Farm Credit of the Virginias, ACA

SECOND QUARTER 2018

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CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2018 quarterly report of Farm Credit of the Virginias, 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.

C. Peery Heldreth, III
Chief Executive Officer

David G. Sauer
Chief Financial Officer

Donna M. Brooke-Alt
Chairperson of the Board

August 8, 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 June 30, 2018. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

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

C. Peery Heldreth III

C. Peery Heldreth, III
Chief Executive Officer

David G Sauer

David G. Sauer
Chief Financial Officer

August 8, 2018

Farm Credit of the Virginias, ACA

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

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities including livestock, timber, poultry and field crops. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat impacts the level of dependency on a given commodity.

As of June 30, 2018, the gross loan volume of the Association was $1,827,258 compared to $1,844,949 at December 31, 2017. Gross loan volume decreased by $17,691 or 0.96 percent when compared to gross loan volume at December 31, 2017. Net loans outstanding at June 30, 2018 were $1,812,103 as compared to $1,827,488 at December 31, 2017. The decrease in loan volume was mainly due to lower demand for operating loans.

There is an inherent risk in the extension of any type of credit. However, portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. As of June 30, 2018, nonaccrual loan volume was $24,149 compared to $31,927 at December 31, 2017. This was a decrease of $7,778. The decrease was mainly due to a large loan being upgraded to accrual status and a large loan being charged off during the period. Nonaccrual loan volume to gross loan volume was 1.32 percent at June 30, 2018.

Other property owned totaled $865 at June 30, 2018. This was a decrease of $356 when compared to December 31, 2017. The decrease was due to sales of properties during the period.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio. Factors considered in determining the allowance for loan losses were generally based on recent historical charge-off experience adjusted for relevant environmental factors. The allowance for loan losses at June 30, 2018 was $15,155. The allowance for loan losses to gross loan volume was 0.83 percent.

RESULTS OF OPERATIONS

For the three months ended June 30, 2018

Net income for the three months ended June 30, 2018, totaled $9,283 as compared to $9,108 for the same period in 2017. This was an increase of $175 or 1.92 percent.

Net interest income increased $269 or 1.97 percent for the three months ended June 30, 2018, as compared to the same period in 2017. The increase in net interest income was primarily due to the Association borrowing less from the AgFirst Farm Credit Bank (Bank).

Noninterest income for the three months ended June 30, 2018 totaled $2,931 compared to $3,256 for the same period last year, a decrease of $325 or 9.98%. The decrease was primarily due to a decrease in gains on other transactions and a decrease in fees on loans. Noninterest expenses for the three months ended June 30, 2018 totaled $7,038 compared to $7,517 for the same period last year. The decrease in noninterest expenses was mainly due to a reduction in net losses on the sales of other properties owned and a reduction in the Farm Credit System Insurance Corporation (Insurance Corporation) premium.

For the six months ended June 30, 2018

Net income for the six months ended June 30, 2018 totaled $20,055 as compared to $17,350 for the same period in 2017. This was an increase of $2,705 or 15.59 percent. The large increase in net income was primarily due to a refund from the Insurance Corporation and an increase in net interest income.

Net interest income for the six months increased $887 or 3.29 percent compared to the same period in 2017. The increase in net interest income was primarily due to higher loan volume and the Association borrowing less from the Bank during the first six months of this year compared to the same period last year.

Provision for loan losses for the six months ended June 30, 2018, totaled $1,000 compared to $750 for the same period last year. An increase of $250.

Noninterest income for the six months ended June 30, 2018, totaled $7,905 as compared to $6,325 for the same period of 2017. This was an increase of $1,580 and was primarily due to a refund of insurance premium and stock investment from the Insurance Corporation totaling $1,673.

Noninterest expenses for the six months ended June 30, 2018 totaled $14,674. This was a decrease of $484 or 3.19 percent compared to the same period of 2017. The decrease in noninterest expenses was mainly due to a reduction in net losses on sales of other property owned.

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 the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at June 30, 2018 was $1,414,344 as compared to $1,437,895 at December 31, 2017.

CAPITAL RESOURCES

Total members' equity at June 30, 2018 totaled $437,923 an increase of $15,102, as compared to $422,821 at December 31, 2017. The increase in members' equity was primarily attributed to earnings offset somewhat by an increase in patronage refunds paid.

Farm Credit Administration (FCA) sets 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.

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

The following sets forth the regulatory capital ratios, which were effective January 1, 2017:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of June 30, 2018
Risk-adjusted ratios:				
CET1 Capital	4.5%	0.625%	5.125%	21.86%
Tier 1 Capital	6.0%	0.625%	6.625%	21.86%
Total Capital	8.0%	0.625%	8.625%	22.66%
Permanent Capital Ratio	7.0%	0.0%	7.0%	22.03%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	22.40%
UREE Leverage Ratio	1.5%	0.0%	1.5%	22.64%

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

REGULATORY MATTERS

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to a CECL model. • The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.	• The Association has begun implementation efforts by establishing a cross-discipline governance structure. The Association is currently identifying key interpretive issues, and assessing existing credit loss forecasting models and processes against the new guidance to determine what modifications may be required. • The Association expects that the new guidance will result in an increase in its allowance for credit losses due to several factors, including: 1. The allowance related to loans and commitments will most likely increase to cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of the increase is under evaluation, but will depend upon the nature and characteristics of the Association's portfolio at the adoption date, and the macroeconomic conditions and forecasts at that date. • The Association expects to adopt the guidance in first quarter 2021.
ASU 2016-02 – Leases (Topic 842)	
• Requires lessees to recognize leases on the balance sheet with lease liabilities and corresponding right-of-use assets based on the present value of lease payments. • Lessor accounting activities are largely unchanged from existing lease accounting. • The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification. • Also, expands qualitative and quantitative disclosures of leasing arrangements. • Requires adoption using a modified cumulative effect approach wherein the guidance is applied to all periods presented. • Effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted.	• The practical expedients allow entities to largely account for existing leases consistent with current guidance, except for the incremental balance sheet recognition for lessees. • The Association has started its implementation of the Update which has included an initial evaluation of leasing contracts and activities. • As a lessee the Association is developing its methodology to estimate the right-of-use assets and lease liabilities, which is based on the present value of lease payments but does not expect a material change to the timing of expense recognition. • Given the limited changes to lessor accounting, the Association does not expect material changes to recognition or measurement, but it is early in the implementation process and the impact will continue to be evaluated. • The Association is evaluating existing disclosures and may need to provide additional information as a result of adopting the Update. • The Association expects to adopt the guidance in first quarter 2019 using the modified retrospective method and practical expedients for transition.

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 540-886-3435, ext. 5020, or writing David Sauer, Farm Credit of the Virginias, ACA, P.O. Box 899, Staunton, VA 24402, or accessing the website, *www.farmcreditofvirginias.com*. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Farm Credit of the Virginias, ACA

Consolidated Balance Sheets

(dollars in thousands)	June 30, 2018	December 31, 2017
	(unaudited)	*(audited)*
Assets		
Cash	**$ 2,026**	$ 5,082
Loans	**1,827,258**	1,844,949
Allowance for loan losses	**(15,155)**	(17,461)
Net loans	**1,812,103**	1,827,488
Loans held for sale	**236**	1,388
Accrued interest receivable	**13,684**	10,127
Equity investments in other Farm Credit institutions	**20,740**	20,763
Premises and equipment, net	**10,261**	10,142
Other property owned	**865**	1,221
Accounts receivable	**5,560**	25,059
Other assets	**2,983**	2,338
Total assets	**$ 1,868,458**	$ 1,903,608
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 1,414,344**	$ 1,437,895
Accrued interest payable	**3,849**	3,634
Patronage refunds payable	**222**	25,254
Accounts payable	**2,455**	3,146
Other liabilities	**9,665**	10,858
Total liabilities	**1,430,535**	1,480,787
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	**10,543**	10,493
Retained earnings		
Allocated	**92,568**	92,568
Unallocated	**334,842**	319,790
Accumulated other comprehensive income (loss)	**(30)**	(30)
Total members' equity	**437,923**	422,821
Total liabilities and members' equity	**$ 1,868,458**	$ 1,903,608

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

Farm Credit of the Virginias, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2018	For the three months ended June 30, 2017	For the six months ended June 30, 2018	For the six months ended June 30, 2017
Interest Income				
Loans	**$ 25,214**	$ 24,124	**$ 49,996**	$ 47,450
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**11,312**	10,491	**22,148**	20,489
Net interest income	**13,902**	13,633	**27,848**	26,961
Provision for loan losses	**500**	250	**1,000**	750
Net interest income after provision for loan losses	**13,402**	13,383	**26,848**	26,211
Noninterest Income				
Loan fees	**75**	153	**369**	292
Fees for financially related services	**9**	8	**36**	47
Patronage refunds from other Farm Credit institutions	**2,654**	2,712	**5,320**	5,489
Gains (losses) on sales of rural home loans, net	**163**	156	**282**	353
Gains (losses) on sales of premises and equipment, net	**8**	21	**165**	56
Gains (losses) on other transactions	**7**	181	**20**	37
Insurance Fund refund	**—**	—	**1,673**	—
Other noninterest income	**15**	25	**40**	51
Total noninterest income	**2,931**	3,256	**7,905**	6,325
Noninterest Expense				
Salaries and employee benefits	**4,433**	4,417	**9,478**	9,384
Occupancy and equipment	**384**	394	**723**	737
Insurance Fund premiums	**317**	534	**633**	1,055
(Gains) losses on other property owned, net	**59**	579	**55**	572
Other operating expenses	**1,845**	1,593	**3,785**	3,410
Total noninterest expense	**7,038**	7,517	**14,674**	15,158
Income before income taxes	**9,295**	9,122	**20,079**	17,378
Provision for income taxes	**12**	14	**24**	28
Net income	**9,283**	9,108	**20,055**	17,350
Other comprehensive income	**—**	—	**—**	—
Comprehensive income	**$ 9,283**	$ 9,108	**$ 20,055**	$ 17,350

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

Farm Credit of the Virginias, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings: Allocated	Retained Earnings: Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2016	$ 10,433	$ 92,568	$ 287,846	$ (24)	$ 390,823
Comprehensive income			17,350		17,350
Capital stock/participation certificates issued/(retired), net	107				107
Balance at June 30, 2017	$ 10,540	$ 92,568	$ 305,196	$ (24)	$ 408,280
Balance at December 31, 2017	**$ 10,493**	**$ 92,568**	**$ 319,790**	**$ (30)**	**$ 422,821**
Comprehensive income			**20,055**		**20,055**
Capital stock/participation certificates issued/(retired), net	**50**				**50**
Patronage distribution					
Cash			**(5,000)**		**(5,000)**
Patronage distribution adjustment			**(3)**		**(3)**
Balance at June 30, 2018	**$ 10,543**	**$ 92,568**	**$ 334,842**	**$ (30)**	**$ 437,923**

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

Farm Credit of the Virginias, 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 Farm Credit of the Virginias, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2017, are contained in the 2017 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation

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

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

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

Significant Accounting Policies

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

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

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

Accounting Standards Updates (ASUs) Issued During the Period

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

- In February 2018, the FASB issued ASU 2018-03 Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this Update include items brought to the Board's attention by stakeholders. The amendments clarify certain aspects of the guidance issued in Update 2016-01 as described below. The amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. All entities may early adopt these amendments for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, as long as they have adopted Update 2016-01.

- In February 2018, the FASB issued ASU 2018-02 Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and are intended to improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The Update also requires certain disclosures about stranded tax effects. The guidance is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted.

ASUs Pending Effective Date

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

Potential effects of ASUs issued in previous periods:

- In March 2017, the FASB issued ASU 2017-08 Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The guidance relates to certain callable debt securities and shortens the amortization period for any premium to the earliest call date. The Update will be effective for interim and annual periods beginning after December 15, 2018 for public business entities. Early adoption is permitted. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

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

- In February 2016, the FASB issued ASU 2016-02 Leases (Topic 842). This Update, and subsequent clarifying guidance issued, requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. The amendments will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities. Early adoption is permitted. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

Accounting Standards Effective During the Period

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

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

- In March 2017, the FASB issued ASU 2017-07 Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. The amendments were effective January 1, 2018 for the Association. Adoption in 2018 did not have a material effect on the Association's financial statements, but did require reclassification of service costs to Other Operating Expenses.

- In February 2017, the FASB issued ASU 2017-05 Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The Update clarifies whether certain transactions are within the scope of the guidance on derecognition and the accounting for partial sales of nonfinancial assets, and defines the term in substance nonfinancial asset. The amendments conform the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue standard. The amendments were effective January 1, 2018 for the Association. Adoption in 2018 had no impact on the statements of financial condition and results of operations of the Association.

- In January 2017, the FASB issued ASU 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments provide a more robust framework to use in determining when a set of assets and activities is a business. They also support more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable. The ASU was effective January 1, 2018 for the Association. The amendments were applied prospectively. Adoption of the guidance in 2018 had no impact on the statements of financial condition and results of operations.

- In January 2016, the FASB issued ASU 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The Update was intended to improve the recognition and measurement of financial instruments. The new guidance makes targeted improvements to existing GAAP.

Transition Information

- The Association identified investment securities affected by this Update and adopted the guidance on January 1, 2018.
- The amendments related to equity securities without readily determinable fair values were applied prospectively to equity investments that existed as of the date of adoption.
- Application of the amendments did not require a cumulative effect adjustment.
- Adoption did not have an impact on the Association's financial condition or results of operations.
- The new standard did result in changes to certain disclosures.

- In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers (Topic 606). This guidance changed the recognition of revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance also included expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Based on input received from stakeholders, the FASB issued several additional Updates that generally provided clarifying guidance where there was the potential for diversity in practice, or address the cost and complexity of applying Topic 606.

Transition Information

- The Association identified ancillary revenues affected by this Update and adopted the guidance on January 1, 2018.
- The amendments were applied using the modified retrospective approach.
- The Association elected to only apply the guidance to contracts that were not completed at the date of initial application.
- Subtopics 610-20 on gains and losses from the derecognition of nonfinancial assets, and 340-40 on other assets and deferred costs-contracts with customers were adopted using the same transition options.
- Adoption did not have an impact on the Association's financial condition or results of operations.
- The new standard did result in enhanced disclosures about revenue (see Note 9, *Revenue from Contracts with Customers*).

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

	June 30, 2018	December 31, 2017
Real estate mortgage	$ 1,357,682	$ 1,354,874
Production and intermediate-term	350,108	374,931
Processing and marketing	38,010	35,018
Farm-related business	18,702	20,829
Communication	7,007	7,252
Rural residential real estate	55,749	52,045
Total loans	$ 1,827,258	$ 1,844,949

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

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

June 30, 2018	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 3,804	$ 16,635	$ –	$ –	$ –	$ –	$ 3,804	$ 16,635
Production and intermediate-term	2,179	3,273	348	–	–	–	2,527	3,273
Processing and marketing	9,709	–	129	–	–	–	9,838	–
Farm-related business	913	–	–	–	–	–	913	–
Communication	7,018	–	–	–	–	–	7,018	–
Total	$ 23,623	$ 19,908	$ 477	$ –	$ –	$ –	$ 24,100	$ 19,908

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	$ 5,501	$ 9,714	$ –	$ –	$ –	$ –	$ 5,501	$ 9,714
Production and intermediate-term	9,595	2,948	360	–	–	–	9,955	2,948
Processing and marketing	8,476	–	147	–	–	–	8,623	–
Farm-related business	389	–	–	–	–	–	389	–
Communication	7,271	–	–	–	–	–	7,271	–
Total	$ 31,232	$ 12,662	$ 507	$ –	$ –	$ –	$ 31,739	$ 12,662

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

June 30, 2018	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 2,930	$ 49,968	$ 1,304,784	$ 1,357,682
Production and intermediate-term	152,136	154,057	43,915	350,108
Processing and marketing	22,449	11,202	4,359	38,010
Farm-related business	5,610	4,694	8,398	18,702
Communication	–	7,007	–	7,007
Rural residential real estate	3,133	2,646	49,970	55,749
Total loans	$ 186,258	$ 229,574	$ 1,411,426	$ 1,827,258
Percentage	10.19%	12.57%	77.24%	100.00%

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

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

	June 30, 2018	December 31, 2017
Real estate mortgage:		
Acceptable	95.45%	95.84%
OAEM	2.41	1.96
Substandard/doubtful/loss	2.14	2.20
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	92.25%	92.26%
OAEM	3.65	3.70
Substandard/doubtful/loss	4.10	4.04
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	June 30, 2018	December 31, 2017
Farm-related business:		
Acceptable	99.38%	99.32%
OAEM	–	–
Substandard/doubtful/loss	0.62	0.68
	100.00%	100.00%
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	97.00%	97.50%
OAEM	2.05	1.98
Substandard/doubtful/loss	0.95	0.52
	100.00%	100.00%
Total loans:		
Acceptable	95.04%	95.29%
OAEM	2.55	2.25
Substandard/doubtful/loss	2.41	2.46
	100.00%	100.00%

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

June 30, 2018	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 7,926	$ 4,209	$ 12,135	$ 1,354,425	$ 1,366,560	$ –
Production and intermediate-term	5,386	5,379	10,765	343,723	354,488	114
Processing and marketing	103	–	103	37,957	38,060	–
Farm-related business	54	99	153	18,654	18,807	–
Communication	–	–	–	7,009	7,009	–
Rural residential real estate	326	26	352	55,666	56,018	–
Total	$ 13,795	$ 9,713	$ 23,508	$ 1,817,434	$ 1,840,942	$ 114

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	$ 11,111	$ 5,692	$ 16,803	$ 1,344,425	$ 1,361,228	$ –
Production and intermediate-term	3,892	6,900	10,792	367,597	378,389	55
Processing and marketing	117	–	117	34,944	35,061	–
Farm-related business	109	192	301	20,608	20,909	–
Communication	–	–	–	7,254	7,254	–
Rural residential real estate	897	25	922	51,313	52,235	–
Total	$ 16,126	$ 12,809	$ 28,935	$ 1,826,141	$ 1,855,076	$ 55

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

	June 30, 2018	December 31, 2017
Nonaccrual loans:		
Real estate mortgage	$ 13,114	$ 17,906
Production and intermediate-term	9,087	12,009
Farm-related business	1,856	1,932
Rural residential real estate	91	80
Total	$ 24,148	$ 31,927
Accruing restructured loans:		
Real estate mortgage	$ 1,378	$ 1,101
Production and intermediate-term	454	548
Total	$ 1,832	$ 1,649
Accruing loans 90 days or more past due:		
Production and intermediate-term	$ 114	$ 55
Total	$ 114	$ 55
Performing impaired loans:		
Real estate mortgage	$ 1,631	$ 1,931
Production and intermediate-term	1,370	1,969
Rural residential real estate	88	–
Total	$ 3,089	$ 3,900
Total nonperforming loans	$ 29,183	$ 37,531
Other property owned	865	1,221
Total nonperforming assets	$ 30,048	$ 38,752
Nonaccrual loans as a percentage of total loans	1.32%	1.73%
Nonperforming assets as a percentage of total loans and other property owned	1.64%	2.10%
Nonperforming assets as a percentage of capital	6.86%	9.17%

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

	June 30, 2018	December 31, 2017
Impaired nonaccrual loans:		
Current as to principal and interest	$ 11,510	$ 17,065
Past due	12,638	14,862
Total	$ 24,148	$ 31,927
Impaired accrual loans:		
Performing	$ 3,089	$ 3,900
Restructured	1,832	1,649
90 days or more past due	114	55
Total	$ 5,035	$ 5,604
Total impaired loans	$ 29,183	$ 37,531
Additional commitments to lend	$ 130	$ 150

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

	June 30, 2018			Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:							
Real estate mortgage	$ 6,163	$ 6,390	$ 481	$ 6,677	$ 98	$ 7,341	$ 188
Production and intermediate-term	7,940	8,896	956	8,600	127	9,456	243
Farm-related business	99	100	–	107	2	118	3
Rural residential real estate	–	–	–	–	–	–	–
Total	$ 14,202	$ 15,386	$ 1,437	$ 15,384	$ 227	$ 16,915	$ 434
With no related allowance for credit losses:							
Real estate mortgage	$ 9,960	$ 12,619	$ –	$ 10,788	$ 159	$ 11,861	$ 304
Production and intermediate-term	3,085	9,123	–	3,343	49	3,675	94
Farm-related business	1,757	2,880	–	1,904	28	2,093	54
Rural residential real estate	179	316	–	194	3	214	5
Total	$ 14,981	$ 24,938	$ –	$ 16,229	$ 239	$ 17,843	$ 457
Total:							
Real estate mortgage	$ 16,123	$ 19,009	$ 481	$ 17,465	$ 257	$ 19,202	$ 492
Production and intermediate-term	11,025	18,019	956	11,943	176	13,131	337
Farm-related business	1,856	2,980	–	2,011	30	2,211	57
Rural residential real estate	179	316	–	194	3	214	5
Total	$ 29,183	$ 40,324	$ 1,437	$ 31,613	$ 466	$ 34,758	$ 891

	December 31, 2017			Year Ended December 31, 2017	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 1,930	$ 2,070	$ 138	$ 1,804	$ 71
Production and intermediate-term	10,412	11,051	4,182	9,735	380
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 12,342	$ 13,121	$ 4,320	$ 11,539	$ 451
With no related allowance for credit losses:					
Real estate mortgage	$ 19,008	$ 22,508	$ –	$ 17,772	$ 694
Production and intermediate-term	4,169	7,746	–	3,897	153
Farm-related business	1,932	2,934	–	1,806	71
Rural residential real estate	80	208	–	75	3
Total	$ 25,189	$ 33,396	$ –	$ 23,550	$ 921
Total:					
Real estate mortgage	$ 20,938	$ 24,578	$ 138	$ 19,576	$ 765
Production and intermediate-term	14,581	18,797	4,182	13,632	533
Farm-related business	1,932	2,934	–	1,806	71
Rural residential real estate	80	208	–	75	3
Total	$ 37,531	$ 46,517	$ 4,320	$ 35,089	$ 1,372

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	Rural Residential Real Estate	Total
Activity related to the allowance for credit losses:						
Balance at March 31, 2018	$ 6,191	$ 7,860	$ 570	$ 75	$ 350	$ 15,046
Charge-offs	(87)	(363)	–	–	–	(450)
Recoveries	17	41	–	–	1	59
Provision for loan losses	496	(45)	100	–	(51)	500
Balance at June 30, 2018	$ 6,617	$ 7,493	$ 670	$ 75	$ 300	$ 15,155
Balance at December 31, 2017	$ 6,160	$ 10,296	$ 575	$ 80	$ 350	$ 17,461
Charge-offs	(165)	(3,389)	–	–	–	(3,554)
Recoveries	190	56	–	–	2	248
Provision for loan losses	432	530	95	(5)	(52)	1,000
Balance at June 30, 2018	$ 6,617	$ 7,493	$ 670	$ 75	$ 300	$ 15,155
Balance at March 31, 2017	$ 6,819	$ 7,271	$ 677	$ –	$ 325	$ 15,092
Charge-offs	–	(197)	–	–	–	(197)
Recoveries	11	35	–	–	–	46
Provision for loan losses	(57)	394	(87)	–	–	250
Balance at June 30, 2017	$ 6,773	$ 7,503	$ 590	$ –	$ 325	$ 15,191
Balance at December 31, 2016	$ 6,472	$ 6,989	$ 697	$ –	$ 325	$ 14,483
Charge-offs	–	(223)	–	–	–	(223)
Recoveries	20	57	104	–	–	181
Provision for loan losses	281	680	(211)	–	–	750
Balance at June 30, 2017	$ 6,773	$ 7,503	$ 590	$ –	$ 325	$ 15,191
Allowance on loans evaluated for impairment:						
Individually	$ 481	$ 956	$ –	$ –	$ –	$ 1,437
Collectively	6,136	6,537	670	75	300	13,718
Balance at June 30, 2018	$ 6,617	$ 7,493	$ 670	$ 75	$ 300	$ 15,155
Individually	$ 138	$ 4,182	$ –	$ –	$ –	$ 4,320
Collectively	6,022	6,114	575	80	350	13,141
Balance at December 31, 2017	$ 6,160	$ 10,296	$ 575	$ 80	$ 350	$ 17,461
Recorded investment in loans evaluated for impairment:						
Individually	$ 16,123	$ 11,025	$ 1,856	$ –	$ 179	$ 29,183
Collectively	1,350,437	343,463	55,011	7,009	55,839	1,811,759
Balance at June 30, 2018	$ 1,366,560	$ 354,488	$ 56,867	$ 7,009	$ 56,018	$ 1,840,942
Individually	$ 20,938	$ 14,581	$ 1,932	$ –	$ 80	$ 37,531
Collectively	1,340,290	363,808	54,038	7,254	52,155	1,817,545
Balance at December 31, 2017	$ 1,361,228	$ 378,389	$ 55,970	$ 7,254	$ 52,235	$ 1,855,076

**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 or six months periods ended June 30, 2017.

	Three Months Ended June 30, 2018				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 800	$ –	$ 800	
Production and intermediate-term	–	617	–	617	
Total	$ –	$ 1,417	$ –	$ 1,417	
Post-modification:					
Real estate mortgage	$ –	$ 760	$ –	$ 760	$ (6)
Production and intermediate-term	–	344	–	344	–
Total	$ –	$ 1,104	$ –	$ 1,104	$ (6)

Outstanding Recorded Investment	Six Months Ended June 30, 2018 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	$ 800	$ –	$ 800	
Production and intermediate-term	–	668	–	668	
Total	$ –	$ 1,468	$ –	$ 1,468	
Post-modification:					
Real estate mortgage	$ –	$ 760	$ –	$ 760	$ (6)
Production and intermediate-term	–	395	–	395	–
Total	$ –	$ 1,155	$ –	$ 1,155	$ (6)

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	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Real estate mortgage	$ 2,968	$ 2,492	$ 1,590	$ 1,391
Production and intermediate-term	3,653	4,318	3,199	3,770
Farm-related business	1,599	1,740	1,599	1,740
Rural residential real estate	21	25	21	25
Total loans	$ 8,241	$ 8,575	$ 6,409	$ 6,926
Additional commitments to lend	$ 130	$ 130		

The following table presents information as of period end:

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

Note 3 — Investments

Equity Investments in Other Farm Credit System Institutions

Equity investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. These investments are carried at cost and evaluated for impairment based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 7.53 percent of the issued stock of the Bank as of June 30, 2018 net of any reciprocal investment. As of that date, the Bank's assets totaled $32.0 billion and shareholders' equity totaled $2.3 billion. The Bank's earnings were $152 million for the first six months of 2018. In addition, the Association held $854 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 June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Employee Benefit Plans:				
Balance at beginning of period	$ (30)	$ (24)	$ (30)	$ (24)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	–	–	–	–
Net current period other comprehensive income	–	–	–	–
Balance at end of period	$ (30)	$ (24)	$ (30)	$ (24)

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

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	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.

	June 30, 2018				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 1,969	$ 1,969	$ –	$ –	$ 1,969
Recurring Assets	$ 1,969	$ 1,969	$ –	$ –	$ 1,969
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 12,765	$ –	$ –	$ 12,765	$ 12,765
Other property owned	865	–	–	952	952
Nonrecurring Assets	$ 13,630	$ –	$ –	$ 13,717	$ 13,717
Other Financial Instruments					
Assets:					
Cash	$ 2,026	$ 2,026	$ –	$ –	$ 2,026
Loans	1,799,574	–	–	1,760,023	1,760,023
Other Financial Assets	$ 1,801,600	$ 2,026	$ –	$ 1,760,023	$ 1,762,049
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,414,344	$ –	$ –	$ 1,382,235	$ 1,382,235
Other Financial Liabilities	$ 1,414,344	$ –	$ –	$ 1,382,235	$ 1,382,235

	December 31, 2017				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 2,183	$ 2,183	$ –	$ –	$ 2,183
Recurring Assets	$ 2,183	$ 2,183	$ –	$ –	$ 2,183
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 8,022	$ –	$ –	$ 8,022	$ 8,022
Other property owned	1,221	–	–	1,354	1,354
Nonrecurring Assets	$ 9,243	$ –	$ –	$ 9,376	$ 9,376
Other Financial Instruments					
Assets:					
Cash	$ 5,082	$ 5,082	$ –	$ –	$ 5,082
Loans	1,820,854	–	–	1,805,958	1,805,958
Other Financial Assets	$ 1,825,936	$ 5,082	$ –	$ 1,805,958	$ 1,811,040
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,437,895	$ –	$ –	$ 1,425,367	$ 1,425,367
Other Financial Liabilities	$ 1,437,895	$ –	$ –	$ 1,425,367	$ 1,425,367

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	$ 13,717	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 June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Pension	$ 757	$ 652	$ 1,597	$ 1,304
401(k)	175	161	479	445
Other postretirement benefits	125	112	252	221
Total	$ 1,057	$ 925	$ 2,328	$ 1,970

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

	Actual YTD Through 6/30/18	Projected Contributions For Remainder of 2018	Projected Total Contributions 2018
Pension	$ 4	$ 3,194	$ 3,198
Other postretirement benefits	252	243	495
Total	$ 256	$ 3,437	$ 3,693

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2018.

Further details regarding employee benefit plans are contained in the 2017 Annual Report to Shareholders.

Note 8 — Commitments and Contingent Liabilities

From time to time, legal actions are pending against the Association in which claims for 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 — Revenue from Contracts with Customers

On January 1, 2018, Accounting Standards Update 2014-09 Revenue from Contracts with Customers (Topic 606) became effective. The core principle of the new standard is that companies should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Association maintains contracts with customers to provide support services in various areas such as accounting, lending transactions, consulting, insurance, and information technology. The Association does not generally incur costs to obtain contracts. As most of the contracts are to provide access to expertise or system capacity that the Association maintains, there are no material incremental costs to fulfill these contracts that should be capitalized. Total revenue recognized from contracts with customers was as follows:

(dollars in thousands)	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Revenue recognized from contracts with customers:		
At a point in time	$ 9	$ 36
Over time	–	–
Total	$ 9	$ 36

Note 10 — Subsequent Events

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