Colonial Farm Credit, ACA

THIRD QUARTER 2019

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2019 quarterly report of Colonial 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 B. Franklin, Sr.
Chief Executive Officer

Diane S. Fowlkes
Chief Financial Officer

John F. Davis
Chairman of the Board

November 8, 2019

Colonial 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 September 30, 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 September 30, 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 September 30, 2019.

John F. Davis
Chairman of the Board

Paul B. Franklin, Sr.
Chief Executive Officer

Diane S. Fowlkes
Chief Financial Officer

November 8, 2019

Colonial Farm Credit, ACA

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

(Dollars in thousands)

The following commentary reviews the financial condition and results of operations of *Colonial Farm Credit, ACA* (Association) for the period ended September 30, 2019. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2018 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities including livestock operations such as beef cattle, horses, poultry, swine, and dairy farms and various field crops such as soybeans, peanuts, tobacco, cotton, and corn. Other predominant commodities in the portfolio are timber and rural home loans. 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, has somewhat reduced the level of dependency on any single commodity.

The gross loan volume of the Association as of September 30, 2019 was $674,848, an increase of $4,579, compared to $670,269 at December 31, 2018. Net loans outstanding at September 30, 2019 were $672,437 compared to $668,024 at December 31, 2018. Net loans accounted for 97 percent of total assets at September 30, 2019, compared to 96 percent of total assets at December 31, 2018. The increase in gross and net loan volume during the reporting period was primarily due to the normal seasonal increase in working capital loans to farmers.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, and credit administration remains satisfactory. Nonaccrual loans increased from $2,804 at December 31, 2018 to $2,807 at September 30, 2019. This slight increase was primarily the result of one large loan being returned to nonaccrual status, net of repayments and transfers to other property owned.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at September 30, 2019 was $2,411 compared to $2,245 at December 31, 2018, and was considered by management to be adequate to cover probable losses. A reserve for undisbursed commitments on operating lines for grain producers is also maintained as a liability on the Consolidated Balance Sheet. This reserve was decreased by $2 during the quarter ended September 30, 2019, due to a slight decrease in the volume of undisbursed commitments.

RESULTS OF OPERATIONS

For the three months ended September 30, 2019

Net income for the three months ended September 30, 2019 totaled $3,612, an increase of $334 compared to $3,278 for the same period in 2018. This increase was attributable to an increase in net interest income, noninterest income, and a decrease in the provision for loan losses, offset by an increase in noninterest expense.

Net interest income increased by $233 for the three months ended September 30, 2019, compared to the same period in 2018. Due to higher interest rates and volume, interest income increased by $497, including a decrease of interest income from nonaccrual loans of $27 for the three months ended September 30, 2019 compared to the same period in 2018. Total interest expense increased by $264.

The Association recorded an increase to the provision for loan losses of $125 for the three months ended September 30, 2019 compared to an increase of $310 for the three months ended September 30, 2018. The increases in both 2019 and 2018 were the result of peak seasonal loan volume.

Noninterest income for the three months ended September 30, 2019 totaled $1,429, compared to $1,319 for the same period of 2018, an increase of $110. The increase was primarily attributable to increased fee income and gains on the sale of rural home loans.

Noninterest expense for the three months ended September 30, 2019 totaled $3,140, compared to $2,946 for the same period of 2018, an increase of $194. The increase was primarily the result of higher other operating expenses, which are primarily attributable to salaries and employee benefits, training, and occupancy and equipment.

For the nine months ended September 30, 2019

Net income for the nine months ended September 30, 2019 totaled $10,687 as compared to $10,607 for the same period in 2018, an increase of $80. This increase was due to an increase in net interest income, offset by a decrease in noninterest income, and an increase in the provision for loan losses and noninterest expense.

At September 30, 2019, net interest income increased by $971 or 7 percent compared to September 30, 2018. Interest income on accruing loans increased by $2,399 and interest expense increased by $1,424, due to higher interest rates. Additionally, the Association recorded $5 more from interest on nonaccrual loans for the nine months ended September 30, 2019 compared to the same period in 2018.

The Association recorded a provision for loan losses of $84 for the nine months ended September 30, 2019 and a reversal of allowance for loan losses of $36 for the same period in 2018, a difference of $120. The increase to the provision for loan losses in 2019 was related to seasonal fluctuations of overall portfolio volume.

Noninterest income for the nine months ended September 30, 2019 decreased by $412 compared to the same period of 2018. The primary cause for the decrease was the decrease in the refund received from the Farm Credit System Insurance Corporation (FCSIC) from $835 in 2018 to $130 in 2019, offset by increased gains on sales of rural homes and loan fee income. The FCSIC refunds represent the remaining outstanding shares of Financial Assistance Corporation (FAC) stock in 2018 and the refund of premiums previously paid in 2018 and 2019, as the insurance fund exceeded the 2.00 percent secure base requirement.

Noninterest expense for the nine months ended September 30, 2019 increased by $356 compared to the same period of 2018. The increase in noninterest expense was primarily attributable to an increase in salaries and employee benefits, occupancy expense and other operating expenses, including training and public and member relations.

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 Bank advances funds to the Association in the form of notes payable. There are separate notes payable for variable rate and fixed rate products. The variable rate note is utilized by the Association to fund variable rate loan advances and operating fund 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 September 30, 2019, was $489,955, compared to $484,103 at December 31, 2018. The increase in notes payable of $5,852 was the result of increased loan volume net of earnings retained from 2018.

CAPITAL RESOURCES

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2018, nor are any planned for 2019 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at September 30, 2019 increased to $197,082 from the December 31, 2018 total of $186,723. The increase was primarily attributable to current year's net income.

Total capital stock and participation certificates were $5,151 on September 30, 2019 compared to $5,047 on December 31, 2018. The increase was attributable to $104 of stock and participation certificates issued, net of retirements.

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

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

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

Calculation of PCR risk-adjusted assets includes the allowance for loan losses as a deduction from risk-adjusted assets. This differs from the other risk-based capital calculations.

The ratios are calculated using three-month average daily balances, in accordance with FCA regulations, as follows:

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

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 September 30, 2019
Risk-adjusted ratios:				
CET1 Capital	4.5%	1.875%	6.375%	26.26%
Tier 1 Capital	6.0%	1.875%	7.875%	26.26%
Total Capital	8.0%	1.875%	9.875%	26.61%
Permanent Capital Ratio	7.0%	0.0%	7.00%	26.35%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.00%	27.49%
UREE Leverage Ratio	1.5%	0.0%	1.50%	27.54%

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

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

REGULATORY MATTERS

On 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 period ended on June 3, 2019.

On September 18, 2019, the Farm Credit Administration issued a proposed rule to amend its investment regulations to allow System associations to purchase and hold the portion of certain loans that non-System lenders originate and sell in the secondary market, and that the USDA unconditionally guarantees or insures as to timely payment of principal and interest. The rule would authorize associations to buy investments to augment the liquidity of rural credit markets, reduce the capital burden on community banks and other non-System lenders who choose to sell their USDA guaranteed portions of loans, and to enhance the ability of associations to manage risk. The public comment period ends on November 18, 2019.

On September 23, 2019, the Farm Credit Administration issued a proposed rule that would ensure the System's capital requirements, including certain regulatory disclosures, reflect the current expected credit losses methodology, which revises the accounting for credit losses under U.S. generally accepted accounting principles. The proposed rule identifies which credit loss allowances under CECL are eligible for inclusion in a System institution's regulatory capital. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-maturity debt securities would be included in a System institution's Tier 2 capital up to 1.25% of the System institution's total risk weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not be eligible for inclusion in a System institution's Tier 2 capital. In addition, the proposed regulation does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution's regulatory capital ratios. The public comment period ends on November 22, 2019.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to an expected loss 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.	• 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: 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 1-804-746-1252, or writing Diane Fowlkes, Chief Financial Officer, Colonial Farm Credit, ACA, 7104 Mechanicsville Turnpike, Mechanicsville, VA 23111, or accessing the website, *www.colonialfarmcredit.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.

Colonial Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	September 30, 2019 *(unaudited)*	December 31, 2018 *(audited)*
Assets		
Cash	**$ 27**	$ 66
Loans	**674,848**	670,269
Allowance for loan losses	**(2,411)**	(2,245)
Net loans	**672,437**	668,024
Loans held for sale	**225**	1,316
Accrued interest receivable	**6,740**	5,985
Equity investments in other Farm Credit institutions	**6,796**	6,809
Premises and equipment, net	**2,006**	1,881
Other property owned	**535**	37
Accounts receivable	**2,815**	7,445
Other assets	**1,159**	958
Total assets	**$ 692,740**	$ 692,521
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 489,955**	$ 484,103
Accrued interest payable	**1,402**	1,399
Patronage refunds payable	**69**	16,207
Accounts payable	**1,373**	2,036
Other liabilities	**2,859**	2,053
Total liabilities	**495,658**	505,798
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	**5,151**	5,047
Unallocated retained earnings	**191,939**	181,684
Accumulated other comprehensive income (loss)	**(8)**	(8)
Total members' equity	**197,082**	186,723
Total liabilities and members' equity	**$ 692,740**	$ 692,521

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

Colonial Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended September 30, 2019	For the Three Months Ended September 30, 2018	For the Nine Months Ended September 30, 2019	For the Nine Months Ended September 30, 2018
Interest Income				
Loans	**$ 9,753**	$ 9,256	**$ 28,341**	$ 25,946
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**4,304**	4,040	**12,450**	11,026
Net interest income	**5,449**	5,216	**15,891**	14,920
Provision for (reversal of allowance for) loan losses	**125**	310	**84**	(36)
Net interest income after provision for (reversal of allowance for) loan losses	**5,324**	4,906	**15,807**	14,956
Noninterest Income				
Loan fees	**144**	119	**418**	361
Fees for financially related services	**27**	6	**58**	38
Lease income	**28**	24	**80**	66
Patronage refunds from other Farm Credit institutions	**926**	915	**2,676**	2,588
Gains (losses) on sales of rural home loans, net	**210**	183	**559**	462
Gains (losses) on sales of premises and equipment, net	**45**	22	**45**	44
Gains (losses) on other transactions	**33**	25	**69**	28
Insurance Fund refunds	**—**	—	**130**	835
Other noninterest income	**16**	25	**46**	71
Total noninterest income	**1,429**	1,319	**4,081**	4,493
Noninterest Expense				
Salaries and employee benefits	**2,252**	2,162	**6,686**	6,584
Occupancy and equipment	**182**	141	**436**	323
Insurance Fund premiums	**109**	109	**317**	308
(Gains) losses on other property owned, net	**(5)**	3	**(13)**	3
Other operating expenses	**602**	531	**1,768**	1,620
Total noninterest expense	**3,140**	2,946	**9,194**	8,838
Income before income taxes	**3,613**	3,279	**10,694**	10,611
Provision for income taxes	**1**	1	**7**	4
Net income	**3,612**	3,278	**10,687**	10,607
Other comprehensive income	**—**	—	**—**	—
Comprehensive income	**$ 3,612**	$ 3,278	**$ 10,687**	$ 10,607

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

Colonial Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2017	$ 4,795	$ 179,414	$ (44)	$ 184,165
Comprehensive income		10,607		10,607
Capital stock/participation certificates issued/(retired), net	175			175
Patronage distribution adjustment		28		28
Balance at September 30, 2018	$ 4,970	$ 190,049	$ (44)	$ 194,975
Balance at December 31, 2018	**$ 5,047**	**$ 181,684**	**$ (8)**	**$ 186,723**
Cumulative effect of change in accounting principle		**(9)**		**(9)**
Comprehensive income		**10,687**		**10,687**
Capital stock/participation certificates issued/(retired), net	**104**			**104**
Patronage distribution Cash		**(423)**		**(423)**
Balance at September 30, 2019	**$ 5,151**	**$ 191,939**	**$ (8)**	**$ 197,082**

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

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

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

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

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

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

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

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

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

- In May 2019, the FASB issued ASU 2019-05 Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief. The amendments in this Update provide entities with an option to irrevocably elect the fair value option applied on an instrument-by-instrument basis for certain financial assets upon the adoption of Topic 326. The fair value option election does not apply to held-to-maturity debt securities. For entities that have not yet adopted the amendments in ASU 2016-13, the effective date and transition methodology for the amendments in this Update are the same as in that Update. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

- In April 2019, the FASB issued ASU 2019-04 Codification Improvements to Topic 326 Financial Instruments—Credit Losses, Topic 815 Derivatives and Hedging, and Topic 825 Financial Instruments. The amendments in this Update clarify, correct, and improve various aspects of the guidance in the following Updates related to financial instruments: ASU 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities, ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and ASU 2017-12 Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The items addressed generally are not expected to have a significant effect on current accounting practice or to create a significant administrative cost for most entities. For entities that have not yet adopted the amendments in ASU 2016-13, the effective dates and transition requirements for the amendments related to this Update are the same as the effective dates and transition requirements in ASU 2016-13. The transition adjustment includes adjustments made as a result of an entity developing or amending its accounting policy upon adoption of the amendments in this Update for determining when accrued interest receivables are deemed uncollectible and written off. For entities that have adopted the amendments in ASU 2017-12 as of the issuance date of this Update, the effective date is as of the beginning of the first annual period beginning after the issuance date of this Update. For those entities, early adoption is permitted, including adoption on any date on or after the issuance of this Update. The amendments in this Update related to ASU 2016-01 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim period following the issuance of this Update as long as the entity has adopted all of the amendments in ASU 2016-01. The amendments in this Update should be applied on a modified-retrospective transition basis by means of a cumulative-effect adjustment to the opening retained earnings balance in the statement of financial position as of the date an entity adopted all of the amendments in ASU 2016-01. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

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

ASUs Pending Effective Date

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

Potential effects of ASUs issued in previous periods:

- In August 2018, the FASB issued ASU 2018-15 Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this Update. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period, for all entities. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

- In August 2018, the FASB issued ASU 2018-13 Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments are part of the FASB's disclosure framework project. The project's objective and primary focus are to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by GAAP that is most important to users of each entity's financial statements. The amendments remove, modify or add certain disclosures contained in the financial statement footnotes related to fair value. Additionally, the guidance is intended to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Certain amendments should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance. Entities are permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. The removed disclosures were adopted effective with the 2018 Annual Report. Evaluation of any possible effects the additional and modified disclosures guidance may have on the statements of financial condition and results of operations is in progress.

- In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update, and subsequent clarifying guidance issued, is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 31, 2018. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

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

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

- In February 2018, the FASB issued ASU 2018-02 Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and are intended to improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The Update also requires certain disclosures about stranded tax effects. The guidance was effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Adoption of this guidance had no impact on the statements of financial condition and results of operations.

- In March 2017, the FASB issued ASU 2017-08 Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The guidance relates to certain callable debt securities and shortens the amortization period for any premium to the earliest call date. The Update was effective for interim and annual periods beginning after December 15, 2018 for public business entities. Adoption of this guidance had no impact on the statements of financial condition and results of operations.

- In February 2016, the FASB issued ASU 2016-02 Leases (Topic 842). This Update, and subsequent clarifying guidance issued, requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. Lessor accounting activities are largely unchanged from existing lease accounting. The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification. The amendments were effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for public business entities.

  Transition Information

  - The guidance was adopted using the optional modified retrospective method and practical expedients for transition. Under this transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.
  - The package of practical expedients was elected, which allowed existing leases to be largely accounted for consistent with current guidance, except for the incremental balance sheet recognition for lessees.
  - There will not be a material change to the timing of future expense recognition.
  - Upon adoption, a cumulative-effect adjustment to equity of approximately $(9) was recorded. In addition, a Right of Use Asset in the amount of $100 and Lease Liability in the amount of $109 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:

	September 30, 2019	December 31, 2018
Real estate mortgage	$ 430,663	$ 422,749
Production and intermediate-term	168,364	172,996
Loans to cooperatives	7,486	4,803
Processing and marketing	20,096	22,008
Farm-related business	4,424	5,483
Communication	572	513
Power and water/waste disposal	2,750	2,433
Rural residential real estate	37,188	36,287
International	3,305	2,997
Total loans	$ 674,848	$ 670,269

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:

September 30, 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	$ 9,427	$ –	$ –	$ –	$ –	$ –	$ 9,427	$ –
Production and intermediate-term	11,603	–	4,165	–	–	–	15,768	–
Loans to cooperatives	6,979	–	518	–	–	–	7,497	–
Processing and marketing	13,406	–	2,500	–	–	–	15,906	–
Farm-related business	321	–	–	–	–	–	321	–
Communication	573	–	–	–	–	–	573	–
Power and water/waste disposal	2,768	–	–	–	–	–	2,768	–
International	3,311	–	–	–	–	–	3,311	–
Total	$ 48,388	$ –	$ 7,183	$ –	$ –	$ –	$ 55,571	$ –

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	$ 7,973	$ –	$ –	$ –	$ –	$ –	$ 7,973	$ –
Production and intermediate-term	13,075	–	2,217	–	–	–	15,292	–
Loans to cooperatives	3,847	–	968	–	–	–	4,815	–
Processing and marketing	13,719	–	2,693	–	–	–	16,412	–
Communication	515	–	–	–	–	–	515	–
Power and water/waste disposal	2,452	–	–	–	–	–	2,452	–
International	3,000	–	–	–	–	–	3,000	–
Total	$ 44,581	$ –	$ 5,878	$ –	$ –	$ –	$ 50,459	$ –

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:

September 30, 2019	Due Less Than 1 Year	Due 1 Through 5 Years	Due After 5 Years	Total
Real estate mortgage	$ 5,718	$ 31,645	$ 393,300	$ 430,663
Production and intermediate term	80,999	65,400	21,965	168,364
Loans to cooperatives	436	3,667	3,383	7,486
Processing and marketing	7,024	7,458	5,614	20,096
Farm-related business	685	2,333	1,406	4,424
Communication	572	–	–	572
Power and water/waste disposal	4	2,746	–	2,750
Rural residential real estate	9,649	2,099	25,440	37,188
International	–	310	2,995	3,305
Total loans	$ 105,087	$ 115,658	$ 454,103	$ 674,848
Percentage	15.57%	17.14%	67.29%	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:

	September 30, 2019	December 31, 2018
Real estate mortgage:		
Acceptable	96.81%	96.52%
OAEM	1.99	2.15
Substandard/doubtful/loss	1.20	1.33
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	96.30%	95.95%
OAEM	3.06	3.40
Substandard/doubtful/loss	0.64	0.65
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	96.53%	100.00%
OAEM	3.47	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	99.72%	99.72%
OAEM	–	–
Substandard/doubtful/loss	0.28	0.28
	100.00%	100.00%
Farm-related business:		
Acceptable	94.57%	96.18%
OAEM	5.43	2.45
Substandard/doubtful/loss	–	1.37
	100.00%	100.00%

	September 30, 2019	December 31, 2018
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Power and water/waste disposal:		
Acceptable	17.08%	100.00%
OAEM	82.92	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	98.58%	97.56%
OAEM	0.50	0.52
Substandard/doubtful/loss	0.92	1.92
	100.00%	100.00%
International:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	96.54%	96.59%
OAEM	2.47	2.28
Substandard/doubtful/loss	0.99	1.13
	100.00%	100.00%

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

	September 30, 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	$ 1,991	$ 392	$ 2,383	$ 432,123	$ 434,506
Production and intermediate-term	4,019	74	4,093	166,860	170,953
Loans to cooperatives	–	–	–	7,498	7,498
Processing and marketing	352	–	352	19,792	20,144
Farm-related business	1	–	1	4,454	4,455
Communication	–	–	–	572	572
Power and water/waste disposal	–	–	–	2,752	2,752
Rural residential real estate	76	–	76	37,310	37,386
International	–	–	–	3,322	3,322
Total	$ 6,439	$ 466	$ 6,905	$ 674,683	$ 681,588

	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	$ 3,271	$ 251	$ 3,522	$ 422,805	$ 426,327
Production and intermediate-term	1,612	198	1,810	173,299	175,109
Loans to cooperatives	68	–	68	4,741	4,809
Processing and marketing	–	–	–	22,064	22,064
Farm-related business	20	–	20	5,495	5,515
Communication	–	–	–	513	513
Power and water/waste disposal	–	–	–	2,435	2,435
Rural residential real estate	19	37	56	36,411	36,467
International	–	–	–	3,015	3,015
Total	$ 4,990	$ 486	$ 5,476	$ 670,778	$ 676,254

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

	September 30, 2019	December 31, 2018
Nonaccrual loans:		
Real estate mortgage	$ 2,177	$ 1,808
Production and intermediate-term	368	783
Processing and marketing	55	61
Rural residential real estate	207	152
Total	$ 2,807	$ 2,804
Accruing restructured loans:		
Real estate mortgage	$ 406	$ 424
Production and intermediate-term	6	9
Rural residential real estate	39	42
Total	$ 451	$ 475
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 3,258	$ 3,279
Other property owned	535	37
Total nonperforming assets	$ 3,793	$ 3,316
Nonaccrual loans as a percentage of total loans	0.42%	0.42%
Nonperforming assets as a percentage of total loans and other property owned	0.56%	0.49%
Nonperforming assets as a percentage of capital	1.92%	1.78%

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.

	September 30, 2019	December 31, 2018
Impaired nonaccrual loans:		
Current as to principal and interest	$ 1,944	$ 1,618
Past due	863	1,186
Total	$ 2,807	$ 2,804
Impaired accrual loans:		
Restructured	$ 451	$ 475
90 days or more past due	–	–
Total	$ 451	$ 475
Total impaired loans	$ 3,258	$ 3,279
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.

	September 30, 2019			Three Months Ended September 30, 2019		Nine Months Ended September 30, 2019	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:							
Real estate mortgage	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	239	315	61	270	3	265	10
Processing and marketing	–	–	–	–	–	–	–
Rural residential real estate	–	–	–	–	–	–	–
Total	$ 239	$ 315	$ 61	$ 270	$ 3	$ 265	$ 10
With no related allowance for credit losses:							
Real estate mortgage	$ 2,583	$ 3,454	$ –	$ 2,917	$ 35	$ 2,861	$ 106
Production and intermediate-term	135	849	–	152	2	148	5
Processing and marketing	55	69	–	63	1	62	2
Rural residential real estate	246	407	–	277	3	272	10
Total	$ 3,019	$ 4,779	$ –	$ 3,409	$ 41	$ 3,343	$ 123
Total impaired loans:							
Real estate mortgage	$ 2,583	$ 3,454	$ –	$ 2,917	$ 35	$ 2,861	$ 106
Production and intermediate-term	374	1,164	61	422	5	413	15
Processing and marketing	55	69	–	63	1	62	2
Rural residential real estate	246	407	–	277	3	272	10
Total	$ 3,258	$ 5,094	$ 61	$ 3,679	$ 44	$ 3,608	$ 133

Impaired loans:	December 31, 2018 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2018 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	486	625	70	710	201
Processing and marketing	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 486	$ 625	$ 70	$ 710	$ 201
With no related allowance for credit losses:					
Real estate mortgage	$ 2,232	$ 3,110	$ –	$ 3,258	$ 925
Production and intermediate-term	306	986	–	446	127
Processing and marketing	61	71	–	90	26
Rural residential real estate	194	345	–	283	80
Total	$ 2,793	$ 4,512	$ –	$ 4,077	$ 1,158
Total impaired loans:					
Real estate mortgage	$ 2,232	$ 3,110	$ –	$ 3,258	$ 925
Production and intermediate-term	792	1,611	70	1,156	328
Processing and marketing	61	71	–	90	26
Rural residential real estate	194	345	–	283	80
Total	$ 3,279	$ 5,137	$ 70	$ 4,787	$ 1,359

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 June 30, 2019	$ 1,404	$ 597	$ 102	$ 2	$ 8	$ 119	$ 10	$ 2,242
Charge-offs	–	–	–	–	–	–	–	–
Recoveries	3	40	–	–	–	1	–	44
Provision for loan losses	92	13	9	–	1	9	1	125
Balance at September 30, 2019	$ 1,499	$ 650	$ 111	$ 2	$ 9	$ 129	$ 11	$ 2,411
Balance at December 31, 2018	$ 1,371	$ 633	$ 104	$ 2	$ 8	$ 117	$ 10	$ 2,245
Charge-offs	(7)	(27)	–	–	–	–	–	(34)
Recoveries	23	90	–	–	–	3	–	116
Provision for loan losses	112	(46)	7	–	1	9	1	84
Balance at September 30, 2019	$ 1,499	$ 650	$ 111	$ 2	$ 9	$ 129	$ 11	$ 2,411
Balance at June 30, 2018	$ 1,273	$ 567	$ 123	$ 2	$ 11	$ 108	$ 9	$ 2,093
Charge-offs	(4)	(161)	–	–	–	–	–	(165)
Recoveries	19	7	–	–	–	14	–	40
Provision for loan losses	79	235	1	–	1	(7)	1	310
Balance at September 30, 2018	$ 1,367	$ 648	$ 124	$ 2	$ 12	$ 115	$ 10	$ 2,278
Balance at December 31, 2017	$ 1,287	$ 912	$ 94	$ 2	$ 10	$ 112	$ 10	$ 2,427
Charge-offs	(19)	(177)	–	–	–	–	–	(196)
Recoveries	24	45	–	–	–	14	–	83
Provision for loan losses	75	(132)	30	–	2	(11)	–	(36)
Balance at September 30, 2018	$ 1,367	$ 648	$ 124	$ 2	$ 12	$ 115	$ 10	$ 2,278
Allowance on loans evaluated for impairment:								
Individually	$ –	$ 61	$ –	$ –	$ –	$ –	$ –	$ 61
Collectively	1,499	589	111	2	9	129	11	2,350
Balance at September 30, 2019	$ 1,499	$ 650	$ 111	$ 2	$ 9	$ 129	$ 11	$ 2,411
Individually	$ –	$ 70	$ –	$ –	$ –	$ –	$ –	$ 70
Collectively	1,371	563	104	2	8	117	10	2,175
Balance at December 31, 2018	$ 1,371	$ 633	$ 104	$ 2	$ 8	$ 117	$ 10	$ 2,245
Recorded investment in loans evaluated for impairment:								
Individually	$ 2,583	$ 374	$ 55	$ –	$ –	$ 246	$ –	$ 3,258
Collectively	431,923	170,579	32,042	572	2,752	37,140	3,322	678,330
Balance at September 30, 2019	$ 434,506	$ 170,953	$ 32,097	$ 572	$ 2,752	$ 37,386	$ 3,322	$ 681,588
Individually	$ 2,232	$ 792	$ 61	$ –	$ –	$ 194	$ –	$ 3,279
Collectively	424,095	174,317	32,327	513	2,435	36,273	3,015	672,975
Balance at December 31, 2018	$ 426,327	$ 175,109	$ 32,388	$ 513	$ 2,435	$ 36,467	$ 3,015	$ 676,254

**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 September 30, 2018.

	Three Months Ended September 30, 2019				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 24	$ –	$ 24	
Production and intermediate-term	–	1	–	1	
Total	$ –	$ 25	$ –	$ 25	
Post-modification:					
Real estate mortgage	$ –	$ 25	$ –	$ 25	$ –
Production and intermediate-term	–	84	–	84	(90)
Total	$ –	$ 109	$ –	$ 109	$ (90)

	Nine Months Ended September 30, 2019				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 24	$ –	$ 24	
Production and intermediate-term	–	40	–	40	
Total	$ –	$ 64	$ –	$ 64	
Post-modification:					
Real estate mortgage	$ –	$ 25	$ –	$ 25	$ –
Production and intermediate-term	–	123	–	123	(90)
Total	$ –	$ 148	$ –	$ 148	$ (90)

	Nine Months Ended September 30, 2018				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 97	$ –	$ 97	
Total	$ –	$ 97	$ –	$ 97	
Post-modification:					
Real estate mortgage	$ –	$ 98	$ –	$ 98	$ –
Total	$ –	$ 98	$ –	$ 98	$ –

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 period. 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	
	September 30, 2019	**December 31, 2018**	**September 30, 2019**	**December 31, 2018**
Real estate mortgage	$ 712	$ 755	$ 306	$ 331
Production and intermediate-term	189	187	183	178
Processing and marketing	55	62	55	62
Rural residential real estate	113	122	74	80
Total loans	$ 1,069	$ 1,126	$ 618	$ 651
Additional commitments to lend	$ –	$ –		

At September 30, 2019, the Association had no foreclosed residential real estate properties held as a result of obtaining physical possession or 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 2.35 percent of the issued stock of the Bank as of September 30, 2019 net of any reciprocal investment. As of that date, the Bank's assets totaled $34.6 billion and shareholders' equity totaled $2.5 billion. The Bank's earnings were $192 million for the first nine months of 2019. In addition, the Association held $414 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 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

Changes in Accumulated Other Comprehensive Income by Component *(a)*

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Employee Benefit Plans:				
Balance at beginning of period	$ (8)	$ (44)	$ (8)	$ (44)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	–	–	–	–
Net current period other comprehensive income	–	–	–	–
Balance at end of period	$ (8)	$ (44)	$ (8)	$ (44)

Reclassifications Out of Accumulated Other Comprehensive Income *(b)*

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	Income Statement Line Item
Defined Benefit Pension Plans:					
Periodic pension costs	$ –	$ –	$ –	$ –	See Note 7.
Net amounts reclassified	$ –	$ –	$ –	$ –	

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

Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

	September 30, 2019				
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 894	$ 894	$ –	$ –	$ 894
Recurring Assets	$ 894	$ 894	$ –	$ –	$ 894
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 178	$ –	$ –	$ 178	$ 178
Other property owned	535	–	–	571	571
Nonrecurring Assets	$ 713	$ –	$ –	$ 749	$ 749
Other Financial Instruments					
Assets:					
Cash	$ 27	$ 27	$ –	$ –	$ 27
Loans	672,484	–	–	674,230	674,230
Other Financial Assets	$ 672,511	$ 27	$	$ 674,230	$ 674,257
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 489,955	$ –	$ –	$ 491,223	$ 491,223
Other Financial Liabilities	$ 489,955	$ –	$ –	$ 491,223	$ 491,223

	December 31, 2018				
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 933	$ 933	$ –	$ –	$ 933
Recurring Assets	$ 933	$ 933	$ –	$ –	$ 933
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 416	$ –	$ –	$ 416	$ 416
Other property owned	37	–	–	45	45
Nonrecurring Assets	$ 453	$ –	$ –	$ 461	$ 461
Other Financial Instruments					
Assets:					
Cash	$ 66	$ 66	$ –	$ –	$ 66
Loans	668,924	–	–	656,761	656,761
Other Financial Assets	$ 668,990	$ 66	$ –	$ 656,761	$ 656,827
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 484,103	$ –	$ –	$ 476,749	$ 476,749
Other Financial Liabilities	$ 484,103	$ –	$ –	$ 476,749	$ 476,749

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	$ 749	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity

Note 7 — Employee Benefit Plans

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Pension	$ 442	$ 491	$ 1,224	$ 1,472
401(k)	94	89	322	293
Other postretirement benefits	53	55	158	190
Total	$ 589	$ 635	$ 1,704	$ 1,955

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

	Actual YTD Through 9/30/19	Projected Contributions For Remainder of 2019	Projected Total Contributions 2019
Pension	$ 22	$ 1,620	$ 1,642
Other postretirement benefits	158	61	219
Total	$ 180	$ 1,681	$ 1,861

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

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

Note 8 — Commitments and Contingent Liabilities

From time to time, legal actions are pending against the Association in which claims for 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 9 — Subsequent Events

The Association evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through November 8, 2019, which was the date the financial statements were issued.

On October 21, 2019, AgFirst's Board of Directors indicated an intention to declare, in December 2019, a special patronage distribution. The Association will receive between approximately $2,012 and $2,280 which will be recorded as patronage refunds from other Farm Credit institutions.