -	\$ -	\$ -
Nonrecurring Measurements						
Assets:						
Impaired loans*	\$	7,264	\$ -	\$ -	\$ 7,264	\$ 7,264
Other property owned		986	-	-	989	989
Nonrecurring Assets	\$	8,250	\$ -	\$ -	\$ 8,253	\$ 8,253
Other Financial Instruments						
Assets:						
Cash	\$	2,038	\$ 2,038	\$ -	\$ -	\$ 2,038
Loans		1,081,785	-	-	1,064,631	1,064,631
Accounts receivable		2,163	2,163	-	-	2,163
Other Financial Assets	\$	1,085,986	\$ 4,201	\$ -	\$ 1,064,631	\$ 1,068,832
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	850,915	\$ -	\$ -	\$ 843,310	\$ 843,310
Other Financial Liabilities	\$	850,915	\$ -	\$ -	\$ 843,310	\$ 843,310
		December 31, 2018				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements						
Assets:						
Assets held in trust funds	\$	2,616	\$ 2,616	\$ -	\$ -	\$ 2,616
Assets held in mutual funds		1,480	1,480	-	-	1,480
Recurring Assets	\$	4,096	\$ 4,096	\$ -	\$ -	\$ 4,096
Liabilities:						
Recurring Liabilities	\$	-	\$ -	\$ -	\$ -	\$ -
Nonrecurring Measurements						
Assets:						
Impaired loans**	\$	6,308	\$ -	\$ -	\$ 6,308	\$ 6,308
Other property owned		986	-	-	989	989
Nonrecurring Assets	\$	7,294	\$ -	\$ -	\$ 7,297	\$ 7,297
Other Financial Instruments						
Assets:						
Cash	\$	3,029	\$ 3,029	\$ -	\$ -	\$ 3,029
Loans		1,139,138	-	-	1,111,674	1,111,674
Accounts receivable		15,019	15,019	-	-	15,019
Other Financial Assets	\$	1,157,186	\$ 18,048	\$ -	\$ 1,111,674	\$ 1,129,722
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	917,038	\$ -	\$ -	\$ 901,797	\$ 901,797
Other Financial Liabilities	\$	917,038	\$ -	\$ -	\$ 901,797	\$ 901,797

*Carrying value of impaired loans is the balance of loans with a related specific reserve (\$9,023) less related specific reserves (\$2,330) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off (\$571).

**Carrying value of impaired loans is the balance of loans with a related specific reserve (\$6,700) less related specific reserves (\$2,907) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off (\$2,515).

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 8,253	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*
			Collateral discounts	10-50%

* 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
Accounts receivable	Carrying value	Par/principal
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 March 31,	
	2019	2018
Pension	\$ 350	\$ 553
401(k)	264	227
Other postretirement benefits	97	103
Total	\$ 711	\$ 883

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

	Actual YTD Through 3/31/19	Projected Contributions For Remainder of 2019	Projected Total Contributions 2019
Pension	\$ —	\$ 1,401	\$ 1,401
Other postretirement benefits	97	280	377
Total	\$ 97	\$ 1,681	\$ 1,778

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

contributions necessary before the next plan measurement date of December 31, 2019.

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

Note 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 May 9, 2019, which was the date the financial statements were issued.