Farm Credit of Florida, ACA

THIRD QUARTER 2018

TABLE OF CONTENTS

Report on Internal Control Over Financial Reporting 2

Management's Discussion and Analysis of

Financial Condition and Results of Operations 3

Consolidated Financial Statements

Consolidated Balance Sheets 9

Consolidated Statements of Income 10

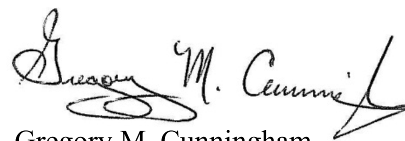
Consolidated Statements of Comprehensive Income 11

Consolidated Statements of Changes in Members' Equity 12

Notes to the Consolidated Financial Statements 13

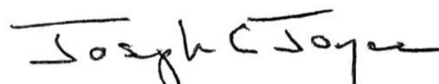
CERTIFICATION

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



Gregory M. Cunningham
Chief Executive Officer

Laura Craker
Chief Financial Officer



Dr. Joseph C. Joyce
Chairman of the Board

November 8, 2018

Farm Credit of Florida, ACA

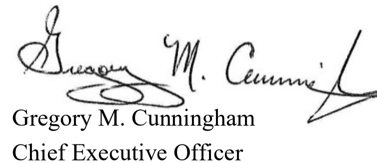
Report on Internal Control Over Financial Reporting

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 Consolidate 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, 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 September 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 September 30, 2018.



Gregory M. Cunningham
Chief Executive Officer

Laura Craker
Chief Financial Officer

November 8, 2018

Farm Credit of Florida, 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 Farm Credit of Florida, ACA, (Association) for the period ended September 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, farm-related businesses, and other agribusiness firms for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in the north and southern regions of Florida. The commodities include cattle, citrus, dairy, equine, field crops, nurseries, sugar, timber, tropical fruits, and vegetables. Most commodity groups identified within the portfolio have experienced generally favorable operating results over the last two production seasons, however, citrus producers were adversely impacted by fruit losses from Hurricane Irma in September 2017 and the dairy industry has been negatively impacted by commodity price declines. The horticultural or nursery segment continues to rebound from the previous stress resulting from the recession and reduced activity in commercial and residential construction. Several loans in produce and nursery segments continue to exhibit stress as a result of weather events. Cattle prices are lower but appear to have bottomed and are showing an improving trend. Milk price continues to be lower resulting in significant financial stress in the dairy loan segment with a large portion of the Association's dairy loan portfolio now criticized. Farm size varies throughout the regions and many borrowers have diversified farming operations. This factor, along with numerous opportunities for non-farm income in the territory, reduces the level of repayment dependency on a single agricultural commodity. Florida experienced above average rainfall throughout summer 2018 and moisture conditions and lake levels are near normal. There have been no material weather impacts during 2018 in the Association's territory.

Much of our territory was impacted by Hurricane Irma which made landfall on September 10 and 11, 2017. Management continues to assess and quantify the financial impact this storm had on our customers and the Association as financial impacts are typically delayed. Some credit quality deterioration and credit losses are expected. Citrus customers are just beginning to see an inflow of disaster assistance funds. Loss reduction options that are available for some of our customers, such as the use of loan guarantees, crop insurance, and federal disaster relief, will help to mitigate the losses associated with this storm event. The immediate impact to delinquency rates and loan performance has been minimal. The Association is well capitalized and maintains adequate allowance for loan losses, which allows us to withstand stress in our loan portfolio.

Land values in the north region continue to exhibit stability since their improvement in 2014. Land values in the south region show stability with values increasing in more urban areas. As discussed above, Hurricane Irma impacted the entire Florida peninsula on September 10 and 11, 2017. Storm impacts were widespread and vary depending on location with more impact in the southwest Florida region. Management recognizes continuing risk in the citrus industry resulting from the impacts of citrus greening disease and also loss of fruit as a result of the storm. Continued stress in production, profitability, and asset values may adversely impact citrus growers over the near and long term horizon. For the last season ended, all Florida orange production was finalized at 45 million boxes, down 35% from the 2016-2017 crop year. The most recent USDA citrus crop forecast for 2018-2019 season forecasts all orange production at 79 million boxes, up 76% from last season. To date, the Association's citrus portfolio has continued to perform satisfactorily, but some performance issues on several stressed growers have been observed. Nursery growers did receive structure impacts and some crop losses as a result of the Hurricane. Insurance is expected to mitigate the extent of losses. In February 2018, the U.S. Senate and House of Representatives passed a spending bill that includes more than $2.3 billion for agricultural assistance which covers a variety of commodities. USDA and other involved agencies have been in process of accepting applications for the WHIP and Block Grant programs and some citrus customers have already received initial payments.

The gross loan volume of the Association as of September 30, 2018, was $1,132,964, an increase of $1,960 or 0.17 percent as compared to $1,131,004 at December 31, 2017. Net loans outstanding at September 30, 2018, were $1,123,050 as compared to $1,123,230 at December 31, 2017, a decrease of $180 or 0.02 percent. Net loans accounted for 96.63 percent of

total assets at September 30, 2018, as compared to 95.87 percent of total assets at December 31, 2017. The increase in gross loan volume during the period is primarily attributed to increased demand for credit in the market and a more concerted marketing effort by Association lenders. The decrease in net loan volume during the period is primarily attributed to an increase in the allowance for loan losses offset by an increase in gross loan volume. Competition continues to be strong in the large loan segment. Activity in small and middle market loans in the north region continues to be strong. Management has noted a softening of loan demand in the 3rd quarter 2018 and has noted several early liquidations and loan curtailments.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality has declined compared to year end 2017 as a result of movement from OAEM to Substandard of loans in the citrus, dairy and row crop commodity groups. Acceptable and OAEM credit quality as a percentage of the total loan portfolio was 97.72 percent as of September 30, 2018 compared to 98.54 percent at December 31, 2017. There has been a gradual increase in Substandard assets during the last 2 quarters resulting from continued stress in the dairy industry and impacts from Hurricane Irma to citrus customers. During the nine months, nonaccrual loans increased by $2,072 or 18.14 percent to $13,495 at September 30, 2018 from $11,423 at December 31, 2017. The increase in nonaccrual loans is primarily attributed to migration to nonaccrual in the dairy and row crop commodity groups offset by liquidation of loans in process of collection and other liquidation and curtailments on troubled assets. The balance of Other Property Owned at September 30, 2018 was $74, a decrease of $21 or 22.11 percent from $95 at December 31, 2017. One property was acquired and one property was sold during the period.

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, 2018, was $9,914 compared to $7,774 at December 31, 2017. This increase is due to additional reserves required resulting from downgrades of loans to substandard. Recoveries of $1,701 recorded during the nine months ended September 30, 2018 were primarily in the non-farm income industry and charge-offs of $1,519 were mostly in the dairy industry. Management considers the current level of allowance adequate to cover additional possible losses. The ratio of the allowance for loan losses to gross loans at September 30, 2018 was 0.88 percent.

The allowance for loan losses at September 30, 2018 does not include $2,879 of net purchase discounts related to acquired loans. The allowance for these loans was not carried forward at acquisition per accounting guidance. However, they were purchased at a net discount, which is the direct reduction to the recorded loan amount, to reflect the credit and market metrics related to the acquired portfolios. At September 30, 2018, the amount of credit risk reduction in addition to the allowance for loan losses, provided by these remaining discounts would equate to 0.25 percent of gross loans.

RESULTS OF OPERATIONS

For the three months ended September 30, 2018

The Association recorded net income for the three months ended September 30, 2018 of $4,610 as compared to $3,849 for the same period in 2017. This $761 or 19.77 percent increase is primarily attributed to an increase in net interest income offset by an increase in the provision for loan losses.

Provision for loan losses was $1,476 for the three months ended September 30, 2018 as compared to a provision for loan losses of $397 during the same period in 2017, an increase in expense of $1,079 or 271.79 percent. This increase in expense is attributed to an increase in reserves required resulting from downgrades of loans to substandard along with lower net loan recoveries compared to prior year. Net loan recoveries were $218 during the period in 2018 compared to net loan recoveries of $671 for the same period in 2017, a decrease of $453 or 67.51 percent.

Net interest income was $9,312 for the three months ended September 30, 2018 as compared to $7,351 during the same period in 2017. The change in net interest income represents a $1,961 or 26.68 percent increase when compared to the same period last year and is attributed to loan volume growth over the last 12 months along with an increase in recoveries of interest on nonaccrual loan liquidations.

Noninterest income for the three months ended September 30, 2018, totaled $2,494 as compared to $2,189 for the same period of 2017, an increase of $305 or 13.93 percent. This increase is attributed primarily to an increase in patronage refunds from other Farm Credit institutions.

Noninterest expense for the three months ended September 30, 2018, totaled $5,720 as compared to $5,294 for the same period of 2017, an increase of $426 or 8.05 percent. The primary reason for the increase in noninterest expense is attributed to $458 increase in salaries and employee benefits and $58 increase in other operating expenses offset by $108 decrease in Insurance Fund premiums. The increase in salaries and employee benefits is primarily attributable to an increase in the number of employees during the period in 2018 and an increase in employee retirement expenses.

For the nine months ended September 30, 2018

Net income for the nine months ended September 30, 2018 totaled $15,121 compared to $14,649 for the same period in 2017, an increase of $472 or 3.22 percent. The increase is primarily attributed to an increase in net interest income and an increase in noninterest income offset by an increase in the provision for loan losses and an increase in noninterest expenses.

Provision for loan losses was $1,957 for the nine months ended September 30, 2018 as compared to a reversal of allowance for

loan losses of $378 during the same period in 2017, an increase in expense of $2,335 or 617.72 percent. This increase in expense is attributed to an increase in reserves required resulting from downgrades of loans to substandard along with lower net loan recoveries compared to prior year. Net loan recoveries were $183 during the period in 2018 compared to net loan recoveries of $2,092 for the same period in 2017, a decrease of $1,909 or 91.25 percent.

Net interest income increased $3,028 or 13.38 percent for the nine months ended September 30, 2018, as compared to the same period in 2017. This increase is attributed to loan volume growth over the last 12 months along with an increase in recoveries of interest on nonaccrual loan liquidations.

Noninterest income for the nine months ended September 30, 2018, totaled $8,694 as compared to $7,655 for the same period of 2017, an increase of $1,039 or 13.57 percent. This increase is attributed primarily to a $572 Farm Credit Insurance Fund refund along with an increase in patronage refunds from other Farm Credit institutions.

In March 2018, the Association recorded $572 of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. The amount is reflected in Noninterest income on the Consolidated Statements of Income. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.

Noninterest expense for the nine months ended September 30, 2018, increased $1,260 or 7.87 percent compared to the same period of 2017. The primary reason for the increase is attributed to $1,252 increase in salaries and employee benefits and $388 increase in other operating expenses offset by $307 decrease in Insurance Fund premiums. The increase in salaries and employee benefits is primarily attributable to an increase in the number of employees during the period in 2018 and an increase in employee retirement expenses.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (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. These funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2018 was $882,672 as compared to $894,913 at December 31, 2017. The decrease during the period of $12,241 is primarily attributed to an increase in members' equity resulting from net income for the nine months ended September 30, 2018, receipt of 2017 patronage dividends due from AgFirst Farm Credit Bank offset by an increase in loan volume during the period.

CAPITAL RESOURCES

Total members' equity at September 30, 2018, increased to $267,301 from the December 31, 2017 total of $252,410. The increase is primarily attributed to net income during the period.

Total capital stock and participation certificates were $2,911 on September 30, 2018, compared to $2,897 on December 31, 2017. The increase is attributed to the issuance of capital stock and participation certificates to new members.

Regulatory Capital Ratios

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

	Regulatory Minimum, Including Buffer*	9/30/18	12/31/17	9/30/17
Permanent Capital Ratio	7.00%	19.82%	19.77%	19.83%
Common Equity Tier 1 (CET1) Capital Ratio	7.00%	19.68%	19.64%	19.71%
Tier 1 Capital Ratio	8.50%	19.68%	19.64%	19.71%
Total Capital Ratio	10.50%	20.41%	20.34%	20.37%
Tier 1 Leverage Ratio	5.00%	21.80%	21.67%	21.88%
Unallocated Retained Earnings (URE) and URE Equivalents Leverage Ratio	1.50%	16.78%	16.37%	16.49%

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

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

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

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

REGULATORY MATTERS

On May 10, 2018, the Farm Credit Administration adopted a final rule that amends the regulations governing investments of System banks and associations. The final rule strengthens eligibility criteria for the investments the banks may purchase and hold. It also implements Section 939A of the Dodd-Frank Act by removing references to and requirements for credit ratings and substitutes the eligibility requirement with other appropriate standards of credit worthiness. In addition, it grants associations greater flexibility regarding the risk management purposes for investments and limits the type and amount of investments that an association 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 association 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.

OTHER MATTERS

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

On October 15, 2018, AgFirst's Board of Directors indicated an intention to declare, in December 2018, a special patronage distribution. The Association will receive between approximately $5,686 and $6,720 which will be recorded as patronage refunds from other Farm Credit institutions.

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 table below.

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 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 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. A recent amendment provides an additional (and optional) transition method to adopt the new leases standard. Under this new 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. • 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 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 optional 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 (561)-965-9001, or writing Laura Craker, CFO, Farm Credit of Florida, ACA, P. O. Box 213069, West Palm Beach, FL 33421, or accessing the website, *www.farmcreditfl.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.

Farm Credit of Florida, ACA

Consolidated Balance Sheets

(dollars in thousands)	September 30, 2018 (unaudited)	December 31, 2017 (audited)
Assets		
Cash	**$ 106**	$ 211
Investments in debt securities:		
Held to maturity (fair value of $4,798 and $5,853, respectively)	**4,554**	5,467
Loans	**1,132,964**	1,131,004
Allowance for loan losses	**(9,914)**	(7,774)
Net loans	**1,123,050**	1,123,230
Loans held for sale	**—**	8
Accrued interest receivable	**6,627**	5,393
Equity investments in other Farm Credit institutions	**13,800**	13,940
Premises and equipment, net	**7,302**	6,942
Other property owned	**74**	95
Accounts receivable	**5,868**	15,401
Other assets	**878**	897
Total assets	**$ 1,162,259**	$ 1,171,584
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 882,672**	$ 894,913
Accrued interest payable	**2,393**	2,062
Patronage refunds payable	**279**	11,803
Accounts payable	**2,169**	2,954
Advanced conditional payments	**1,120**	1,105
Other liabilities	**6,325**	6,337
Total liabilities	**894,958**	919,174
Commitments and contingencies (Note 8)		
Members' Equity		
Protected borrower stock	**445**	445
Capital stock and participation certificates	**2,466**	2,452
Additional paid-in-capital	**7,873**	7,873
Retained earnings		
Allocated	**113,908**	114,789
Unallocated	**142,839**	127,089
Accumulated other comprehensive income (loss)	**(230)**	(238)
Total members' equity	**267,301**	252,410
Total liabilities and members' equity	**$ 1,162,259**	$ 1,171,584

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

Farm Credit of Florida, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2018	For the three months ended September 30, 2017	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Interest Income				
Loans	**$ 16,410**	$ 13,031	**$ 45,886**	$ 38,611
Investments	**53**	61	**163**	180
Total interest income	**16,463**	13,092	**46,049**	38,791
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**7,151**	5,741	**20,396**	16,166
Net interest income	**9,312**	7,351	**25,653**	22,625
Provision for (reversal of allowance for) loan losses	**1,476**	397	**1,957**	(378)
Net interest income after provision for (reversal of allowance for) loan losses	**7,836**	6,954	**23,696**	23,003
Noninterest Income				
Loan fees	**270**	218	**692**	600
Fees for financially related services	**2**	6	**950**	908
Patronage refunds from other Farm Credit institutions	**1,981**	1,724	**5,797**	5,532
Gains (losses) on sales of rural home loans, net	**83**	106	**270**	232
Gains (losses) on sales of premises and equipment, net	**30**	17	**54**	58
Gains (losses) on other transactions	**15**	6	**20**	38
Insurance Fund refund	**—**	—	**572**	—
Other noninterest income	**113**	112	**339**	287
Total noninterest income	**2,494**	2,189	**8,694**	7,655
Noninterest Expense				
Salaries and employee benefits	**4,150**	3,692	**12,611**	11,359
Occupancy and equipment	**294**	265	**881**	809
Insurance Fund premiums	**195**	303	**582**	889
(Gains) losses on other property owned, net	**(1)**	10	**(131)**	14
Other operating expenses	**1,082**	1,024	**3,326**	2,938
Total noninterest expense	**5,720**	5,294	**17,269**	16,009
Net income	**$ 4,610**	$ 3,849	**$ 15,121**	$ 14,649

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

Farm Credit of Florida, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2018	For the three months ended September 30, 2017	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Net income	**$ 4,610**	$ 3,849	**$ 15,121**	$ 14,649
Other comprehensive income net of tax				
Employee benefit plans adjustments	**3**	2	**8**	6
Comprehensive income	**$ 4,613**	$ 3,851	**$ 15,129**	$ 14,655

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

Farm Credit of Florida, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2016	$ 445	$ 2,272	$ 7,873	$ 109,960	$ 117,171	$ (212)	$ 237,509
Comprehensive income					14,649	6	14,655
Capital stock/participation certificates issued/(retired), net		81					81
Patronage distribution adjustment				(558)	558		—
Balance at September 30, 2017	$ 445	$ 2,353	$ 7,873	$ 109,402	$ 132,378	$ (206)	$ 252,245
Balance at December 31, 2017	**$ 445**	**$ 2,452**	**$ 7,873**	**$ 114,789**	**$ 127,089**	**$ (238)**	**$ 252,410**
Comprehensive income					**15,121**	**8**	**15,129**
Capital stock/participation certificates issued/(retired), net		**14**					**14**
Patronage distribution							
Cash					**(250)**		**(250)**
Patronage distribution adjustment				**(881)**	**879**		**(2)**
Balance at September 30, 2018	**$ 445**	**$ 2,466**	**$ 7,873**	**$ 113,908**	**$ 142,839**	**$ (230)**	**$ 267,301**

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

Farm Credit of Florida, 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 Florida, 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 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.

- 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. Entities may early adopt the provisions in whole upon issuance or may early adopt any removed or modified disclosures upon issuance and delay adoption of the additional disclosures until their effective date.

- In July 2018, the FASB issued ASU 2018-11 Leases (Topic 842): Targeted Improvements. The amendments are intended to reduce costs and ease implementation of the leases standard for financial statement preparers. It addresses certain areas identified as possible sources of unnecessary cost or complexity in the standard. Specifically, the amendments provide an option to apply the transition provisions of the new standard at its adoption date instead of at the earliest comparative period presented in its financial statements and a practical expedient that permits lessors to not separate nonlease components from the associated lease component if certain conditions are met. For entities that have not adopted Topic 842 before the issuance of this Update, the effective date and transition requirements for the amendments related to separating components of a contract are the same as the effective date and transition requirements in ASU 2016-02.

- In July 2018, the FASB issued ASU 2018-10 Codification Improvements to Topic 842, Leases. The amendments affect narrow aspects of the guidance issued in ASU 2016-02. Specifically, the Update corrects, clarifies or changes inconsistent language to improve application of the guidance in ASU 2016-02. For entities that have not adopted Topic 842, the effective date and transition requirements will be the same as the effective date and transition requirements in ASU 2016-02.

- In July 2018, the FASB issued ASU 2018-09 Codification Improvements. The amendments affect a wide variety of Topics in the Codification. They apply to all reporting entities within the scope of the affected accounting guidance. The Board has an ongoing project on its agenda about improvements to clarify the Codification or to correct unintended application of guidance. Those items generally are not expected to have a significant effect on current accounting practice. The transition and effective date guidance is based on the facts and circumstances of each amendment.

- 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. 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:

	September 30, 2018	December 31, 2017
Real estate mortgage	$ 681,363	$ 666,425
Production and intermediate-term	195,513	227,567
Loans to cooperatives	29,959	28,912
Processing and marketing	100,089	86,255
Farm-related business	43,698	45,421
Communication	36,503	33,726
Power and water/waste disposal	18,931	17,029
Rural residential real estate	9,202	9,090
International	11,340	9,972
Other (including Mission Related)	6,366	6,607
Total loans	$ 1,132,964	$ 1,131,004

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, 2018							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 19,984	$ 108,254	$ –	$ 23,217	$ –	$ –	$ 19,984	$ 131,471
Production and intermediate-term	42,552	9,920	1,445	1,489	3,113	–	47,110	11,409
Loans to cooperatives	26,610	–	3,389	–	–	–	29,999	–
Processing and marketing	85,966	30,482	10,417	82,860	–	–	96,383	113,342
Farm-related business	766	17,847	4,000	2,993	913	–	5,679	20,840
Communication	36,587	–	–	–	–	–	36,587	–
Power and water/waste disposal	18,991	–	–	–	–	–	18,991	–
International	11,361	–	–	–	–	–	11,361	–
Other (including Mission Related)	–	2,445	–	–	3,865	–	3,865	2,445
Total	$ 242,817	$ 168,948	$ 19,251	$ 110,559	$ 7,891	$ –	$ 269,959	$ 279,507

	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	$ 13,442	$ 97,757	$ –	$ 23,217	$ –	$ –	$ 13,442	$ 120,974
Production and intermediate-term	57,369	9,922	4,938	–	14	–	62,321	9,922
Loans to cooperatives	28,961	–	–	–	–	–	28,961	–
Processing and marketing	75,768	21,781	5,429	72,863	–	–	81,197	94,644
Farm-related business	2,521	19,586	3,346	2,019	23	–	5,890	21,605
Communication	33,849	–	–	–	–	–	33,849	–
Power and water/waste disposal	17,082	–	–	–	–	–	17,082	–
International	10,000	–	–	–	–	–	10,000	–
Other (including Mission Related)	–	2,807	–	–	4,023	–	4,023	2,807
Total	$ 238,992	$ 151,853	$ 13,713	$ 98,099	$ 4,060	$ –	$ 256,765	$ 249,952

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, 2018			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 35,994	$ 128,499	$ 516,870	$ 681,363
Production and intermediate term	56,170	116,372	22,971	195,513
Loans to cooperatives	–	22,971	6,988	29,959
Processing and marketing	6,053	53,220	40,816	100,089
Farm-related business	5,532	18,691	19,475	43,698
Communication	–	29,502	7,001	36,503
Power and water/waste disposal	–	6,244	12,687	18,931
Rural residential real estate	181	640	8,381	9,202
International	–	11,340	–	11,340
Other (including Mission Related)	–	3,512	2,854	6,366
Total loans	$ 103,930	$ 390,991	$ 638,043	$ 1,132,964
Percentage	9.17%	34.51%	56.32%	100.00%

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

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

	September 30, 2018	December 31, 2017
Real estate mortgage:		
Acceptable	92.92%	93.74%
OAEM	4.58	4.46
Substandard/doubtful/loss	2.50	1.80
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	87.62%	89.43%
OAEM	8.12	8.81
Substandard/doubtful/loss	4.26	1.76
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	99.42%	100.00%
OAEM	0.58	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	91.79%	99.31%
OAEM	7.65	0.15
Substandard/doubtful/loss	0.56	0.54
	100.00%	100.00%

	September 30, 2018	December 31, 2017
Communication:		
Acceptable	89.34%	100.00%
OAEM	10.66	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Power and water/waste disposal:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	96.89%	97.01%
OAEM	0.12	0.19
Substandard/doubtful/loss	2.99	2.80
	100.00%	100.00%
International:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Other (including Mission Related)		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	92.87%	94.13%
OAEM	4.85	4.41
Substandard/doubtful/loss	2.28	1.46
	100.00%	100.00%

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

	September 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
Real estate mortgage	$ 1,722	$ 1,659	$ 3,381	$ 682,792	$ 686,173
Production and intermediate-term	6,916	294	7,210	189,379	196,589
Loans to cooperatives	–	–	–	30,063	30,063
Processing and marketing	–	–	–	100,351	100,351
Farm-related business	–	–	–	43,847	43,847
Communication	–	–	–	36,518	36,518
Power and water/waste disposal	–	–	–	18,944	18,944
Rural residential real estate	130	38	168	9,078	9,246
International	–	–	–	11,396	11,396
Other (including Mission Related)	–	–	–	6,402	6,402
Total	$ 8,768	$ 1,991	$ 10,759	$ 1,128,770	$ 1,139,529

	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
Real estate mortgage	$ 2,116	$ 513	$ 2,629	$ 667,544	$ 670,173
Production and intermediate-term	2,371	3,598	5,969	222,590	228,559
Loans to cooperatives	–	–	–	28,957	28,957
Processing and marketing	–	–	–	86,460	86,460
Farm-related business	–	–	–	45,594	45,594
Communication	–	–	–	33,758	33,758
Power and water/waste disposal	–	–	–	17,039	17,039
Rural residential real estate	154	24	178	8,943	9,121
International	–	–	–	10,014	10,014
Other (including Mission Related)	–	–	–	6,681	6,681
Total	$ 4,641	$ 4,135	$ 8,776	$ 1,127,580	$ 1,136,356

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

	September 30, 2018	December 31, 2017
Nonaccrual loans:		
Real estate mortgage	$ 6,091	$ 5,481
Production and intermediate-term	6,952	5,517
Farm-related business	247	247
Rural residential real estate	205	178
Total	$ 13,495	$ 11,423
Accruing restructured loans:		
Real estate mortgage	$ 1,111	$ 773
Production and intermediate-term	207	256
Total	$ 1,318	$ 1,029
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 14,813	$ 12,452
Other property owned	74	95
Total nonperforming assets	$ 14,887	$ 12,547
Nonaccrual loans as a percentage of total loans	1.19%	1.01%
Nonperforming assets as a percentage of total loans and other property owned	1.31%	1.11%
Nonperforming assets as a percentage of capital	5.57%	4.97%

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, 2018	December 31, 2017
Impaired nonaccrual loans:		
Current as to principal and interest	$ 3,963	$ 4,698
Past due	9,532	6,725
Total	$ 13,495	$ 11,423
Impaired accrual loans:		
Restructured	$ 1,318	$ 1,029
90 days or more past due	–	–
Total	$ 1,318	$ 1,029
Total impaired loans	$ 14,813	$ 12,452
Additional commitments to lend	$ 1	$ –

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

	September 30, 2018			Three Months Ended September 30, 2018		Nine Months Ended September 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	$ 51	$ 65	$ 9	$ 41	$ 6	$ 39	$ 8
Production and intermediate-term	6,497	7,786	2,203	5,270	738	5,032	964
Farm-related business	–	–	–	–	–	–	–
Rural residential real estate	–	–	–	–	–	–	–
Total	$ 6,548	$ 7,851	$ 2,212	$ 5,311	$ 744	$ 5,071	$ 972
With no related allowance for credit losses:							
Real estate mortgage	$ 7,151	$ 12,641	$ –	$ 5,801	$ 813	$ 5,539	$ 1,061
Production and intermediate-term	662	4,554	–	536	75	512	98
Farm-related business	247	299	–	200	28	191	37
Rural residential real estate	205	513	–	166	23	159	30
Total	$ 8,265	$ 18,007	$ –	$ 6,703	$ 939	$ 6,401	$ 1,226
Total:							
Real estate mortgage	$ 7,202	$ 12,706	$ 9	$ 5,842	$ 819	$ 5,578	$ 1,069
Production and intermediate-term	7,159	12,340	2,203	5,806	813	5,544	1,062
Farm-related business	247	299	–	200	28	191	37
Rural residential real estate	205	513	–	166	23	159	30
Total	$ 14,813	$ 25,858	$ 2,212	$ 12,014	$ 1,683	$ 11,472	$ 2,198

Impaired loans:	December 31, 2017 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2017 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 236	$ 334	$ 187	$ 252	$ 33
Production and intermediate-term	1,800	3,000	200	1,923	251
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 2,036	$ 3,334	$ 387	$ 2,175	$ 284
With no related allowance for credit losses:					
Real estate mortgage	$ 6,018	$ 11,957	$ –	$ 6,430	$ 840
Production and intermediate-term	3,973	11,028	–	4,245	554
Farm-related business	247	304	–	264	34
Rural residential real estate	178	404	–	190	25
Total	$ 10,416	$ 23,693	$ –	$ 11,129	$ 1,453
Total:					
Real estate mortgage	$ 6,254	$ 12,291	$ 187	$ 6,682	$ 873
Production and intermediate-term	5,773	14,028	200	6,168	805
Farm-related business	247	304	–	264	34
Rural residential real estate	178	404	–	190	25
Total	$ 12,452	$ 27,027	$ 387	$ 13,304	$ 1,737

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	Other (including Mission Related)	Total
Activity related to the allowance for credit losses:									
Balance at June 30, 2018	$ 3,725	$ 3,485	$ 724	$ 140	$ 52	$ 86	$ 7	$ 1	$ 8,220
Charge-offs	(42)	(1,288)	–	–	–	–	–	–	(1,330)
Recoveries	67	1,476	–	–	–	5	–	–	1,548
Provision for loan losses	673	619	178	(2)	16	(8)	–	–	1,476
Balance at September 30,	$ 4,423	$ 4,292	$ 902	$ 138	$ 68	$ 83	$ 7	$ 1	$ 9,914
Balance at December 31, 2017	$ 4,258	$ 2,400	$ 831	$ 129	$ 44	$ 102	$ 9	$ 1	$ 7,774
Charge-offs	(43)	(1,475)	–	–	–	–	–	–	(1,518)
Recoveries	195	1,501	–	–	–	5	–	–	1,701
Provision for loan losses	13	1,866	71	9	24	(24)	(2)	–	1,957
Balance at September 30,	$ 4,423	$ 4,292	$ 902	$ 138	$ 68	$ 83	$ 7	$ 1	$ 9,914
Balance at June 30, 2017	$ 4,165	$ 2,019	$ 754	$ 142	$ 16	$ 100	$ 9	$ 1	$ 7,206
Charge-offs	–	(72)	–	–	–	–	–	–	(72)
Recoveries	735	8	–	–	–	–	–	–	743
Provision for loan losses	(472)	771	79	8	5	5	1	–	397
Balance at September 30,	$ 4,428	$ 2,726	$ 833	$ 150	$ 21	$ 105	$ 10	$ 1	$ 8,274
Balance at December 31, 2016	$ 3,774	$ 1,884	$ 659	$ 121	$ 33	$ 81	$ 8	$ –	$ 6,560
Charge-offs	–	(231)	–	–	–	–	–	–	(231)
Recoveries	2,232	90	1	–	–	–	–	–	2,323
Provision for loan losses	(1,578)	983	173	29	(12)	24	2	1	(378)
Balance at September 30,	$ 4,428	$ 2,726	$ 833	$ 150	$ 21	$ 105	$ 10	$ 1	$ 8,274
Allowance on loans evaluated for impairment:									
Individually	$ 9	$ 2,203	$ –	$ –	$ –	$ –	$ –	$ –	$ 2,212
Collectively	4,414	2,089	902	138	68	83	7	1	7,702
PCI**	–	–	–	–	–	–	–	–	–
Balance at September 30,	$ 4,423	$ 4,292	$ 902	$ 138	$ 68	$ 83	$ 7	$ 1	$ 9,914
Individually	$ 187	$ 200	$ –	$ –	$ –	$ –	$ –	$ –	$ 387
Collectively	4,071	2,200	831	129	44	102	9	1	7,387
PCI**	–	–	–	–	–	–	–	–	–
Balance at December 31, 2017	$ 4,258	$ 2,400	$ 831	$ 129	$ 44	$ 102	$ 9	$ 1	$ 7,774
Recorded investment in loans evaluated for impairment:									
Individually	$ 6,741	$ 7,166	$ 247	$ –	$ –	$ 205	$ –	$ –	$ 14,359
Collectively	677,358	189,430	174,014	36,518	18,944	9,041	11,396	6,402	1,123,103
PCI**	2,074	(7)	–	–	–	–	–	–	2,067
Balance at September 30,	$ 686,173	$ 196,589	$ 174,261	$ 36,518	$ 18,944	$ 9,246	$ 11,396	$ 6,402	$ 1,139,529
Individually	$ 5,724	$ 6,108	$ 247	$ –	$ –	$ 178	$ –	$ –	$ 12,257
Collectively	662,243	222,787	160,764	33,758	17,039	8,943	10,014	6,681	1,122,229
PCI**	2,206	(336)	–	–	–	–	–	–	1,870
Balance at December 31, 2017	$ 670,173	$ 228,559	$ 161,011	$ 33,758	$ 17,039	$ 9,121	$ 10,014	$ 6,681	$ 1,136,356

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

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, 2017. The tables do not include purchased credit impaired loans.

	Three Months Ended September 30, 2018				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 172	$ 356	$ –	$ 528	
Production and intermediate-term	–	–	3	3	
Total	$ 172	$ 356	$ 3	$ 531	
Post-modification:					
Real estate mortgage	$ 173	$ 360	$ –	$ 533	$ –
Production and intermediate-term	–	–	4	4	–
Total	$ 173	$ 360	$ 4	$ 537	$ –

	Nine Months Ended September 30, 2018				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 172	$ 425	$ –	$ 597	
Production and intermediate-term	–	–	3	3	
Total	$ 172	$ 425	$ 3	$ 600	
Post-modification:					
Real estate mortgage	$ 173	$ 432	$ –	$ 605	$ –
Production and intermediate-term	–	–	4	4	–
Total	$ 173	$ 432	$ 4	$ 609	$ –

	Nine Months Ended September 30, 2017				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 45	$ –	$ 45	
Production and intermediate-term	–	67	–	67	
Total	$ –	$ 112	$ –	$ 112	
Post-modification:					
Real estate mortgage	$ –	$ 56	$ –	$ 56	$ –
Production and intermediate-term	–	68	–	68	–
Total	$ –	$ 124	$ –	$ 124	$ –

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.

The following table presents outstanding recorded investment for 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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
Defaulted troubled debt restructurings:	**2018**	**2017**	**2018**	**2017**
Production and intermediate-term	$ –	$ 67	$ –	$ 3,331
Total	$ –	$ 67	$ –	$ 3,331

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, 2018	**December 31, 2017**	**September 30, 2018**	**December 31, 2017**
Real estate mortgage	$ 3,184	$ 3,421	$ 2,073	$ 2,648
Production and intermediate-term	88	3,370	(119)	3,114
Farm-related business	247	247	247	247
Total loans	$ 3,519	$ 7,038	$ 2,201	$ 6,009
Additional commitments to lend	$ –	$ –		

The following table presents information as of period end:

	September 30, 2018
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	$ 32
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ 243

Purchased Credit Impaired (PCI) Loans

For further discussion of the Association's accounting for PCI loans, see Note 2, *Summary of Significant Accounting Policies*, from the Association's most recent Annual Report.

The carrying amounts of loans acquired in a 2011 business combination included in the balance sheet amounts of loans receivable at period end were as follows:

	September 30, 2018
Real estate mortgage	$ 2,074
Production and intermediate-term	(7)
Total loans	$ 2,067

There was no allowance for loan losses related to these loans at September 30, 2018 or December 31, 2017. During the three and nine months ended September 30, 2018, provision for loan losses on these loans was an expense reversal of $1,493 and $1,525, respectively, compared with an expense reversal of $16 and $50 for the same periods in 2017. See above for a summary of changes in the total allowance for loan losses for the period ended September 30, 2018. There were no loans acquired during 2018 or 2017 for which it was probable at acquisition that all contractually required payments would not be collected.

Certain of the loans acquired by the Association in the 2011 business combination that were within the scope of PCI loan guidance are accounted for using a cash basis method of income recognition because the Association cannot reasonably estimate cash flows expected to be collected. Substantially all of the loans acquired were real estate collateral dependent loans. The real estate market in Florida was extremely unstable, making the estimation of the amount and timing of a sale of loan collateral in essentially the same condition as received upon foreclosure indeterminate. As such, the Association did not have the information necessary to reasonably estimate cash flows expected to be collected to compute a yield.

Note 3 — Investments

Investments in Debt Securities

The Association's investments consist primarily of asset-backed securities (ABSs). These ABSs are issued through the Small Business Administration and are guaranteed by the full faith and credit of the United States government. They are held for managing short-term surplus funds and reducing interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to the FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have different eligibility requirements. At September 30, 2018, the Association held one RAB totaling $112 whose credit quality had deteriorated beyond the program limits.

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

	September 30, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 2,526	$ 297	$ –	$ 2,823	5.76%
ABSs	2,028	4	(57)	1,975	1.60
Total	$ 4,554	$ 301	$ (57)	$ 4,798	3.91%

	December 31, 2017				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 2,533	$ 424	$ –	$ 2,957	5.50%
ABSs	2,934	15	(53)	2,896	0.85
Total	$ 5,467	$ 439	$ (53)	$ 5,853	3.00%

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

	September 30, 2018		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ 1,026	$ 1,021	3.66%
After one year through five years	85	79	-1.11
After five years through ten years	799	773	2.03
After ten years	2,644	2,925	4.73
Total	$ 4,554	$ 4,798	3.91%

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

An investment is considered impaired if its fair value is less than its cost. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	September 30, 2018			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	$ 489	$ (8)	$ 1,217	$ (49)

	December 31, 2017			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	$ 399	$ (1)	$ 1,602	$ (52)

The recording of an impairment is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others: (1) the length of time and the extent to which the fair value is less than cost, (2) adverse conditions specifically related to the industry, (3) geographic area and the condition of the underlying collateral, (4) payment structure of the security, (5) ratings by rating agencies, (6) the credit worthiness of bond insurers, and (7) volatility of the fair value changes.

The Association uses the present value of cash flows expected to be collected from each debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, amount and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics, and collateral type.

Significant inputs used to estimate the amount of credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The Association may obtain assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party, or generate the assumptions internally.

The Association has not recognized any credit losses as any impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

A substantial portion of these investments were in U. S. government agency securities and the Association expects these securities would not be settled at a price less than their amortized cost. All securities continue to perform at period end.

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

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 4.38 percent of the issued stock of the Bank as of September 30, 2018 net of any reciprocal investment. As of that date, the Bank's assets totaled $32.7 billion and shareholders' equity totaled $2.4 billion. The Bank's earnings were $227 million for the first nine months of 2018. In addition, the Association held investments of $2,225 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 and 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,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Employee Benefit Plans:				
Balance at beginning of period	$ (233)	$ (208)	$ (238)	$ (212)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	3	2	8	6
Net current period other comprehensive income	3	2	8	6
Balance at end of period	$ (230)	$ (206)	$ (230)	$ (206)

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

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2018	**2017**	**2018**	**2017**	**Income Statement Line Item**
Defined Benefit Pension Plans:					
Periodic pension costs	$ (3)	$ (2)	$ (8)	$ (6)	See Note 7.
Net amounts reclassified	$ (3)	$ (2)	$ (8)	$ (6)	

(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, 2018				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 627	$ 627	$ –	$ –	$ 627
Recurring Assets	$ 627	$ 627	$ –	$ –	$ 627
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 4,336	$ –	$ –	$ 4,336	$ 4,336
Other property owned	74	–	–	82	82
Nonrecurring Assets	$ 4,410	$ –	$ –	$ 4,418	$ 4,418
Other Financial Instruments					
Assets:					
Cash	$ 106	$ 106	$ –	$ –	$ 106
RABs	2,526	–	–	2,823	2,823
ABSs	2,028	–	1,975	–	1,975
Loans	1,118,714	–	–	1,105,216	1,105,216
Other Financial Assets	$ 1,123,374	$ 106	$ 1,975	$ 1,108,039	$ 1,110,120
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 882,672	$ –	$ –	$ 872,408	$ 872,408
Other Financial Liabilities	$ 882,672	$ –	$ –	$ 872,408	$ 872,408

	December 31, 2017				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 740	$ 740	$ –	$ –	$ 740
Recurring Assets	$ 740	$ 740	$ –	$ –	$ 740
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 1,649	$ –	$ –	$ 1,649	$ 1,649
Other property owned	95	–	–	103	103
Nonrecurring Assets	$ 1,744	$ –	$ –	$ 1,752	$ 1,752
Other Financial Instruments					
Assets:					
Cash	$ 211	$ 211	$ –	$ –	$ 211
RABs	2,533	–	–	2,957	2,957
ABSs	2,934	–	2,896	–	2,896
Loans	1,121,589	–	–	1,120,461	1,120,461
Other Financial Assets	$ 1,127,267	$ 211	$ 2,896	$ 1,123,418	$ 1,126,525
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 894,913	$ –	$ –	$ 891,906	$ 891,906
Other Financial Liabilities	$ 894,913	$ –	$ –	$ 891,906	$ 891,906

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

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

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

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

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 4,418	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
RABs	Discounted cash flow	Prepayment rates
		Risk adjusted discount rate
ABSs	Vendor priced	**
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity

*** The inputs used to estimate fair value for assets and liabilities that are obtained from third party vendors are not included in the table as the specific inputs applied are not provided by the vendor.*

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,	
	2018	2017	2018	2017
Pension	$ 726	$ 559	$ 2,177	$ 1,676
401(k)	192	167	566	523
Other postretirement benefits	68	70	230	234
Total	$ 986	$ 796	$ 2,973	$ 2,433

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

	Actual YTD Through 9/30/18	Projected Contributions For Remainder of 2018	Projected Total Contributions 2018
Pension	$ 32	$ 2,880	$ 2,912
Other postretirement benefits	230	77	307
Total	$ 262	$ 2,957	$ 3,219

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 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. At September 30, 2018, the Association had recognized an estimated contingent liability of $230 for certain pending claims where a loss is both probable and estimable.

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:

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Revenue recognized from contracts with customers:		
At a point in time	$ 93	$ 296
Over time	90	1,216
Total	$ 183	$ 1,512

Note 10 — Subsequent Events

The Association evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through November 8, 2018, which was the date the financial statements were issued.

On October 15, 2018, AgFirst's Board of Directors indicated an intention to declare, in December 2018, a special patronage distribution. The Association will receive between approximately $5,686 and $6,720 which will be recorded as patronage refunds from other Farm Credit institutions.