AgCredit Agricultural Credit Association

THIRD QUARTER 2019

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2019 quarterly report of AgCredit Agricultural Credit Association, 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.

Brian J. Ricker
Chief Executive Officer

Logan W. Kreais
Chief Financial Officer

Scott A. Schroeder
Chairman of the Board

November 8, 2019

AgCredit Agricultural Credit Association

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, to provide 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 and includes those policies and procedures that:

1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association,

2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and

3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

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

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

Brian J. Ricker

Brian J. Ricker
Chief Executive Officer

Logan W. Kreais

Logan W. Kreais
Chief Financial Officer

November 8, 2019

AgCredit Agricultural Credit Association

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

The following commentary reviews the financial condition and results of operations of AgCredit Agricultural Credit Association (Association) for the nine months ended September 30, 2019. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements, the Association's September 30, 2018 quarterly report and the 2018 Annual Report of the Association. The accompanying consolidated financial statements (financial statements) were prepared under the oversight of the Audit Committee of the Board of Directors, which includes David J. Conrad, David M. Stott, Ph.D., CPA and Michael A. Thiel. The results for the nine months of 2019 are not necessarily indicative of results to be expected for the year.

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 through numerous product types. The Association's loan portfolio consists predominantly of grains (primarily soybeans, corn and wheat), livestock and landlords which constitute 82 percent of the entire portfolio as of September 30, 2019. The Association recognizes the commodity concentration risk exceeds normally accepted industry standards. This risk, along with the risk associated with large loans, is reduced by members' off-farm income, utilization of crop insurance, and the use of FSA, USDA, Business and Industry, SBA and Farmer Mac loan guarantees. As of September 30, 2019, the Association had $502,800 of guaranteed loan volume, which is 26.11 percent of loans as compared to $499,014 of guaranteed volume or 25.96 percent of the portfolio at September 30, 2018. Loan guarantees reduce the potential of loss in the Association's loan portfolio and help to leverage the Association's capital.

Gross loan volume of the Association as of September 30, 2019 was $1,925,783 a decrease of $34,609 or 1.77 percent when compared to $1,960,392 at December 31, 2018. The decrease in loan volume primarily relates to seasonal and weather related decreases in production and intermediate term (IT) along with a decrease in rural residential real estate volume partially offset by an increase in real estate mortgage and processing and marketing volume.

From September 30, 2018 to September 30, 2019, volume increased by $3,770 or 0.20 percent. The increase in loan volume primarily relates to an increase in real estate mortgage, process and marketing and loans to cooperatives and other volume partially offset by a decrease in production and IT and rural residential real estate volume.

Net loans outstanding at September 30, 2019 were $1,913,815 as compared to $1,949,334 at December 31, 2018. Net loans accounted for 95.14 percent of total assets at September 30, 2019 as compared to 94.70 percent at December 31, 2018.

The following table summarizes the Association's risk assets (accruing volume includes accrued interest receivable):

	9/30/19	12/31/18
Nonaccrual loans	$ 15,929	$ 6,120
Accruing restructured loans	6,240	6,760
Accruing loans 90 days or more past due	3,336	–
Total high risk loans	25,505	12,880
Other property owned	–	–
Total high-risk assets	$ 25,505	$ 12,880
Ratios:		
Nonaccrual loans to total loans	0.83%	0.31%
High-risk assets to total assets	1.27%	0.63%

High risk assets increased during the first nine months of 2019 primarily as a result of increased nonaccrual and accruing loans 90 days or more past due. Nonaccrual loans increased primarily as a result of a couple large borrowers moving to nonaccrual status. High risk loans increased as result of the challenging agricultural environment.

There is an inherent risk in the extension of any type of credit, and accordingly, the Association maintains an allowance for loan losses consistent with the risk measured in the portfolio.

General portfolio credit quality showed some decline for the nine months of 2019 when compared to December 31, 2018, and remains at an acceptable level.

Credit administration is satisfactory.

During the first nine months of 2019 the Association recorded no charge-offs, recoveries of $144 and a provision for loan losses (provision) of $766. The provision is primarily a result of the increase in nonaccrual volume previously discussed. For the same period of 2018, the Association recorded charge-offs of $482, recoveries of $195 and reversal of allowance for loan losses of $1,460. The allowance for loan losses represented 0.62 percent and 0.56 percent of loans at September 30, 2019 and December 31, 2018, respectively.

RESULTS OF OPERATIONS

For the three months ending September 30, 2019

Net income for the three months ended September 30, 2019 (Q3 2019) was $10,371 a decrease of $704 or 6.36 percent when compared to the net income of $11,075 for the same period in 2018 (Q3 2018). Major changes in the components of net income when comparing Q3 2019 to Q3 2018 are identified as follows:

- Net interest income increased by $136 or 1.03 percent. The increase resulted primarily from earnings on increased loan volume and an increase in earnings on the Association's own funds in loans.

- Provision for loan losses (provision) increased by $776. In Q3 2019 specific reserves increased related to large members whose loans moved to nonaccrual status.

- Noninterest income increased by $143 or 3.88 percent for the following reasons:

  Patronage refund from other Farm Credit institutions (patronage refunds) increased by $25 as a result of higher AgFirst Farm Credit Bank general and participation sold patronage. The increase in the patronage relates to the higher loan volume previously discussed.

  Loan fees increased by $76 due to servicing and participation purchased fee income partially offset by a reduction of commitment fees.

  Financial related services increased by $49 due to increased crop insurance income partially offset by reduced appraisals.

  Lease income increased by $51 as a result of the change in lease accounting that took effect January 1, 2019.

  Gains (losses) on other transactions decreased $60 due to lower net gains on the Association's Rabi Trust and Mission Fund.

- Noninterest expense increased by $207 or 3.98 percent primarily due to:

  Salary and benefits expense increased by $41 or 1.18 percent due to increased expenses related to scheduled salary increases, additional employees and health insurance offset by reduced pension expense, bonuses and deferred origination costs and other benefits.

  Occupancy and equipment increased by $151 or 57.63 percent primarily due to the prior year including lease receipts that are included in lease income in the current year, maintenance and depreciation.

  Guarantee fees increased by $11 or 7.14 percent due to an increase in new loan guarantees.

  Other operating expenses decreased by $1 or 0.09 percent due to supervisory and examination, nonaccrual, director and data processing expenses. These increases were partially offset by lower expenses for training and purchased services.

For the nine months ending September 30, 2019

Net income for the nine months ended September 30, 2019 (YTD 2019) was $34,699 which is a decrease of $932 or 2.62 percent when compared to the net income of $35,631 for the same period in 2018 (YTD 2018). Major changes in the components of net income when comparing YTD 2019 to YTD 2018 are identified as follows:

- Net interest income increased by $1,303 or 3.36 percent. The increase is a result of the same reasons previously discussed.

- The risks identified in the portfolio at September 30, 2019 and September 30, 2018 resulted in a net increase in the provision for loan losses (provision) of $2,226. The increase was due to provision for loan losses for 2019 of $766 while 2018 saw a reversal of allowance for loan losses (reversal) of $1,460. This provision for 2019 was driven by a large account moving to nonaccrual. The reversal in 2018 was due to the discontinuation of a prior qualitative allowance.

- Noninterest income increased by $407 or 3.55 percent primarily due to a $373 increase in patronage dividends from the Bank, a $265 increase in other gains (losses), a $157 increase in loan fees and a $142 increase in lease income. These were partially offset by a $569 reduction in FCSIC insurance refunds.

- Noninterest expense increased by $416 or 2.59 percent primarily due to a $200 increase in expenses for salary and benefits, a $239 increase in occupancy and equipment and a $38 increase in other operating expenses. These were offset in part by decreased expenses for guarantee fees of $94. These occurred for reasons previously stated, except purchased services increased YTD 2019.

The following table shows the key results of operations ratios for the nine months ended September 30, 2019 and September 30, 2018, respectively.

	9/30/19	9/30/18
Return on average assets	2.33%	2.47%
Return on average equity	12.88%	14.12%
Net interest margin	2.77%	2.77%
Members' equity to assets	18.36%	17.45%
Debt to members' equity (:1)	4.45	4.73

CAPITAL RESOURCES

Total members' equity was $369,309 at September 30, 2019 as compared to $346,326 at December 31, 2018 for an increase of $22,983 or 6.64 percent. The increase is due primarily to 2019 year-to-date earnings offset in part by a reduction in class A preferred stock outstanding.

The Association's capital ratios as of September 30, along with FCA minimum requirements, are included in the following regulatory matters section.

Regulatory Capital Ratios

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

	Regulatory Minimum, Including Buffer*	9/30/19	12/31/18	9/30/18
Permanent Capital Ratio	7.00%	20.99%	20.43%	20.46%
Common Equity Tier 1 (CET1) Capital Ratio	5.125%	20.25%	18.96%	18.74%
Tier 1 Capital Ratio	6.625%	20.25%	18.96%	18.74%
Total Capital Ratio	8.625%	20.92%	20.25%	20.24%
Tier 1 Leverage Ratio	5.00%	16.59%	15.35%	15.19%
Unallocated Retained Earnings (URE) and URE Equivalents Leverage Ratio	1.50%	17.16%	15.87%	15.71%

**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.

For all periods presented, AgCredit exceeded minimum regulatory standards for all of the ratios. The Association's capital ratios increased at September 30, 2019 compared to December 31, 2018. Compared to September 30, 2018, the Association's capital ratios improved due to higher average capital levels in the 2019 period. See Regulatory Matters section below for further discussion of capital ratios.

REGULATORY MATTERS

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

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

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to an expected loss model. • The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.	• Implementation efforts have begun by establishing a cross-discipline governance structure. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. • The new guidance is expected to result in an increase in allowance for credit losses due to several factors, including: 1. The allowance related to loans and commitments will most likely increase to cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on any debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of the increase is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts at the adoption date. • The guidance is expected to be adopted in first quarter 2021.

Note: The Association obtains funding from AgFirst Farm Credit Bank (the Bank). The Association is materially affected and shareholder investment could be materially affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, *www.agfirst.com* or may be obtained at no charge by calling 1-800-845-1745, extension 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202.

Copies of the Association's Quarterly and Annual Reports are available on the Association's website, www.agcredit.net, or may be obtained upon request free of charge by calling 1-800-837-3678, extension 1048, or writing Logan Kreais, Chief Financial Officer, AgCredit, ACA, 610 W Lytle Street, Fostoria, OH 44830. The Association prepares an electronic version of the Quarterly Report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

AgCredit Agricultural Credit Association

Consolidated Balance Sheets

(dollars in thousands)	September 30, 2019	December 31, 2018
	(unaudited)	*(audited)*
Assets		
Cash	**$ 4,277**	$ 7,950
Investments in debt securities:		
Held to maturity (fair value of $10,594 and $10,942, respectively)	**9,938**	10,594
Loans	**1,925,783**	1,960,392
Allowance for loan losses	**(11,968)**	(11,058)
Net loans	**1,913,815**	1,949,334
Other investments	**1,039**	—
Accrued interest receivable	**39,772**	30,937
Equity investments in other Farm Credit institutions	**22,366**	22,351
Premises and equipment, net	**8,768**	8,506
Accounts receivable	**10,399**	26,783
Other assets	**1,106**	2,079
Total assets	**$ 2,011,480**	$ 2,058,534
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 1,627,997**	$ 1,673,338
Accrued interest payable	**4,188**	4,439
Patronage refunds payable	**64**	27,686
Accounts payable	**1,089**	1,245
Advanced conditional payments	**2,193**	1,001
Other liabilities	**6,640**	4,499
Total liabilities	**1,642,171**	1,712,208
Commitments and contingencies (Note 7)		
Members' Equity		
Capital stock and participation certificates	**17,097**	18,672
Retained earnings		
Allocated	**231,486**	241,680
Unallocated	**120,726**	85,974
Total members' equity	**369,309**	346,326
Total liabilities and members' equity	**$ 2,011,480**	$ 2,058,534

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

AgCredit Agricultural Credit Association

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended September 30, 2019	For the Three Months Ended September 30, 2018	For the Nine Months Ended September 30, 2019	For the Nine Months Ended September 30, 2018
Interest Income				
Loans	**$ 26,115**	$ 25,417	**$ 78,593**	$ 73,141
Investments	**151**	154	**442**	470
Total interest income	**26,266**	25,571	**79,035**	73,611
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**12,954**	12,395	**38,965**	34,844
Net interest income	**13,312**	13,176	**40,070**	38,767
Provision for (reversal of allowance for) loan losses	**1,356**	580	**766**	(1,460)
Net interest income after provision for (reversal of allowance for) loan losses	**11,956**	12,596	**39,304**	40,227
Noninterest Income				
Loan fees	**176**	100	**503**	346
Fees for financially related services	**153**	104	**180**	155
Lease income	**51**	—	**142**	—
Patronage refunds from other Farm Credit institutions	**3,429**	3,404	**10,375**	10,002
Gains (losses) on sales of premises and equipment, net	**—**	—	**1**	(11)
Gains (losses) on other transactions	**7**	67	**331**	66
Insurance Fund refunds	**—**	—	**323**	892
Other noninterest income	**11**	9	**29**	27
Total noninterest income	**3,827**	3,684	**11,884**	11,477
Noninterest Expense				
Salaries and employee benefits	**3,512**	3,471	**10,891**	10,691
Occupancy and equipment	**413**	262	**1,256**	1,017
Insurance Fund premiums	**268**	264	**799**	767
Guarantee fees	**165**	154	**577**	671
(Gains) losses on other property owned, net	**—**	(1)	**—**	(1)
Other operating expenses	**1,054**	1,055	**2,966**	2,928
Total noninterest expense	**5,412**	5,205	**16,489**	16,073
Net income	**10,371**	11,075	**34,699**	35,631
Other comprehensive income	**—**	—	**—**	—
Comprehensive income	**$ 10,371**	$ 11,075	**$ 34,699**	$ 35,631

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

AgCredit Agricultural Credit Association

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2017	$ 19,522	$ 219,004	$ 81,329	$ 319,855
Comprehensive income			35,631	35,631
Capital stock/participation certificates issued/(retired), net	(457)			(457)
Dividends declared/paid			(134)	(134)
Retained earnings retired		(4,989)		(4,989)
Patronage distribution adjustment		(102)	169	67
Balance at September 30, 2018	$ 19,065	$ 213,913	$ 116,995	$ 349,973
Balance at December 31, 2018	**$ 18,672**	**$ 241,680**	**$ 85,974**	**$ 346,326**
Cumulative effect of change in accounting principle			**(7)**	**(7)**
Comprehensive income			**34,699**	**34,699**
Capital stock/participation certificates issued/(retired), net	**(1,575)**			**(1,575)**
Dividends declared/paid			**(116)**	**(116)**
Retained earnings retired		**(10,018)**		**(10,018)**
Patronage distribution adjustment		**(176)**	**176**	**—**
Balance at September 30, 2019	**$ 17,097**	**$ 231,486**	**$ 120,726**	**$ 369,309**

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements

Organization
The accompanying financial statements include the accounts of AgCredit Agricultural Credit Association 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.

<u>Transition Information</u>

- The guidance was adopted using the optional modified retrospective method and practical expedients for transition. Under this transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.
- The package of practical expedients was elected, which allowed existing leases to be largely accounted for consistent with current guidance, except for the incremental balance sheet recognition for lessees.
- There will not be a material change to the timing of future expense recognition.
- Upon adoption, a cumulative-effect adjustment to equity of approximately $(7) was recorded. In addition, a Right of Use Asset in the amount of $408 and Lease Liability in the amount of $415 were recognized.
- Given the limited changes to lessor accounting, there were no material changes to recognition or measurement.

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

	September 30, 2019	December 31, 2018
Real estate mortgage	$ 1,200,319	$ 1,178,021
Production and intermediate-term	527,965	600,444
Loans to cooperatives	3,635	3,412
Processing and marketing	55,473	39,658
Farm-related business	15,276	16,588
Power and water/waste disposal	3,386	3,385
Rural residential real estate	116,420	118,238
Lease receivables	450	646
Other (including Mission Related)	2,859	–
Total loans	$ 1,925,783	$ 1,960,392

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

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

	September 30, 2019							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 22,397	$ 54,435	$ –	$ 6,295	$ 31,901	$ –	$ 54,298	$ 60,730
Production and intermediate-term	17,337	163,805	48	61	5,783	–	23,168	163,866
Loans to cooperatives	3,650	–	–	–	–	–	3,650	–
Processing and marketing	37,003	4,685	–	10,661	–	–	37,003	15,346
Power and water/waste disposal	3,393	–	–	–	–	–	3,393	–
Other (including Mission Related)	–	–	–	–	2,494	–	2,494	–
Total	$ 83,780	$ 222,925	$ 48	$ 17,017	$ 40,178	$ –	$ 124,006	$ 239,942

	December 31, 2018							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 19,085	$ 58,745	$ 225	$ 2,027	$ 21,891	$ –	$ 41,201	$ 60,772
Production and intermediate-term	13,813	185,206	135	392	6,720	–	20,668	185,598
Loans to cooperatives	3,428	–	–	–	–	–	3,428	–
Processing and marketing	20,315	4,803	–	10,387	–	–	20,315	15,190
Power and water/waste disposal	3,393	–	–	–	–	–	3,393	–
Total	$ 60,034	$ 248,754	$ 360	$ 12,806	$ 28,611	$ –	$ 89,005	$ 261,560

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

	September 30, 2019			
	Due Less Than 1 Year	Due 1 Through 5 Years	Due After 5 Years	Total
Real estate mortgage	$ 4,234	$ 64,740	$ 1,131,345	$ 1,200,319
Production and intermediate-term	185,269	223,859	118,837	527,965
Loans to cooperatives	(1)	3,254	382	3,635
Processing and marketing	8,107	17,412	29,954	55,473
Farm-related business	2,883	3,221	9,172	15,276
Power and water/waste disposal	–	3,386	–	3,386
Rural residential real estate	609	3,726	112,085	116,420
Lease receivables	130	320	–	450
Other (including Mission Related)	–	–	2,859	2,859
Total loans	$ 201,231	$ 319,918	$ 1,404,634	$ 1,925,783
Percentage	10.45%	16.61%	72.94%	100.00%

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

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

	September 30, 2019	December 31, 2018
Real estate mortgage:		
Acceptable	94.58%	95.03%
OAEM	2.62	1.88
Substandard/doubtful/loss	2.80	3.09
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	88.38%	90.03%
OAEM	7.12	5.67
Substandard/doubtful/loss	4.50	4.30
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	89.38%	100.00%
OAEM	10.62	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	92.99%	90.91%
OAEM	–	–
Substandard/doubtful/loss	7.01	9.09
	100.00%	100.00%
Farm-related business:		
Acceptable	86.90%	86.52%
OAEM	0.14	0.54
Substandard/doubtful/loss	12.96	12.94
	100.00%	100.00%

	September 30, 2019	December 31, 2018
Power and water/waste disposal:		
Acceptable	–%	100.00%
OAEM	100.00	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	95.33%	94.89%
OAEM	3.52	4.21
Substandard/doubtful/loss	1.15	0.90
	100.00%	100.00%
Lease receivables:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Other (including Mission Related)		
Acceptable	100.00%	–%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	–%
Total loans:		
Acceptable	92.65%	93.35%
OAEM	3.99	3.13
Substandard/doubtful/loss	3.36	3.52
	100.00%	100.00%

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

September 30, 2019	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 10,870	$ 4,073	$ 14,943	$ 1,212,147	$ 1,227,090
Production and intermediate-term	5,164	1,961	7,125	533,009	540,134
Loans to cooperatives	–	–	–	3,638	3,638
Processing and marketing	–	–	–	55,571	55,571
Farm-related business	–	–	–	15,471	15,471
Power and water/waste disposal	–	–	–	3,387	3,387
Rural residential real estate	424	255	679	116,144	116,823
Lease receivables	–	–	–	449	449
Other (including Mission Related)	–	–	–	2,872	2,872
Total	$ 16,458	$ 6,289	$ 22,747	$ 1,942,688	$ 1,965,435

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	$ 5,363	$ 697	$ 6,060	$ 1,191,297	$ 1,197,357
Production and intermediate-term	2,239	966	3,205	608,173	611,378
Loans to cooperatives	–	–	–	3,415	3,415
Processing and marketing	–	–	–	39,774	39,774
Farm-related business	65	–	65	16,656	16,721
Power and water/waste disposal	–	–	–	3,388	3,388
Rural residential real estate	306	9	315	118,270	118,585
Lease receivables	–	–	–	646	646
Total	$ 7,973	$ 1,672	$ 9,645	$ 1,981,619	$ 1,991,264

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

	September 30, 2019	December 31, 2018
Nonaccrual loans:		
Real estate mortgage	$ 8,092	$ 4,033
Production and intermediate-term	2,158	2,037
Processing and marketing	5,318	–
Rural residential real estate	361	50
Total	$ 15,929	$ 6,120
Accruing restructured loans:		
Real estate mortgage	$ 317	$ 321
Production and intermediate-term	5,923	6,439
Total	$ 6,240	$ 6,760
Accruing loans 90 days or more past due:		
Real estate mortgage	$ 2,583	$ –
Production and intermediate-term	753	–
Total	$ 3,336	$ –
Total nonperforming loans	$ 25,505	$ 12,880
Other property owned	–	–
Total nonperforming assets	$ 25,505	$ 12,880
Nonaccrual loans as a percentage of total loans	0.83%	0.31%
Nonperforming assets as a percentage of total loans and other property owned	1.32%	0.66%
Nonperforming assets as a percentage of capital	6.91%	3.72%

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

	September 30, 2019	December 31, 2018
Impaired nonaccrual loans:		
Current as to principal and interest	$ 11,073	$ 4,341
Past due	4,856	1,779
Total	$ 15,929	$ 6,120
Impaired accrual loans:		
Restructured	$ 6,240	$ 6,760
90 days or more past due	3,336	–
Total	$ 9,576	$ 6,760
Total impaired loans	$ 25,505	$ 12,880
Additional commitments to lend	$ –	$ 38

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

	September 30, 2019			Three Months Ended September 30, 2019		Nine Months Ended September 30, 2019	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:							
Real estate mortgage	$ 2,299	$ 2,454	$ 110	$ 2,274	$ 33	$ 1,750	$ 83
Production and intermediate-term	209	209	209	207	3	159	8
Processing and marketing	1,987	2,000	1,412	1,965	29	1,512	72
Total	$ 4,495	$ 4,663	$ 1,731	$ 4,446	$ 65	$ 3,421	$ 163
With no related allowance for credit losses:							
Real estate mortgage	$ 8,693	$ 8,646	$ –	$ 8,601	$ 127	$ 6,618	$ 316
Production and intermediate-term	8,624	18,895	–	8,533	126	6,566	314
Processing and marketing	3,332	3,363	–	3,297	49	2,537	121
Rural residential real estate	361	373	–	357	5	275	13
Total	$ 21,010	$ 31,277	$ –	$ 20,788	$ 307	$ 15,996	$ 764
Total impaired loans:							
Real estate mortgage	$ 10,992	$ 11,100	$ 110	$ 10,875	$ 160	$ 8,368	$ 399
Production and intermediate-term	8,833	19,104	209	8,740	129	6,725	322
Processing and marketing	5,319	5,363	1,412	5,262	78	4,049	193
Rural residential real estate	361	373	–	357	5	275	13
Total	$ 25,505	$ 35,940	$ 1,731	$ 25,234	$ 372	$ 19,417	$ 927

Impaired loans:	December 31, 2018 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2018 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 1,995	$ 2,143	$ 419	$ 2,079	$ 186
Production and intermediate-term	159	169	74	166	15
Total	$ 2,154	$ 2,312	$ 493	$ 2,245	$ 201
With no related allowance for credit losses:					
Real estate mortgage	$ 2,360	$ 2,450	$ –	$ 2,461	$ 221
Production and intermediate-term	8,316	18,778	–	8,670	778
Rural residential real estate	50	111	–	52	5
Total	$ 10,726	$ 21,339	$ –	$ 11,183	$ 1,004
Total impaired loans:					
Real estate mortgage	$ 4,355	$ 4,593	$ 419	$ 4,540	$ 407
Production and intermediate-term	8,475	18,947	74	8,836	793
Rural residential real estate	50	111	–	52	5
Total	$ 12,880	$ 23,651	$ 493	$ 13,428	$ 1,205

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	Lease Receivables	Other (including Mission Related)	Total
Activity related to the allowance for credit losses:									
Balance at June 30, 2019	$ 2,573	$ 6,316	$ 1,162	$ –	$ 21	$ 540	$ 1	$ –	$ 10,613
Charge-offs	–	–	–	–	–	–	–	–	–
Recoveries	–	(1)	–	–	–	–	–	–	(1)
Provision for loan losses	13	263	1,054	–	30	(4)	–	–	1,356
Balance at September 30, 2019	$ 2,586	$ 6,578	$ 2,216	$ –	$ 51	$ 536	$ 1	$ –	$ 11,968
Balance at December 31, 2018	$ 2,743	$ 6,851	$ 887	$ –	$ 21	$ 555	$ 1	$ –	$ 11,058
Charge-offs	–	–	–	–	–	–	–	–	–
Recoveries	–	144	–	–	–	–	–	–	144
Provision for loan losses	(157)	(417)	1,329	–	30	(19)	–	–	766
Balance at September 30, 2019	$ 2,586	$ 6,578	$ 2,216	$ –	$ 51	$ 536	$ 1	$ –	$ 11,968
Balance at June 30, 2018	$ 2,306	$ 6,502	$ 643	$ –	$ 21	$ 553	$ 2	$ –	$ 10,027
Charge-offs	(30)	(46)	–	–	–	–	–	–	(76)
Recoveries	–	49	–	–	–	2	–	–	51
Provision for loan losses	418	166	(3)	–	–	(1)	–	–	580
Balance at September 30, 2018	$ 2,694	$ 6,671	$ 640	$ –	$ 21	$ 554	$ 2	$ –	$ 10,582
Balance at December 31, 2017	$ 2,504	$ 8,912	$ 304	$ 11	$ 15	$ 582	$ 2	$ –	$ 12,330
Charge-offs	(30)	(395)	–	–	–	(58)	–	–	(483)
Recoveries	–	193	–	–	–	2	–	–	195
Provision for loan losses	220	(2,039)	336	(11)	6	28	–	–	(1,460)
Balance at September 30, 2018	$ 2,694	$ 6,671	$ 640	$ –	$ 21	$ 554	$ 2	$ –	$ 10,582
Allowance on loans evaluated for impairment:									
Individually	$ 110	$ 209	$ 1,412	$ –	$ –	$ –	$ –	$ –	$ 1,731
Collectively	2,476	6,369	804	–	51	536	1	–	10,237
Balance at September 30, 2019	$ 2,586	$ 6,578	$ 2,216	$ –	$ 51	$ 536	$ 1	$ –	$ 11,968
Individually	$ 419	$ 74	$ –	$ –	$ –	$ –	$ –	$ –	$ 493
Collectively	2,324	6,777	887	–	21	555	1	–	10,565
Balance at December 31, 2018	$ 2,743	$ 6,851	$ 887	$ –	$ 21	$ 555	$ 1	$ –	$ 11,058
Recorded investment in loans evaluated for impairment:									
Individually	$ 10,992	$ 8,834	$ 5,318	$ –	$ –	$ 361	$ –	$ –	$ 25,505
Collectively	1,216,098	531,300	69,362	–	3,387	116,462	449	2,872	1,939,930
Balance at September 30, 2019	$ 1,227,090	$ 540,134	$ 74,680	$ –	$ 3,387	$ 116,823	$ 449	$ 2,872	$ 1,965,435
Individually	$ 4,354	$ 8,476	$ –	$ –	$ –	$ 50	$ –	$ –	$ 12,880
Collectively	1,193,003	602,902	59,910	–	3,388	118,535	646	–	1,978,384
Balance at December 31, 2018	$ 1,197,357	$ 611,378	$ 59,910	$ –	$ 3,388	$ 118,585	$ 646	$ –	$ 1,991,264

**Includes the loan types: Loans to cooperatives, Processing and marketing, and Farm-related business.*

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. There were no new TDRs that occurred during the three and nine months ended September 30, 2019 and the three months ended September 30, 2018.

	Nine Months Ended September 30, 2018				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Production and intermediate-term	$ –	$ 79	$ –	$ 79	
Total	$ –	$ 79	$ –	$ 79	
Post-modification:					
Production and intermediate-term	$ –	$ 79	$ –	$ 79	$ –
Total	$ –	$ 79	$ –	$ 79	$ –

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets.

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the periods presented. Payment default is defined as a payment that was thirty days or more past due.

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

	Total TDRs		Nonaccrual TDRs	
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
Real estate mortgage	$ 431	$ 447	$ 114	$ 126
Production and intermediate-term	5,972	6,559	49	120
Total loans	$ 6,403	$ 7,006	$ 163	$ 246
Additional commitments to lend	$ –	$ 38		

The following table presents information as of period end:

	September 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	$ –

Note 3 — Investments

Investments in Debt Securities

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 probability of default scale used to also grade loans, falls below 9 and requires System institutions to provide notification to 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, 2019, the Association held two RABs with a fair value of $291 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, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 9,938	$ 776	$ (120)	$ 10,594	5.44%

	December 31, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 10,594	$ 510	$ (162)	$ 10,942	5.43%

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

	September 30, 2019		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	274	264	5.15
After five years through ten years	2,855	2,781	5.33
After ten years	6,809	7,549	5.50
Total	$ 9,938	$ 10,594	5.44%

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, 2019			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ –	$ –	$ 1,506	$ (120)

	December 31, 2018			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ –	$ –	$ 4,096	$ (162)

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.

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 8.09 percent of the issued stock of the Bank as of September 30, 2019 net of any reciprocal investment. As of that date, the Bank's assets totaled $34.6 billion and shareholders' equity totaled $2.5 billion. The Bank's earnings were $192 million for the first nine months of 2019. In addition, the Association held investments of $410 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 5 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

	September 30, 2019				
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 136	$ 136	$ –	$ –	$ 136
Recurring Assets	$ 136	$ 136	$ –	$ –	$ 136
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 2,763	$ –	$ –	$ 2,763	$ 2,763
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 2,763	$ –	$ –	$ 2,763	$ 2,763
Other Financial Instruments					
Assets:					
Cash	$ 4,277	$ 4,277	$ –	$ –	$ 4,277
Investments in debt securities, held-to-maturity	9,938	–	–	10,594	10,594
Loans	1,911,052	–	–	1,897,506	1,897,506
Other Financial Assets	$ 1,925,267	$ 4,277	$ –	$ 1,908,100	$ 1,912,377
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,627,997	$ –	$ –	$ 1,621,942	$ 1,621,942
Other Financial Liabilities	$ 1,627,997	$ –	$ –	$ 1,621,942	$ 1,621,942

	December 31, 2018				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 81	$ 81	$ –	$ –	$ 81
Recurring Assets	$ 81	$ 81	$ –	$ –	$ 81
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 1,660	$ –	$ –	$ 1,660	$ 1,660
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 1,660	$ –	$ –	$ 1,660	$ 1,660
Other Financial Instruments					
Assets:					
Cash	$ 7,950	$ 7,950	$ –	$ –	$ 7,950
Investments in debt securities, held-to-maturity	10,594	–	–	10,942	10,942
Loans	1,947,674	–	–	1,890,840	1,890,840
Other Financial Assets	$ 1,966,218	$ 7,950	$ –	$ 1,901,782	$ 1,909,732
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,673,338	$ –	$ –	$ 1,629,824	$ 1,629,824
Other Financial Liabilities	$ 1,673,338	$ –	$ –	$ 1,629,824	$ 1,629,824

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 2,763	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
Investments in debt securities, held-to-maturity	Discounted cash flow	Prepayment rates Risk-adjusted spread
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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Pension	$ 323	$ 421	$ 972	$ 1,263
401(k)	182	164	545	498
Other postretirement benefits	49	45	148	149
Total	$ 554	$ 630	$ 1,665	$ 1,910

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

	Actual YTD Through 9/30/19	Projected Contributions For Remainder of 2019	Projected Total Contributions 2019
Pension	$ –	$ 1,296	$ 1,296
Other postretirement benefits	148	45	193
Total	$ 148	$ 1,341	$ 1,489

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 that, except as described below, there were none requiring disclosure through November 8, 2019, which was the date the financial statements were issued.

On October 21, 2019, AgFirst's Board of Directors indicated an intention to declare, in December 2019, a special patronage distribution. The Association will receive between approximately $6,862 and $7,777 which will be recorded as patronage refunds from other Farm Credit institutions.