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*River Valley AgCredit, ACA*

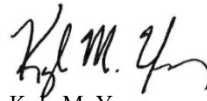
# SECOND QUARTER 2019

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## CERTIFICATION

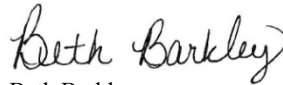
The undersigned certify that we have reviewed the June 30, 2019 quarterly report of River Valley AgCredit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Kyle M. Yancey  
Chief Executive Officer  
of River Valley AgCredit, ACA



David L. Richesin  
Chairman of the Board  
of River Valley AgCredit, ACA



Beth Barkley  
Chief Financial Officer  
of River Valley AgCredit, ACA



Darren L. Grogan  
Member of the Board of Directors  
Chairman of the Audit Committee  
of River Valley AgCredit, ACA

August 8, 2019

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*River Valley AgCredit, ACA*

# Report on Internal Control Over Financial Reporting

The Association’s principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association’s Consolidated Financial Statements. For purposes of this report, “internal control over financial reporting” is defined as a process designed by, or under the supervision of the Association’s principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

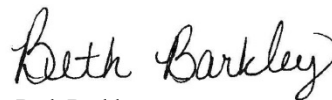
Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association’s assets that could have a material effect on its Consolidated Financial Statements.

The Association’s management has completed an assessment of the effectiveness of internal control over financial reporting as of June 30, 2019. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the “COSO” criteria.

Based on the assessment performed, the Association’s management concluded that as of June 30, 2019, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association’s management determined that there were no material weaknesses in the internal control over financial reporting as of June 30, 2019.



Kyle M. Yancey  
Chief Executive Officer  
of River Valley AgCredit, ACA



Beth Barkley  
Chief Financial Officer  
of River Valley AgCredit, ACA

August 8, 2019

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

*(dollars in thousands)*

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

## LOAN PORTFOLIO

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

The gross loan volume of the Association as of June 30, 2019, was \$517,326 as compared to \$540,945 at December 31, 2018, a decrease of \$23,619. Net loans outstanding at June 30, 2019, were \$511,173 as compared to \$534,211 at December 31, 2018. Net loans accounted for 95.43 percent of total assets at June 30, 2019, as compared to 94.83 percent of total assets at December 31, 2018. The decrease in gross and net loan volume during the reporting period is primarily attributable to the seasonal paydowns on operating loans.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans increased from \$4,993 at December 31, 2018, to \$10,171 at June 30, 2019. This increase is primarily the result of economic conditions in the grain portfolio.

Other property owned (OPO) consists primarily of assets once held as loan collateral that were acquired through foreclosure or deeded to the Association (or a lender group) in satisfaction of secured loans. Traditionally, OPO is primarily in the form of real estate. However, it can also include equipment and equity interests in companies or partnerships. OPO totaled \$309 at June 30, 2019, compared to \$356 December 31, 2018.

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 June 30, 2019, was \$6,153 compared to \$6,734 at December 31, 2018, and was considered by management to be adequate to cover probable losses. The decrease in allowance is due to recoveries on loans charged-off and a decrease in qualitative factors due to positive changes in the commodities market.

## RESULTS OF OPERATIONS

### *For the three months ended June 30, 2019*

Net income for the three months ended June 30, 2019, totaled \$3,003 as compared to \$1,621 for the same period in 2018, an increase of \$1,382. Net interest income increased \$218 for the three months ended June 30, 2019, as compared to the same period in 2018. This increase is attributed primarily to the Association's concerted effort to effectively manage interest rates.

Noninterest income for the three months ended June 30, 2019, totaled \$1,124 as compared to \$1,025 for the same period in 2018, an increase of \$99. This is attributed to increases of \$66 in patronage refunds from other farm credit institutions, \$40 in gains on sales of premises and equipment, \$10 in gains on other transactions, and \$3 in fee income. These were offset by decreases of \$18 in gains on sale of rural home loans in Farm Credit System and \$2 in financially related services.

Noninterest expense for the three months ended June 30, 2019, totaled \$2,371 as compared to \$2,556 for the same period in 2018, a decrease of \$185. This decrease in expense is attributed to a \$183 decrease in salary and employee benefits, \$27 in other operating expenses, and \$14 decrease in gain on OPO. These were offset by an \$8 increase in occupancy and equipment and \$3 increase in insurance premiums.

### *For the six months ended June 30, 2019*

Net income for the six months ended June 30, 2019, totaled \$5,451, as compared to \$4,106 for the same period in 2018. Net interest income increased \$426 for the six months ended June 30, 2019, as compared to the same period in 2018. This increase in net interest income is attributed primarily to an increase in loan volume year over year. Nonaccrual income was \$118 for the six months ended June 30, 2019, as compared to \$37 for the same

period in 2018. This increase is mainly the result of normal nonaccrual loan collections.

Noninterest income for the six months ended June 30, 2019, totaled \$2,348, as compared to \$2,878 for the same period of 2018, a decrease of \$530. The decrease is primarily the result of decreases of \$689 in Farm Credit System Insurance Corporation Refund and \$14 in loan fess. These were offset by increases of \$84 in patronage refund, \$28 in gains on sales of premises and equipment, and \$28 in financially related service fees, \$23 in sale of rural home loans, and \$10 in gains on other transactions.

Noninterest expense for the six months ended June 30, 2019, decreased \$326 compared to the same period of 2018. The primary reason for the decrease is a reduction in the cost of employee benefits.

For the six months ending June 30, 2019, the Association recorded \$158 of insurance premiums as compared to \$150 in 2018, from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. The amount is reflected in Noninterest Expenses on the Consolidated Statements of Income.

The Association recorded a reversal of provision for loan losses of \$655 for the six months ended June 30, 2019, as compared to a provision of \$492 for the same period in 2018. The reversal of provision for loan loss is attributed to recoveries of charge-offs and a decrease in the general reserves needed.

## 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. The Bank advances funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at June 30, 2019, was \$424,552 compared to \$451,508 at December 31, 2018.

## CAPITAL RESOURCES

Total members' equity at June 30, 2019, increased to \$100,424 from the December 31, 2018, total of \$98,029. The increase is primarily attributed to year to date income. Total capital stock and participation certificates were \$4,510 on June 30, 2019, compared to \$4,478 on December 31, 2018.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk adjusted asset base. Risk adjusted assets are the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded minimum regulatory standards for all the ratios.

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

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of June 30, 2019
Risk-adjusted ratios:				
CET1 Capital	4.5%	1.875%	6.375%	17.76%
Tier 1 Capital	6.0%	1.875%	7.875%	17.76%
Total Capital	8.0%	1.875%	9.875%	19.30%
Permanent Capital Ratio	7.0%	0.0%	7.0%	19.83%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	16.01%
UREE Leverage Ratio	1.5%	0.0%	1.5%	15.72%

\* - The capital conservation buffers have a 3 year phase-in period and will become fully effective January 1, 2020.

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

## REGULATORY MATTERS

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

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
<b><i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i></b>	
<ul style="list-style-type: none"> <li>• 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.</li> <li>• Changes the present incurred loss impairment guidance for loans to an expected loss model.</li> <li>• 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.</li> <li>• Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets.</li> <li>• Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.</li> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation efforts have begun by establishing a cross-discipline governance structure. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance.</li> <li>• The new guidance is expected to result in an increase in allowance for credit losses due to several factors, including:               <ol style="list-style-type: none"> <li>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,</li> <li>2. An allowance will be established for estimated credit losses on any debt securities,</li> <li>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.</li> </ol> </li> <li>• The extent of the increase is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts at the adoption date.</li> <li>• The guidance is expected to be adopted in first quarter 2021.</li> </ul>

**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](http://www.agfirst.com). Copies of the Association’s annual and quarterly reports are also available upon request free of charge by calling (270) 247-5613, writing Beth Barkley, Chief Financial Officer, River Valley AgCredit, ACA, P.O. Box 309, Mayfield, KY 42066, or accessing the website, [www.rivervalleyagcredit.com](http://www.rivervalleyagcredit.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.

# River Valley AgCredit, ACA

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2019 <i>(unaudited)</i>	December 31, 2018 <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 2,144	\$ 1,084
Loans	517,326	540,945
Allowance for loan losses	<u>(6,153)</u>	<u>(6,734)</u>
Net loans	511,173	534,211
Accrued interest receivable	8,218	8,460
Equity investments in other Farm Credit institutions	6,175	6,175
Premises and equipment, net	5,655	5,708
Other property owned	309	356
Accounts receivable	1,777	6,907
Other assets	<u>188</u>	<u>462</u>
Total assets	<u>\$ 535,639</u>	<u>\$ 563,363</u>
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 424,552	\$ 451,508
Accrued interest payable	1,191	1,255
Patronage refunds payable	551	3,743
Accounts payable	421	480
Advanced conditional payments	3,122	2,234
Other liabilities	<u>5,378</u>	<u>6,114</u>
Total liabilities	<u>435,215</u>	<u>465,334</u>
Commitments and contingencies (Note 7)		
<b>Members' Equity</b>		
Capital stock and participation certificates	4,510	4,478
Additional paid-in-capital	15,817	15,817
Retained earnings		
Allocated	40,982	43,889
Unallocated	<u>39,115</u>	<u>33,845</u>
Total members' equity	<u>100,424</u>	<u>98,029</u>
Total liabilities and members' equity	<u>\$ 535,639</u>	<u>\$ 563,363</u>

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

**River Valley AgCredit, ACA**  
**Consolidated Statements of**  
**Comprehensive Income**

*(unaudited)*

<i>(dollars in thousands)</i>	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
<b>Interest Income</b>				
Loans	\$ 7,280	\$ 6,534	\$ 14,611	\$ 12,958
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	3,615	3,081	7,242	6,013
Other	14	20	30	32
Total interest expense	3,629	3,101	7,272	6,045
Net interest income	3,651	3,433	7,339	6,913
Provision for (reversal of allowance for) loan losses	(623)	281	(655)	492
Net interest income after provision for (reversal of allowance for) loan losses	4,274	3,152	7,994	6,421
<b>Noninterest Income</b>				
Loan fees	162	159	308	322
Fees for financially related services	2	4	76	48
Patronage refunds from other Farm Credit institutions	831	765	1,636	1,552
Gains (losses) on sales of rural home loans, net	79	97	180	157
Gains (losses) on sales of premises and equipment, net	39	(1)	39	11
Gains (losses) on other transactions	10	—	10	—
Insurance Fund refunds	—	—	97	786
Other noninterest income	1	1	2	2
Total noninterest income	1,124	1,025	2,348	2,878
<b>Noninterest Expense</b>				
Salaries and employee benefits	1,678	1,861	3,355	3,763
Occupancy and equipment	145	137	312	287
Insurance Fund premiums	78	75	158	150
(Gains) losses on other property owned, net	—	(14)	(2)	(31)
Other operating expenses	470	497	1,072	1,052
Total noninterest expense	2,371	2,556	4,895	5,221
Income before income taxes	3,027	1,621	5,447	4,078
Provision (benefit) for income taxes	24	—	(4)	(28)
Net income	3,003	1,621	5,451	4,106
Other comprehensive income	—	—	—	—
Comprehensive income	\$ 3,003	\$ 1,621	\$ 5,451	\$ 4,106

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

River Valley AgCredit, ACA

# Consolidated Statements of Changes in Members' Equity

*(unaudited)*

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Retained Earnings		Total Members' Equity
			Allocated	Unallocated	
Balance at December 31, 2017	\$ 4,428	\$ 15,817	\$ 42,830	\$ 32,468	\$ 95,543
Comprehensive income				4,106	4,106
Capital stock/participation certificates issued/(retired), net	(12)				(12)
Retained earnings retired			(3,059)		(3,059)
Patronage distribution adjustment			(1,767)		(1,767)
Balance at June 30, 2018	\$ 4,416	\$ 15,817	\$ 38,004	\$ 36,574	\$ 94,811
<b>Balance at December 31, 2018</b>	<b>\$ 4,478</b>	<b>\$ 15,817</b>	<b>\$ 43,889</b>	<b>\$ 33,845</b>	<b>\$ 98,029</b>
Comprehensive income				5,451	5,451
Capital stock/participation certificates issued/(retired), net	32				32
Retained earnings retired			(3,260)		(3,260)
Patronage distribution adjustment			353	(181)	172
Balance at June 30, 2019	\$ 4,510	\$ 15,817	\$ 40,982	\$ 39,115	\$ 100,424

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



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

### *Basis of Presentation*

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

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

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

### *Significant Accounting Policies*

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

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

other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 5, *Fair Value Measurement*). Actual results could differ from those estimates.

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

### *Accounting Standards Updates (ASUs) Issued During the Period*

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

- In May 2019, the FASB issued ASU 2019-05 Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief. The amendments in this Update provide entities with an option to irrevocably elect the fair value option applied on an instrument-by-instrument basis for certain financial assets upon the adoption of Topic 326. The fair value option election does not apply to held-to-maturity debt securities. For entities that have not yet adopted the amendments in ASU 2016-13, the effective date and transition methodology for the amendments in this Update are the same as in that Update. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.
- In April 2019, the FASB issued ASU 2019-04 Codification Improvements to Topic 326 Financial Instruments—Credit Losses, Topic 815 Derivatives and Hedging, and Topic 825 Financial Instruments. The amendments in this Update clarify, correct, and improve various aspects of the guidance in the following Updates related to financial instruments: ASU 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities, ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and ASU 2017-12 Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The items addressed generally are not expected to have a significant effect on current accounting practice or to create a significant administrative cost for most entities. For entities that have not yet adopted the amendments in ASU 2016-13, the effective dates and transition requirements for the amendments related to this Update are the same as the effective dates and transition requirements in ASU 2016-13. The transition adjustment includes adjustments made as a result of an entity developing or amending its accounting

policy upon adoption of the amendments in this Update for determining when accrued interest receivables are deemed uncollectible and written off. For entities that have adopted the amendments in ASU 2017-12 as of the issuance date of this Update, the effective date is as of the beginning of the first annual period beginning after the issuance date of this Update. For those entities, early adoption is permitted, including adoption on any date on or after the issuance of this Update. The amendments in this Update related to ASU 2016-01 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim period following the issuance of this Update as long as the entity has adopted all of the amendments in ASU 2016-01. The amendments in this Update should be applied on a modified-retrospective transition basis by means of a cumulative-effect adjustment to the opening retained earnings balance in the statement of financial position as of the date an entity adopted all of the amendments in ASU 2016-01. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

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

#### ***ASUs Pending Effective Date***

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

Potential effects of ASUs issued in previous periods:

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

Update. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period, for all entities. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

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

fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 31, 2018. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

**Accounting Standards Effective During the Period**

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

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

- In March 2017, the FASB issued ASU 2017-08 Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The guidance relates to certain callable debt securities and shortens the amortization period for any premium to the earliest call date. The Update was effective for interim and annual periods beginning after December 15, 2018 for public business entities. Adoption of this guidance had no impact on the statements of financial condition and results of operations.
- In February 2016, the FASB issued ASU 2016-02 Leases (Topic 842). This Update, and subsequent clarifying guidance issued, requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. Lessor accounting activities are largely unchanged from existing lease accounting. The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification. The amendments were effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for public business entities.

Transition Information

- The guidance was adopted using the optional modified retrospective method and practical expedients for transition. Under this transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.
- The package of practical expedients was elected, which allowed existing leases to be largely accounted for consistent with current guidance, except for the incremental balance sheet recognition for lessees.
- There will not be a material change to the timing of future expense recognition.
- Upon adoption, a cumulative-effect adjustment to equity of less than \$1 was recorded. In addition, a Right of Use Asset in the amount of \$24 and Lease Liability in the amount of \$24 were recognized.
- Given the limited changes to lessor accounting, there were no material changes to recognition or measurement.

**Note 2 — Loans and Allowance for Loan Losses**

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

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

A summary of loans outstanding at period end follows:

	June 30, 2019	December 31, 2018
Real estate mortgage	\$ 247,317	\$ 248,651
Production and intermediate-term	199,809	216,125
Loans to cooperatives	357	296
Processing and marketing	2,856	2,568
Farm-related business	10,288	13,084
Rural residential real estate	13,675	13,910
Other (including Mission Related)	43,024	46,311
Total loans	<u>\$ 517,326</u>	<u>\$ 540,945</u>

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

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

June 30, 2019									
Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total			
Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 2,006	\$ -	\$ -	\$ -	\$ -	\$ 1,998	\$ -	\$ 2,006	\$ 1,998
Production and intermediate-term	1,589	2,531	4	-	-	1,745	-	1,593	4,276
Loans to cooperatives	359	-	-	-	-	-	-	359	-
Processing and marketing	2,093	-	-	-	-	-	-	2,093	-
Farm-related business	51	2,226	-	-	-	-	-	51	2,226
Other (including Mission Related)	-	-	-	-	41,070	-	-	41,070	-
Total	\$ 6,098	\$ 4,757	\$ 4	\$ -	\$ 41,070	\$ 3,743	\$ -	\$ 47,172	\$ 8,500

December 31, 2018									
Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total			
Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 1,290	\$ -	\$ -	\$ -	\$ -	\$ 1,853	\$ -	\$ 1,290	\$ 1,853
Production and intermediate-term	1,652	2,695	5	-	-	2,108	-	1,657	4,803
Loans to cooperatives	298	-	-	-	-	-	-	298	-
Processing and marketing	1,745	-	-	-	-	-	-	1,745	-
Farm-related business	322	2,226	-	-	-	-	-	322	2,226
Other (including Mission Related)	-	-	-	-	44,005	-	-	44,005	-
Total	\$ 5,307	\$ 4,921	\$ 5	\$ -	\$ 44,005	\$ 3,961	\$ -	\$ 49,317	\$ 8,882

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

June 30, 2019				
	Due Less Than 1 Year	Due 1 Through 5 Years	Due After 5 Years	Total
Real estate mortgage	\$ 1,004	\$ 19,303	\$ 227,010	\$ 247,317
Production and intermediate-term	77,954	76,692	45,163	199,809
Loans to cooperatives	-	357	-	357
Processing and marketing	-	2,186	670	2,856
Farm-related business	3,930	3,444	2,914	10,288
Rural residential real estate	326	901	12,448	13,675
Other (including Mission Related)	209	2,966	39,849	43,024
Total loans	\$ 83,423	\$ 105,849	\$ 328,054	\$ 517,326
Percentage	16.13%	20.46%	63.41%	100.00%

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

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

	June 30, 2019	December 31, 2018		June 30, 2019	December 31, 2018
<b>Real estate mortgage:</b>			<b>Farm-related business:</b>		
Acceptable	93.49%	91.46%	Acceptable	99.33%	95.34%
OAEM	4.23	4.34	OAEM	0.67	—
Substandard/doubtful/loss	2.28	4.20	Substandard/doubtful/loss	—	4.66
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Production and intermediate-term:</b>			<b>Rural residential real estate:</b>		
Acceptable	88.12%	86.70%	Acceptable	97.86%	97.64%
OAEM	3.07	4.24	OAEM	0.34	0.55
Substandard/doubtful/loss	8.81	9.06	Substandard/doubtful/loss	1.80	1.81
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Loans to cooperatives:</b>			<b>Other (including Mission Related):</b>		
Acceptable	100.00%	100.00%	Acceptable	100.00%	100.00%
OAEM	—	—	OAEM	—	—
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	—	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Processing and marketing:</b>			<b>Total loans:</b>		
Acceptable	100.00%	100.00%	Acceptable	92.22%	90.57%
OAEM	—	—	OAEM	3.23	3.71
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	4.55	5.72
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>

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

	June 30, 2019				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	\$ 706	\$ 2,845	\$ 3,551	\$ 247,697	\$ 251,248
Production and intermediate-term	7,331	496	7,827	195,722	203,549
Loans to cooperatives	—	—	—	357	357
Processing and marketing	—	—	—	2,864	2,864
Farm-related business	—	—	—	10,395	10,395
Rural residential real estate	104	49	153	13,586	13,739
Other (including Mission Related)	125	159	284	43,108	43,392
Total	\$ 8,266	\$ 3,549	\$ 11,815	\$ 513,729	\$ 525,544

	December 31, 2018				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	\$ 837	\$ 2,578	\$ 3,415	\$ 249,045	\$ 252,460
Production and intermediate-term	413	1,133	1,546	218,730	220,276
Loans to cooperatives	—	—	—	296	296
Processing and marketing	—	—	—	2,582	2,582
Farm-related business	328	615	943	12,246	13,189
Rural residential real estate	36	49	85	13,874	13,959
Other (including Mission Related)	—	—	—	46,643	46,643
Total	\$ 1,614	\$ 4,375	\$ 5,989	\$ 543,416	\$ 549,405

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

	June 30, 2019	December 31, 2018
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 3,019	\$ 3,137
Production and intermediate-term	7,103	1,192
Farm-related business	–	615
Rural residential real estate	49	49
Total	<u>\$ 10,171</u>	<u>\$ 4,993</u>
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 4,680	\$ 4,948
Production and intermediate-term	532	534
Rural residential real estate	56	62
Total	<u>\$ 5,268</u>	<u>\$ 5,544</u>
<b>Accruing loans 90 days or more past due:</b>		
Real estate mortgage	\$ –	\$ 13
Production and intermediate-term	24	–
Other (including Mission Related)	159	–
Total	<u>\$ 183</u>	<u>\$ 13</u>
Total nonperforming loans	\$ 15,622	\$ 10,550
Other property owned	309	356
Total nonperforming assets	<u>\$ 15,931</u>	<u>\$ 10,906</u>
Nonaccrual loans as a percentage of total loans	1.97%	0.92%
Nonperforming assets as a percentage of total loans and other property owned	3.08%	2.01%
Nonperforming assets as a percentage of capital	<u>15.86%</u>	<u>11.12%</u>

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

	June 30, 2019	December 31, 2018
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 67	\$ 120
Past due	10,104	4,873
Total	<u>\$ 10,171</u>	<u>\$ 4,993</u>
<b>Impaired accrual loans:</b>		
Restructured	\$ 5,268	\$ 5,544
90 days or more past due	183	13
Total	<u>\$ 5,451</u>	<u>\$ 5,557</u>
Total impaired loans	<u>\$ 15,622</u>	<u>\$ 10,550</u>
Additional commitments to lend	\$ 38	\$ 24

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

Impaired loans:	June 30, 2019			Three Months Ended June 30, 2019		Six Months Ended June 30, 2019	
	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
<b>With a related allowance for credit losses:</b>							
Real estate mortgage	\$ 8	\$ 29	\$ 13	\$ 7	\$ –	\$ 6	\$ –
Production and intermediate-term	314	527	192	286	2	251	3
Rural residential real estate	47	83	15	42	–	37	–
Other (including Mission Related)	–	–	–	–	–	–	–
Total	<u>\$ 369</u>	<u>\$ 639</u>	<u>\$ 220</u>	<u>\$ 335</u>	<u>\$ 2</u>	<u>\$ 294</u>	<u>\$ 3</u>
<b>With no related allowance for credit losses:</b>							
Real estate mortgage	\$ 7,691	\$ 7,782	\$ –	\$ 6,998	\$ 52	\$ 6,141	\$ 58
Production and intermediate-term	7,345	7,545	–	6,681	49	5,863	55
Rural residential real estate	58	81	–	53	1	47	1
Other (including Mission Related)	159	151	–	145	1	127	1
Total	<u>\$ 15,253</u>	<u>\$ 15,559</u>	<u>\$ –</u>	<u>\$ 13,877</u>	<u>\$ 103</u>	<u>\$ 12,178</u>	<u>\$ 115</u>
<b>Total impaired loans:</b>							
Real estate mortgage	\$ 7,699	\$ 7,811	\$ 13	\$ 7,005	\$ 52	\$ 6,147	\$ 58
Production and intermediate-term	7,659	8,072	192	6,967	51	6,114	58
Rural residential real estate	105	164	15	95	1	84	1
Other (including Mission Related)	159	151	–	145	1	127	1
Total	<u>\$ 15,622</u>	<u>\$ 16,198</u>	<u>\$ 220</u>	<u>\$ 14,212</u>	<u>\$ 105</u>	<u>\$ 12,472</u>	<u>\$ 118</u>

	December 31, 2018			Year Ended December 31, 2018	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>Impaired loans:</b>					
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 11	\$ 33	\$ 13	\$ 13	\$ –
Production and intermediate-term	323	535	192	370	3
Rural residential real estate	49	85	15	56	1
Total	\$ 383	\$ 653	\$ 220	\$ 439	\$ 4
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 8,087	\$ 8,206	\$ –	\$ 9,271	\$ 83
Production and intermediate-term	1,403	1,464	–	1,609	15
Farm-related business	615	1,639	–	705	6
Rural residential real estate	62	62	–	71	–
Total	\$ 10,167	\$ 11,371	\$ –	\$ 11,656	\$ 104
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 8,098	\$ 8,239	\$ 13	\$ 9,284	\$ 83
Production and intermediate-term	1,726	1,999	192	1,979	18
Farm-related business	615	1,639	–	705	6
Rural residential real estate	111	147	15	127	1
Total	\$ 10,550	\$ 12,024	\$ 220	\$ 12,095	\$ 108

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*	Rural Residential Real Estate	Other (including Mission Related)	Total
<b>Activity related to the allowance for credit losses:</b>						
Balance at March 31, 2019	\$ 927	\$ 3,894	\$ 1,825	\$ 88	\$ –	\$ 6,734
Charge-offs	–	–	–	(23)	–	(23)
Recoveries	–	6	59	–	–	65
Provision for loan losses	1,484	(408)	(1,726)	27	–	(623)
Balance at June 30, 2019	\$ 2,411	\$ 3,492	\$ 158	\$ 92	\$ –	\$ 6,153
Balance at December 31, 2018	\$ 927	\$ 3,894	\$ 1,825	\$ 88	\$ –	\$ 6,734
Charge-offs	–	(2)	–	(23)	–	(25)
Recoveries	–	40	59	–	–	99
Provision for loan losses	1,484	(440)	(1,726)	27	–	(655)
Balance at June 30, 2019	\$ 2,411	\$ 3,492	\$ 158	\$ 92	\$ –	\$ 6,153
Balance at March 31, 2018	\$ 2,453	\$ 3,421	\$ 145	\$ 113	\$ –	\$ 6,132
Charge-offs	–	(12)	–	–	–	(12)
Recoveries	20	7	–	35	–	62
Provision for loan losses	254	103	(44)	(32)	–	281
Balance at June 30, 2018	\$ 2,727	\$ 3,519	\$ 101	\$ 116	\$ –	\$ 6,463
Balance at December 31, 2017	\$ 2,446	\$ 3,812	\$ 145	\$ 113	\$ –	\$ 6,516
Charge-offs	(4)	(28)	(597)	–	–	(629)
Recoveries	24	21	–	39	–	84
Provision for loan losses	261	(286)	553	(36)	–	492
Balance at June 30, 2018	\$ 2,727	\$ 3,519	\$ 101	\$ 116	\$ –	\$ 6,463
<b>Allowance on loans evaluated for impairment:</b>						
Individually	\$ 13	\$ 192	\$ –	\$ 15	\$ –	\$ 220
Collectively	2,398	3,300	158	77	–	5,933
PCI**	–	–	–	–	–	–
Balance at June 30, 2019	\$ 2,411	\$ 3,492	\$ 158	\$ 92	\$ –	\$ 6,153
Individually	\$ 13	\$ 192	\$ –	\$ 15	\$ –	\$ 220
Collectively	914	3,702	1,825	73	–	6,514
PCI**	–	–	–	–	–	–
Balance at December 31, 2018	\$ 927	\$ 3,894	\$ 1,825	\$ 88	\$ –	\$ 6,734
<b>Recorded investment in loans evaluated for impairment:</b>						
Individually	\$ 7,699	\$ 7,659	\$ –	\$ 66	\$ 159	\$ 15,583
Collectively	243,549	195,890	13,616	13,632	43,233	509,920
PCI**	–	–	–	41	–	41
Balance at June 30, 2019	\$ 251,248	\$ 203,549	\$ 13,616	\$ 13,739	\$ 43,392	\$ 525,544
Individually	\$ 8,098	\$ 1,726	\$ 615	\$ 67	\$ –	\$ 10,506
Collectively	244,362	218,550	15,452	13,845	46,643	538,852
PCI**	–	–	–	47	–	47
Balance at December 31, 2018	\$ 252,460	\$ 220,276	\$ 16,067	\$ 13,959	\$ 46,643	\$ 549,405

\*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 table presents additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. There were no new TDRS that occurred during the three or six month periods ended June 30, 2019 or the three months ended June 30, 2018.

Outstanding Recorded Investment	Six Months Ended June 30, 2018					Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total		
<b>Pre-modification:</b>						
Real estate mortgage	\$ -	\$ 244	\$ -	\$ 244		
Production and intermediate-term	-	251	-	251		
Total	\$ -	\$ 495	\$ -	\$ 495		
<b>Post-modification:</b>						
Real estate mortgage	\$ -	\$ 255	\$ -	\$ 255	\$ -	
Production and intermediate-term	-	255	-	255	-	
Total	\$ -	\$ 510	\$ -	\$ 510	\$ -	

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.

Defaulted troubled debt restructurings:	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Production and intermediate-term	\$ 314	\$ -	\$ 314	\$ 447
Total	\$ 314	\$ -	\$ 314	\$ 447

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

	Total TDRs		Nonaccrual TDRs	
	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
Real estate mortgage	\$ 6,461	\$ 6,728	\$ 1,781	\$ 1,780
Production and intermediate-term	897	958	365	424
Rural residential real estate	56	62	-	-
Total loans	\$ 7,414	\$ 7,748	\$ 2,146	\$ 2,204
Additional commitments to lend	\$ -	\$ 24		

The following table presents information as of period end:

	June 30, 2019
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ -
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ 60

### 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 2012 business combination included in the balance sheet amounts of loans receivable at period end were as follows:

	June 30, 2019	December 31, 2018
Rural residential real estate	\$ 41	\$ 47
Total loans	\$ 41	\$ 47



There was no allowance for loan losses related to these loans at either June 30, 2019 or December 31, 2018. For the three and six months ended June 30, 2019, there was no provision for loan losses and an expense reversal of \$29, respectively, on these loans compared to an expense reversal of \$28 and \$24 for the three and six months ended June 30, 2018. See above for a summary of changes in the total allowance for loan losses for the period ended June 30, 2019. There were no other loans acquired during 2019 or 2018 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 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 is unpredictable, 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 does not have the information necessary to reasonably estimate cash flows expected to be collected to compute its yield. Management determined a nonaccrual classification would be the most appropriate and that no income would be recognized on these loans as is allowed under accounting guidance.

### **Note 3 — Investments**

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

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 2.12 percent of the issued stock of the Bank as of June 30, 2019 net of any reciprocal investment. As of that date, the Bank's assets totaled \$33.8 billion and shareholders' equity totaled \$2.5 billion. The Bank's earnings were \$131 million for the first six months of 2019. In addition, the Association held investments of \$431 related to other Farm Credit institutions.

### **Note 4 — Debt**

#### ***Notes Payable to AgFirst Farm Credit Bank***

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This

indebtedness is collateralized by a pledge of substantially all of the Association's assets. The contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

### **Note 5 — Fair Value Measurement**

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

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

The classifications of the Association's financial instruments 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.

		<b>June 30, 2019</b>				
		<b>Total Carrying Amount</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Recurring Assets		\$ —	\$ —	\$ —	\$ —	\$ —
<b>Liabilities:</b>						
Recurring Liabilities		\$ —	\$ —	\$ —	\$ —	\$ —
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans		\$ 149	\$ —	\$ —	\$ 149	\$ 149
Other property owned		309	—	—	350	350
Nonrecurring Assets		\$ 458	\$ —	\$ —	\$ 499	\$ 499
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash		\$ 2,144	\$ 2,144	\$ —	\$ —	\$ 2,144
Loans		511,024	—	—	507,401	507,401
Accrued interest receivable		8,218	—	8,218	—	8,218
Other Financial Assets		\$ 521,386	\$ 2,144	\$ 8,218	\$ 507,401	\$ 517,763
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank		\$ 424,552	\$ —	\$ —	\$ 424,707	\$ 424,707
Accrued interest payable		1,191	—	1,191	—	1,191
Other Financial Liabilities		\$ 425,743	\$ —	\$ 1,191	\$ 424,707	\$ 425,898

		<b>December 31, 2018</b>				
		<b>Total Carrying Amount</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Recurring Assets		\$ —	\$ —	\$ —	\$ —	\$ —
<b>Liabilities:</b>						
Recurring Liabilities		\$ —	\$ —	\$ —	\$ —	\$ —
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans		\$ 163	\$ —	\$ —	\$ 163	\$ 163
Other property owned		356	—	—	397	397
Nonrecurring Assets		\$ 519	\$ —	\$ —	\$ 560	\$ 560
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash		\$ 1,084	\$ 1,084	\$ —	\$ —	\$ 1,084
Loans		534,048	—	—	521,835	521,835
Accrued interest receivable		8,460	—	8,460	—	8,460
Other Financial Assets		\$ 543,592	\$ 1,084	\$ 8,460	\$ 521,835	\$ 531,379
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank		\$ 451,508	\$ —	\$ —	\$ 444,021	\$ 444,021
Accrued interest payable		1,255	—	1,255	—	1,255
Other Financial Liabilities		\$ 452,763	\$ —	\$ 1,255	\$ 444,021	\$ 445,276

## SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

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

### Inputs to Valuation Techniques

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

information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

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

#### Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 499	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*
			Collateral discounts	*

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

#### Information about Other Financial Instrument Fair Value Measurements

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

### Note 6 — Employee Benefit Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Pension	\$ 180	\$ 489	\$ 345	\$ 906
401(k)	75	70	151	166
Other postretirement benefits	39	33	72	67
Total	\$ 294	\$ 592	\$ 568	\$ 1,139

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

	Actual YTD Through 6/30/19	Projected Contributions For Remainder of 2019	Projected Total Contributions 2019
	Pension	\$ —	\$ 691
Other postretirement benefits	72	57	129
Total	\$ 72	\$ 748	\$ 820

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

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

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

### Note 7 — Commitments and Contingent Liabilities

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

### Note 8 — Subsequent Events

The Association evaluated subsequent events and determined there were none requiring disclosure through August 8, 2019, which was the date the financial statements were issued.