

FIRST QUARTER 2018

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CERTIFICATION

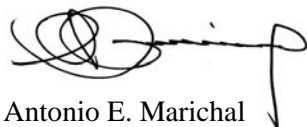
The undersigned certify that we have reviewed the March 31, 2018 quarterly report of Puerto Rico Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Robert G. Miller
Chairman of Board of Directors



Ricardo L. Fernández
Chief Executive Officer



Antonio E. Marichal
Member of Board of Directors
Chairman of the Audit Committee

May 9, 2018

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and 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, 2018. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

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



Ricardo L. Fernández
Chief Executive Officer

May 9, 2018

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

(dollars in thousands)

The following commentary reviews the consolidated financial condition and results of operations of Puerto Rico Farm Credit, ACA (Association) for the period ended March 31, 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 short and intermediate-term loans and long-term real estate mortgage loans. The Association also maintains a portfolio of purchased loans, originated by other Farm Credit System entities and non-system entities. The Association's predominant chartered territory (CT) agricultural commodities were dairy, fruits (including plantains and coffee) and rural home which totaled approximately \$86,033 or 53.35 percent of the gross principal balance, net of sold loans, at March 31, 2018.

The outstanding loan volume of the Association at March 31, 2018 was \$156,823 a decrease of \$9,405 or 5.66 percent as compared to \$166,228 at December 31, 2017. Loans originated within the Association's chartered territory were lower by approximately \$5,110 and participation loans purchased decreased by approximately \$4,295.

Net loans outstanding at March 31, 2018 totaled \$155,281 as compared to \$164,665 at December 31, 2017. Net loans made up 96.04 percent of total assets at March 31, 2018, as compared to 95.09 percent at December 31, 2017.

Non-accrual loans totaled \$5,372 or 3.43 percent of total loans at March 31, 2018, compared to \$5,462 or 3.29 percent of total loans at December 31, 2017. Nonaccrual loans decreased during the three months of 2018 primarily due to a CT loan transferred to Other Property Owned along with payments of CT loans in process of collection during the period.

The overall delinquency rate for the accruing loan portfolio decreased during the first quarter 2018 in part due to the interest deferments granted as a result of Hurricane Maria's

relief program. Management expects that high risk loans may increase slightly by the end of the year if recovery efforts take longer than anticipated or if another natural event were to hit Puerto Rico.

The allowance for loan losses decreased \$21 to \$1,542 at March 31, 2018 from \$1,563 at December 31, 2017. The decrease was primarily due to a decline in the general reserves for the CT impaired loans, among other reductions on various CT and PL accruing industries along with, a lower qualitative reserve for the CT collateral risk. This decrease was partially offset by an increase in the specific reserves for impaired loans due to adjustments in their appraisal values and an increase in the general reserve for the CT dairy industry. Management will continue to monitor certain risks, such as collateral risk and other factors that may increase the risk of the portfolio, such as climate conditions, government fiscal policy and overall economic conditions on the island. The total allowance for loan losses to outstanding loan volume increased to 0.98 percent at March 31, 2018 from 0.94 percent at December 31, 2017.

During the first three months of 2018, charge-offs of \$9 were recognized on CT nonaccrual loans. Also, a recovery of \$3 was recognized on a CT nonaccrual loan transferred to Other Property Owned. The Association is actively marketing acquired properties and may incur additional accounting losses or gains as sales are completed.

The economic activity in the island continues to decrease with an unofficial GDP reduction of 1.5% for fiscal year 2017. It is expected to increase slightly (1.2%) in fiscal 2018 due to expected federal aid entering the economy after Hurricane Maria and considering corrective measures under the PROMESA Act. The fiscal oversight board established in 2017 under the Act is in charge of correcting the government finances while allowing the repayment of government debt exceeding \$70 billion. Its actions will have an impact on the island's economic activity and the outlook is negative beyond 2018. Management actively monitors corrective measures taken by the government or imposed by the fiscal oversight board that could significantly impact economic activity and/or agricultural production in the island, that could in turn, negatively impact the business of the Association.

Economic recovery will be even slower after the Hurricanes of 2017 because so much effort is being placed on rebuilding the island's infrastructure. It is estimated that 25% of PR's agricultural infrastructure was damaged. As a result,

Management offered principal and interest payment deferrals as part of a Hurricane relief program which resulted in deferring \$1.037 million in interest income in 2017. Management has assessed the Association's member farms and has seen a quick recovery in their operations. The ag sectors hardest hit by the hurricanes were poultry and coffee. Both sectors represent about 6% of the Association's loan portfolio. Management does not expect a significant deterioration in credit quality as a result of the hurricanes. The Board and Management will continue monitoring recovery efforts to assess potential issues in credit quality. It is expected that economic deterioration will continue for at least 5 more years before the economy begins to stabilize. The Association has sufficient capital to withstand considerable deterioration in credit quality as a result of continuing adverse economic conditions or other natural disasters of large magnitude.

Through all this, the agricultural sector's outlook is positive and should remain stable over the next three years as local food production is only 15% of food consumed in Puerto Rico. This should allow farmers to continue managing their operations profitably and maintain the credit quality of the Association's portfolio.

The local dairy industry production declined about 8% in 2017 compared to the prior year according to the local dairy industry administrator. However, it was one of the fastest sectors to recuperate from the hurricanes and the one to receive the most financial support from the USDA. The declining trend is expected to continue at a similar rate in 2018. The Association continues to monitor events within the industry and their potential impact on the performance of the dairy portfolio. The Association lends almost 30.8% of total loans to this industry and has implemented risk management practices to reduce overall risk.

Other agricultural sectors do not represent significant risk for the association. Management monitors all sectors and does not anticipate any adverse impact to the portfolio in 2018.

As mentioned before, the Association continues to identify opportunities that allow it to fulfill its public mission. The Board of Directors and management remain cautious of the Association's ability to quickly grow the portfolio under the prevailing economic environment. Management will focus on establishing strategic alliances that promote agricultural production growth and targeted marketing to viable farmers in sectors demonstrating the ability to grow and remain competitive in a changing marketplace.

RESULTS OF OPERATIONS

For the three months ended March 31, 2018

The Association recorded net income for the three months ended March 31, 2018 of \$877 as compared to \$539 for the same period in 2017. This \$338 or 62.71 percent increase in

net income is primarily attributed to an increase in noninterest income.

Net interest income was \$1,146 for the three months ended March 31, 2018 compared to \$1,191 for the same period in 2017, representing a decrease of \$45 or 3.78 percent resulting from a decline in loan volume compared to prior year.

Reversal of allowance for loan losses was \$15 for the three months ended March 31, 2018 compared to \$18 for the same period in 2017. During the first quarter 2018, the reversal of allowance for loan losses was mainly due to a decrease in general reserves partially offset by an increase in the specific reserves on impaired loans.

Noninterest income for the three months ended March 31, 2018 totaled \$653 compared to \$294 for the same period of 2017, resulting in an increase of \$359 or 122.11 percent. This increase was mainly due to a one-time insurance fund refund from the Farm Credit System Insurance Corporation (FCSIC) of \$339.

Noninterest expense was \$937 for the three months ended March 31, 2018 as compared to \$964 for the same period in 2017, resulting in a decrease of \$27 or 2.80 percent. This decrease was primarily due to a reduction of \$24 in net losses on other property owned and a decrease of \$19 in salaries and employee benefits, among others, partially offset by an increase of \$48 in other operating expenses.

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 the 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 notes. The variable rate notes are utilized by the Association to fund variable rate loan advances and operating fund requirements. The fixed rate notes are used specifically to fund fixed rate loan advances made by the Association.

The total notes payable to the Bank at March 31, 2018 was \$102,983 as compared to \$115,233 at December 31, 2017. The decrease of \$12,250 or 10.63 percent is primarily due to a decrease in loan volume outstanding during the period along with an increase in members' equity resulting from net income for the three months ended March 31, 2018.

The Association had no lines of credit outstanding with third parties as of March 31, 2018.

Funds Management

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers variable and fixed rate loan products which are competitively priced according to local market rates. Variable rate loans are generally indexed to either the Prime rate or the London Interbank Offered Rate (LIBOR). The majority of the interest rate risk in the Association balance sheet is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control interest rate risk associated with the loan portfolio.

CAPITAL RESOURCES

Total members' equity at March 31, 2018 increased by \$862 or 1.59 percent to \$55,150 from December 31, 2017 total of \$54,288. The increase was primarily attributable to year-to-date net income.

Total capital stock and participation certificates were \$470 at March 31, 2018 compared to \$485 at December 31, 2017. The decrease of \$15 was the result of retirement of capital stock on loans liquidated in the normal course of business.

Unallocated retained earnings were \$54,680 at March 31, 2018 for an increase of \$877 or 1.63 percent from December 31, 2017 when unallocated retained earnings totaled \$53,803. The increase was due to 2018 year-to-date net income.

Key financial condition ratios were as follows:

	<u>3/31/18</u>	<u>12/31/17</u>
Total Members' Equity to Asset	34.11%	31.35%
Debt to Total Members' Equity	1.93	2.19

Regulatory Capital Ratios

The Association's regulatory capital ratios are shown in the following table:

	Regulatory Minimum, Including Buffer*	3/31/18	12/31/17	3/31/17
Permanent Capital Ratio	7.00%	36.64%	36.67%	36.20%
Common Equity Tier 1 (CET1) Capital Ratio	7.00%	36.22%	36.36%	35.83%
Tier 1 Capital Ratio	8.50%	36.22%	36.36%	35.83%
Total Capital Ratio	10.50%	37.38%	37.23%	36.81%
Tier 1 Leverage Ratio	5.00%	32.51%	31.96%	31.87%
Unallocated Retained Earnings (URE) and URE Equivalents Leverage Ratio	1.50%	33.16%	32.64%	32.54%

*Includes fully phased-in capital conservation buffers which will be effective January 1, 2020.

The FCA sets minimum regulatory capital adequacy requirements for System banks and associations. The requirements are based on regulatory ratios as defined by the FCA and include common equity tier 1 (CET1), tier 1, total capital, permanent capital, tier 1 leverage, and unallocated retained earnings (URE) and URE equivalents leverage ratios.

The permanent capital, CET1, tier 1, and total capital ratios are calculated by dividing the three-month average daily balance of the capital numerator, as defined by the FCA, by a risk-adjusted asset base. Unlike these ratios, the tier 1 leverage and URE and URE equivalents leverage ratios do not incorporate any risk-adjusted weighting of assets. Risk-adjusted assets refer to the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. Generally, higher credit conversion factors are applied to assets with more inherent risk. The tier 1 leverage and URE and URE equivalents leverage ratios are calculated by dividing the three-month average daily balance of the capital

numerator, as defined by the FCA, by the three-month average daily balance of total assets adjusted for regulatory deductions.

If the capital ratios fall below the minimum regulatory requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. For all periods presented, the Association exceeded minimum regulatory standards for all capital ratios. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements

REGULATORY MATTERS

On July 25, 2014, the FCA published a proposed rule in the Federal Register to revise the requirements governing the eligibility of investments for System banks and associations. The public comment period ended on October 23, 2014. The

FCA expects to issue a final regulation in 2018. The stated objectives of the proposed rule are as follows:

- To strengthen the safety and soundness of System banks and associations,
- To ensure that System banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption,
- To enhance the ability of the System banks to supply credit to agricultural and aquatic producers,
- To comply with the requirements of Section 939A of the Dodd-Frank Act,
- To modernize the investment eligibility criteria for System banks, and
- To revise the investment regulation for System associations to improve their investment management practices so they are more resilient to risk.

OTHER MATTERS

During the third quarter of 2015, the Association entered into an agreement with and began receiving certain standard and as-requested optional or negotiated services from Farm Credit of Florida, ACA for a fee. These services include, but do not fully cover and are not limited to, accounting, reporting, risk management, human resources and, loan on-boarding and servicing. The agreement is expected to leverage synergies and realize operating efficiencies and savings for both institutions. Both institutions are required to meet specified obligations under the agreement, which is automatically renewable for a one year term, unless terminated by either institution with 180 days prior written notice or sooner if specified obligations are not satisfied.

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
<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"> • The Association has begun implementation efforts by establishing a cross-discipline governance structure. The Association is currently identifying key interpretive issues, and assessing existing credit loss forecasting models and processes against the new guidance to determine what modifications may be required. • The Association expects that the new guidance will result in an increase in its allowance for credit losses due to several factors, including: <ol style="list-style-type: none"> 1. The allowance related to loans and commitments will most likely increase to cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of the increase is under evaluation, but will depend upon the nature and characteristics of the Association’s portfolio at the adoption date, and the macroeconomic conditions and forecasts at that date. • The Association expects to adopt the guidance in first quarter 2021.

ASU 2016-02 – Leases (Topic 842)

<ul style="list-style-type: none"> • Requires lessees to recognize leases on the balance sheet with lease liabilities and corresponding right-of-use assets based on the present value of lease payments. • Lessor accounting activities are largely unchanged from existing lease accounting. • The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification. • Also, expands qualitative and quantitative disclosures of leasing arrangements. • Requires adoption using a modified cumulative effect approach wherein the guidance is applied to all periods presented. • Effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. 	<ul style="list-style-type: none"> • The practical expedients allow entities to largely account for existing leases consistent with current guidance, except for the incremental balance sheet recognition for lessees. • The Association has started its implementation of the Update which has included an initial evaluation of leasing contracts and activities. • As a lessee the Association is developing its methodology to estimate the right-of-use assets and lease liabilities, which is based on the present value of lease payments but does not expect a material change to the timing of expense recognition. • Given the limited changes to lessor accounting, the Association does not expect material changes to recognition or measurement, but it is early in the implementation process and the impact will continue to be evaluated. • The Association is evaluating existing disclosures and may need to provide additional information as a result of adopting the Update. • The Association expects to adopt the guidance in first quarter 2019 using the modified retrospective method and practical expedients for transition.
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NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst’s annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at its website, www.agfirst.com. Copies of the Association’s annual and quarterly reports are also available upon request free of charge by calling 1-800-981-3323, or writing Alice Rivera, Puerto Rico Farm Credit, ACA, PO Box 363649, San Juan, PR 00936-3649, or accessing the website, www.prfarmcredit.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 Association.

Puerto Rico Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2018 <i>(unaudited)</i>	December 31, 2017 <i>(audited)</i>
Assets		
Cash	\$ 156	\$ 944
Loans	156,823	166,228
Allowance for loan losses	(1,542)	(1,563)
Net loans	155,281	164,665
Accrued interest receivable	690	578
Equity investments in other Farm Credit institutions	1,685	1,678
Premises and equipment, net	1,076	1,110
Other property owned	2,099	2,063
Accounts receivable	512	1,996
Other assets	179	140
Total assets	\$ 161,678	\$ 173,174
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 102,983	\$ 115,233
Accrued interest payable	239	257
Patronage refunds payable	47	1,706
Accounts payable	953	1,139
Other liabilities	2,306	551
Total liabilities	106,528	118,886
Commitments and contingencies (Note 7)		
Members' Equity		
Capital stock and participation certificates	470	485
Unallocated retained earnings	54,680	53,803
Total members' equity	55,150	54,288
Total liabilities and members' equity	\$ 161,678	\$ 173,174

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

Puerto Rico Farm Credit, ACA
Consolidated Statements of
Comprehensive Income

(unaudited)

	For the three months ended March 31,	
<i>(dollars in thousands)</i>	2018	2017
Interest Income		
Loans	\$ 1,882	\$ 1,799
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	736	608
Net interest income	1,146	1,191
Provision for (reversal of allowance for) loan losses	(15)	(18)
Net interest income after provision for (reversal of allowance for) loan losses	1,161	1,209
Noninterest Income		
Loan fees	15	30
Fees for financially related services	—	3
Patronage refunds from other Farm Credit institutions	232	250
Gains (losses) on other transactions	67	11
Insurance Fund refund	339	—
Total noninterest income	653	294
Noninterest Expense		
Salaries and employee benefits	383	402
Occupancy and equipment	37	56
Insurance Fund premiums	20	33
(Gains) losses on other property owned, net	32	56
Other operating expenses	465	417
Total noninterest expense	937	964
Net income	877	539
Other comprehensive income	—	—
Comprehensive income	\$ 877	\$ 539

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

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

(unaudited)

(dollars in thousands)

	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Total Members' Equity
Balance at December 31, 2016	\$ 499	\$ 53,772	\$ 54,271
Comprehensive income		539	539
Capital stock/participation certificates issued/(retired), net	(4)		(4)
Balance at March 31, 2017	\$ 495	\$ 54,311	\$ 54,806
Balance at December 31, 2017	\$ 485	\$ 53,803	\$ 54,288
Comprehensive income		877	877
Capital stock/participation certificates issued/(retired), net	(15)		(15)
Balance at March 31, 2018	\$ 470	\$ 54,680	\$ 55,150

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 Puerto Rico Farm Credit, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, 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 potential inability of an obligor to meet its repayment obligation. The Association manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the board of directors.

A summary of loans outstanding at period end follows:

	March 31, 2018	December 31, 2017
Real estate mortgage	\$ 75,736	\$ 76,842
Production and intermediate-term	29,919	36,456
Processing and marketing	20,757	20,589
Farm-related business	447	1,912
Communication	15,036	15,280
Power and water/waste disposal	1,481	1,483
Rural residential real estate	11,737	11,956
International	1,710	1,710
Total loans	\$ 156,823	\$ 166,228

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

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

	March 31, 2018							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 1,814	\$ 1,398	\$ —	\$ —	\$ 428	\$ —	\$ 2,242	\$ 1,398
Production and intermediate term	3,401	3,173	—	—	3,120	—	6,521	3,173
Processing and marketing	17,060	13,068	—	—	328	—	17,388	13,068
Farm-related business	—	—	—	—	436	—	436	—
Communication	15,100	—	—	—	—	—	15,100	—
Power and water/waste disposal	1,487	—	—	—	—	—	1,487	—
International	1,714	—	—	—	—	—	1,714	—
Total	\$ 40,576	\$ 17,639	\$ —	\$ —	\$ 4,312	\$ —	\$ 44,888	\$ 17,639

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	\$ 1,239	\$ 1,450	\$ -	\$ -	\$ 433	\$ -	\$ 1,672	\$ 1,450
Production and intermediate term	6,255	3,600	-	-	3,522	-	9,777	3,600
Processing and marketing	16,922	13,355	-	-	333	-	17,255	13,355
Farm-related business	-	-	-	-	1,740	-	1,740	-
Communication	15,347	-	-	-	-	-	15,347	-
Power and water/waste disposal	1,491	-	-	-	-	-	1,491	-
International	1,714	-	-	-	-	-	1,714	-
Total	\$ 42,968	\$ 18,405	\$ -	\$ -	\$ 6,028	\$ -	\$ 48,996	\$ 18,405

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

	March 31, 2018			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 17,013	\$ 38,801	\$ 19,922	\$ 75,736
Production and intermediate-term	7,050	20,797	2,072	29,919
Processing and marketing	190	16,548	4,019	20,757
Farm-related business	-	-	447	447
Communication	2,420	10,600	2,016	15,036
Power and water/waste disposal	-	-	1,481	1,481
Rural residential real estate	56	701	10,980	11,737
International	-	1,371	339	1,710
Total loans	\$ 26,729	\$ 88,818	\$ 41,276	\$ 156,823
Percentage	17.04%	56.64%	26.32%	100.00%

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

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

	March 31, 2018	December 31, 2017		March 31, 2018	December 31, 2017
Real estate mortgage:			Communication:		
Acceptable	87.58%	87.65%	Acceptable	85.09%	100.00%
OAEM	3.03	3.00	OAEM	14.91	-
Substandard/doubtful/loss	9.39	9.35	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Power and water/waste disposal:		
Acceptable	93.81%	91.92%	Acceptable	100.00%	100.00%
OAEM	0.31	5.18	OAEM	-	-
Substandard/doubtful/loss	5.88	2.90	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
Processing and marketing:			Rural residential real estate:		
Acceptable	100.00%	100.00%	Acceptable	93.90%	93.17%
OAEM	-	-	OAEM	2.41	2.42
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	3.69	4.41
	100.00%	100.00%		100.00%	100.00%
Farm-related business:			International:		
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%
			Total loans:		
			Acceptable	90.93%	92.02%
			OAEM	3.13	2.70
			Substandard/doubtful/loss	5.94	5.28
				100.00%	100.00%

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

March 31, 2018						
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 812	\$ 3,081	\$ 3,893	\$ 72,220	\$ 76,113	\$ -
Production and intermediate-term	-	63	63	30,040	30,103	-
Processing and marketing	-	-	-	20,806	20,806	-
Farm-related business	-	-	-	448	448	-
Communication	-	-	-	15,065	15,065	-
Power and water/waste disposal	-	-	-	1,482	1,482	-
Rural residential real estate	163	46	209	11,573	11,782	-
International	-	-	-	1,714	1,714	-
Total	\$ 975	\$ 3,190	\$ 4,165	\$ 153,348	\$ 157,513	\$ -

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	\$ 477	\$ 3,046	\$ 3,523	\$ 73,618	\$ 77,141	\$ -
Production and intermediate-term	693	125	818	35,795	36,613	-
Processing and marketing	-	-	-	20,647	20,647	-
Farm-related business	-	-	-	1,919	1,919	-
Communication	-	-	-	15,309	15,309	-
Power and water/waste disposal	-	-	-	1,477	1,477	-
Rural residential real estate	223	130	353	11,634	11,987	-
International	-	-	-	1,713	1,713	-
Total	\$ 1,393	\$ 3,301	\$ 4,694	\$ 162,112	\$ 166,806	\$ -

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

	March 31, 2018	December 31, 2017
Nonaccrual loans:		
Real estate mortgage	\$ 4,624	\$ 4,609
Production and intermediate-term	611	627
Rural residential real estate	137	226
Total	\$ 5,372	\$ 5,462
Accruing restructured loans:		
Real estate mortgage	\$ 7,256	\$ 7,264
Production and intermediate-term	1,395	695
Rural residential real estate	117	120
Total	\$ 8,768	\$ 8,079
Accruing loans 90 days or more past due:		
Total	\$ -	\$ -
Total nonperforming loans	\$ 14,140	\$ 13,541
Other property owned	2,099	2,063
Total nonperforming assets	\$ 16,239	\$ 15,604
Non-accrual loans as a percentage of total loans	3.43%	3.29%
Nonperforming assets as a percentage of total loans and other property owned	10.22%	9.27%
Nonperforming assets as a percentage of capital	29.45%	28.74%

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

	March 31, 2018	December 31, 2017
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 2,078	\$ 1,867
Past due	3,294	3,595
Total	\$ 5,372	\$ 5,462
Impaired accrual loans:		
Restructured	\$ 8,768	\$ 8,079
90 days or more past due	-	-
Total	\$ 8,768	\$ 8,079
Total impaired loans	\$ 14,140	\$ 13,541
Additional commitments to lend	\$ 9	\$ 705

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

Impaired loans:	March 31, 2018			Three Months Ended March 31, 2018	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	\$ 785	\$ 779	\$ 79	\$ 793	\$ 8
Production and intermediate-term	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	\$ 785	\$ 779	\$ 79	\$ 793	\$ 8
With no related allowance for credit losses:					
Real estate mortgage	\$ 11,095	\$ 14,908	\$ –	\$ 11,210	\$ 109
Production and intermediate-term	2,006	2,162	–	2,027	20
Rural residential real estate	254	294	–	257	2
Total	\$ 13,355	\$ 17,364	\$ –	\$ 13,494	\$ 131
Total:					
Real estate mortgage	\$ 11,880	\$ 15,687	\$ 79	\$ 12,003	\$ 117
Production and intermediate-term	2,006	2,162	–	2,027	20
Rural residential real estate	254	294	–	257	2
Total	\$ 14,140	\$ 18,143	\$ 79	\$ 14,287	\$ 139

Impaired loans:	December 31, 2017			Year Ended December 31, 2017	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	\$ –	\$ –	\$ –	\$ –	\$ –
Production and intermediate-term	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	\$ –	\$ –	\$ –	\$ –	\$ –
With no related allowance for credit losses:					
Real estate mortgage	\$ 11,873	\$ 15,690	\$ –	\$ 7,882	\$ 270
Production and intermediate-term	1,322	1,488	–	877	30
Rural residential real estate	346	383	–	229	8
Total	\$ 13,541	\$ 17,561	\$ –	\$ 8,988	\$ 308
Total:					
Real estate mortgage	\$ 11,873	\$ 15,690	\$ –	\$ 7,882	\$ 270
Production and intermediate-term	1,322	1,488	–	877	30
Rural residential real estate	346	383	–	229	8
Total	\$ 13,541	\$ 17,561	\$ –	\$ 8,988	\$ 308

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

	Real Estate Mortgage	Production and Intermediate- term	Agribusiness*	Communication	Power and water/waste disposal	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:								
Balance at December 31, 2017	\$ 271	\$ 991	\$ 92	\$ 49	\$ 6	\$ 152	\$ 2	\$ 1,563
Charge-offs	(1)	—	—	—	—	(8)	—	(9)
Recoveries	3	—	—	—	—	—	—	3
Provision for loan losses	43	(41)	(18)	(2)	10	(6)	(1)	(15)
Balance at March 31, 2018	\$ 316	\$ 950	\$ 74	\$ 47	\$ 16	\$ 138	\$ 1	\$ 1,542
Balance at December 31, 2016	\$ 230	\$ 760	\$ 182	\$ 33	\$ 12	\$ 143	\$ 2	\$ 1,362
Charge-offs	(2)	—	—	—	—	—	—	(2)
Recoveries	—	—	—	—	—	—	—	—
Provision for loan losses	(9)	7	(23)	6	(1)	2	—	(18)
Balance at March 31, 2017	\$ 219	\$ 767	\$ 159	\$ 39	\$ 11	\$ 145	\$ 2	\$ 1,342
Allowance on loans evaluated for impairment:								
Individually	\$ 79	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 79
Collectively	237	950	74	47	16	138	1	1,463
Balance at March 31, 2018	\$ 316	\$ 950	\$ 74	\$ 47	\$ 16	\$ 138	\$ 1	\$ 1,542
Individually	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Collectively	271	991	92	49	6	152	2	1,563
Balance at December 31, 2017	\$ 271	\$ 991	\$ 92	\$ 49	\$ 6	\$ 152	\$ 2	\$ 1,563
Recorded investment in loans evaluated for impairment:								
Individually	\$ 12,748	\$ 592	\$ —	\$ —	\$ —	\$ 163	\$ —	\$ 13,503
Collectively	63,365	29,511	21,254	15,065	1,482	11,619	1,714	144,010
Balance at March 31, 2018	\$ 76,113	\$ 30,103	\$ 21,254	\$ 15,065	\$ 1,482	\$ 11,782	\$ 1,714	\$ 157,513
Individually	\$ 12,064	\$ 603	\$ —	\$ —	\$ —	\$ 242	\$ —	\$ 12,909
Collectively	65,077	36,010	22,566	15,309	1,477	11,745	1,713	153,897
Balance at December 31, 2017	\$ 77,141	\$ 36,613	\$ 22,566	\$ 15,309	\$ 1,477	\$ 11,987	\$ 1,713	\$ 166,806

*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. There were no new TDRs that occurred during the three months ended March 31, 2017.

Outstanding Recorded Investment	Three months ended March 31, 2018				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
Pre-modification:					
Real estate mortgage	\$ —	\$ 260	\$ —	\$ 260	
Total	\$ —	\$ 260	\$ —	\$ 260	
Post-modification:					
Real estate mortgage	\$ —	\$ 266	\$ —	\$ 266	\$ —
Total	\$ —	\$ 266	\$ —	\$ 266	\$ —

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, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Real estate mortgage	\$ 9,798	\$ 9,560	\$ 2,542	\$ 2,296
Production and intermediate-term	1,894	1,197	499	502
Rural residential real estate	163	242	46	122
Total loans	\$ 11,855	\$ 10,999	\$ 3,087	\$ 2,920
Additional commitments to lend	\$ 9	\$ 705		

The following table presents information as of period end:

	<u>March 31, 2018</u>
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	\$ 190

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 0.58 percent of the issued stock of the Bank as of March 31, 2018 net of any reciprocal investment. As of that date, the Bank's assets totaled \$32.0 billion and shareholders' equity totaled \$2.3 billion. The Bank's earnings were \$79 million for the first three months of 2018. In addition, the Association held \$152 in investments 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.

		March 31, 2018				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<u>Recurring Measurements</u>						
Assets:						
Recurring Assets		\$ -	\$ -	\$ -	\$ -	\$ -
Liabilities:						
Recurring Liabilities		\$ -	\$ -	\$ -	\$ -	\$ -
<u>Nonrecurring Measurements</u>						
Assets:						
Impaired loans		\$ 706	\$ -	\$ -	\$ 706	\$ 706
Other property owned		2,099	-	-	2,255	2,255
Nonrecurring Assets		\$ 2,805	\$ -	\$ -	\$ 2,961	\$ 2,961
<u>Other Financial Instruments</u>						
Assets:						
Cash		\$ 156	\$ 156	\$ -	\$ -	\$ 156
Loans		154,575	-	-	153,876	153,876
Other Financial Assets		\$ 154,731	\$ 156	\$ -	\$ 153,876	\$ 154,032
Liabilities:						
Notes payable to AgFirst Farm Credit Bank		\$ 102,983	\$ -	\$ -	\$ 103,707	\$ 103,707
Other Financial Liabilities		\$ 102,983	\$ -	\$ -	\$ 103,707	\$ 103,707
		December 31, 2017				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<u>Recurring Measurements</u>						
Assets:						
Recurring Assets		\$ -	\$ -	\$ -	\$ -	\$ -
Liabilities:						
Recurring Liabilities		\$ -	\$ -	\$ -	\$ -	\$ -
<u>Nonrecurring Measurements</u>						
Assets:						
Impaired loans		\$ -	\$ -	\$ -	\$ -	\$ -
Other property owned		2,063	-	-	2,195	2,195
Nonrecurring Assets		\$ 2,063	\$ -	\$ -	\$ 2,195	\$ 2,195
<u>Other Financial Instruments</u>						
Assets:						
Cash		\$ 944	\$ 944	\$ -	\$ -	\$ 944
Loans		164,665	-	-	164,007	164,007
Other Financial Assets		\$ 165,609	\$ 944	\$ -	\$ 164,007	\$ 164,951
Liabilities:						
Notes payable to AgFirst Farm Credit Bank		\$ 115,233	\$ -	\$ -	\$ 115,605	\$ 115,605
Other Financial Liabilities		\$ 115,233	\$ -	\$ -	\$ 115,605	\$ 115,605

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	\$ 2,961	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 forecast
		Probability of default
		Loss severity
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 expenses for the Association:

	Three Months Ended March 31,	
	2018	2017
Pension	\$ 112	\$ 131
401(k)	19	20
Total	\$ 131	\$ 151

The following is a table of retirement contributions for the Association:

	Actual YTD Through 3/31/18	Projected Contributions For Remainder of 2018	Projected Total Contributions 2018
Pension	\$ -	\$ 447	\$ 447

Contributions in the above table include an allocated estimate of funding for the multi-employer pension plan in which the Association participates. The projected amount may change when a total funding amount and allocation is determined by the pension plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change the contribution 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 May 9, 2018, which was the date the financial statements were issued.