First South Farm Credit, ACA

THIRD QUARTER 2019

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CERTIFICATION

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

Daniel C. Mattingly
Chairman of the Board

John W. Barnard
Chief Executive Officer

Bryan Applewhite
Chief Financial Officer

November 8, 2019

First South Farm Credit, ACA

Report on Internal Control Over Financial Reporting

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

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

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

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

John W. Barnard
Chief Executive Officer

Bryan Applewhite
Chief Financial Officer

November 8, 2019

First South Farm Credit, ACA

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

(dollars in thousands)

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

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities including poultry, soybeans, livestock and forestry. 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.

Comparison of September 30, 2019 to December 31, 2018

The gross loan volume of the Association as of September 30, 2019, was $2,275,614 as compared to $2,072,774 at December 31, 2018. Net loans outstanding at September 30, 2019, were $2,260,658 as compared to $2,058,833 at December 31, 2018. Net loans accounted for 94.61 percent of total assets at September 30, 2019, as compared to 93.58 percent of total assets at December 31, 2018.

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 to $4,803 at September 30, 2019 from $4,490 at December 31, 2018, an increase of $313.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at September 30, 2019, was $14,956 compared to $13,941 at December 31, 2018, and was considered by management to be adequate to cover possible losses.

RESULTS OF OPERATIONS

For the three months ended September 30, 2019

Net income for the three months ended September 30, 2019, totaled $9,066, as compared to $8,535 for the same period in 2018. The increase in net income primarily relates to an increase net interest income due to a higher level of loan volume. A more detailed explanation of other changes will be discussed below.

Noninterest income for the three months ended September 30, 2019 totaled $4,775, as compared to $4,484 for the same period of 2018, an increase of $291. The increase is primarily the result increased patronage refunds from other Farm Credit institutions of $276, increased gains on sales of premises and equipment of $78, along with increased fees for financially related services of $65. The above were offset by a decrease in loan fees of $128.

Noninterest expense for the three months ended September 30, 2019 increased $845 compared to the same period of 2018. The increase is attributable to increased other operating expenses of $633, which is primarily increased retirement costs, along with increased salaries and employee benefits of $181. Losses on other property owned and Insurance Fund premiums increased $61 and $34, respectively. Occupancy and equipment was $428 for the period ended September 30, 2019, compared to $492 from the prior period, a decrease of $64.

The Association recorded a provision for loan loss for the three months ended September 30, 2019 of $575 compared to a provision of $650 for the three months ended September 30, 2018. The Association recorded a provision for income taxes of $6 for the three months ended September 30, 2019, compared to a provision for income taxes of $13 for the same period of 2018.

For the nine months ended September 30, 2019

Net income for the nine months ended September 30, 2019, totaled $24,507, as compared to $24,118 for the same period in 2018, an increase of $389. These changes in the nine months ended September 30, 2019 are discussed in more detail below.

Net interest income after the provision for loan losses for the nine months ended September 30, 2019 increased $2,153 as compared to the same period in 2018. The increase in net interest income after the provision for loan losses was primarily the result of increased growth in the overall loan portfolio.

Noninterest income for the nine months ended September 30, 2019, totaled $13,778 as compared to $13,180 for the same period of 2018, an increase of $598. The increase is attributable to increased patronage refunds from other Farm Credit institutions of $681, an increase of $346 in gains on sales of premises and equipment, and an increase in loan fees of $147. The above increases were offset by a decrease in Insurance Fund refunds of $619.

Noninterest expense for the nine months ended September 30, 2019, increased $2,306 compared to the same period of 2018. The increase in noninterest expense was due to an increase in other operating expenses of $1,511, which is primarily increased retirement costs, along with an increase of $655 in salaries and employee benefits, an increase in losses on other property owned of $211 and an increase of $85 in Insurance Fund premiums. The above increases were offset by a decrease of $156 in occupancy and equipment expense.

The Association recorded provision for loan losses of $1,105 for the nine months ended September 30, 2019, compared to a provision for loan losses of $1,080 for the same period in 2018. The Association also recorded a provision for income taxes of $17 for the nine month periods ended September 30, 2019 compared to a benefit for income taxes of $39 for the nine month periods ended September 30, 2018.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the AgFirst Farm Credit Bank (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 September 30, 2019 was $1,898,038 as compared to $1,717,671 at December 31, 2018, an increase of $180,367. The increase in notes payable from December 31, 2018 to September 30, 2019 is primarily related to the normal increase in loan volume during due to seasonal lending within the portfolio.

CAPITAL RESOURCES

Total members’ equity at September 30, 2019 and December 31, 2018 was $446,936 and $423,700, respectively. Allocated and unallocated retained earnings changes reflect the impact of normal earnings and patronage payments.

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

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of September 30, 2019
Risk-adjusted ratios:				
CET1 Capital	4.5%	0.625%	5.125%	17.05%
Tier 1 Capital	6.0%	0.625%	6.625%	17.05%
Total Capital	8.0%	0.625%	8.625%	17.68%
Permanent Capital Ratio	7.0%	0.0%	7.0%	17.25%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	17.04%
UREE Leverage Ratio	1.5%	0.0%	1.5%	11.39%

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

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

REGULATORY MATTERS

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

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

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

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

STOCKHOLDER INVESTMENT

Stockholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst Farm Credit Bank's Quarterly and Annual 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 Annual and Quarterly reports are also on the Association's website, *www.firstsouthland.com*, or may be obtained upon request free of charge by calling 1-800-955-1722 or writing Bryan Applewhite, First South Farm Credit, ACA, 574 Highland Colony Parkway, Suite 100, Ridgeland, MS 39157. 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.

First South Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)		September 30, 2019		December 31, 2018
		(unaudited)		*(audited)*
Assets				
Cash	**$**	**7,788**	$	11,502
Loans		**2,275,614**		2,072,774
Allowance for loan losses		**(14,956)**		(13,941)
Net loans		**2,260,658**		2,058,833
Loans held for sale		**329**		—
Accrued interest receivable		**25,834**		20,103
Equity investments in other Farm Credit institutions		**67,272**		67,309
Premises and equipment, net		**13,488**		12,213
Other property owned		**2,581**		2,879
Accounts receivable		**10,295**		26,944
Other assets		**1,283**		240
Total assets	**$**	**2,389,528**	$	2,200,023
Liabilities				
Notes payable to AgFirst Farm Credit Bank	**$**	**1,898,038**	$	1,717,671
Accrued interest payable		**5,138**		4,718
Patronage refunds payable		**49**		17,555
Accounts payable		**2,237**		5,826
Other liabilities		**37,130**		30,553
Total liabilities		**1,942,592**		1,776,323
Commitments and contingencies (Note 8)				
Members' Equity				
Capital stock and participation certificates		**53,195**		52,969
Retained earnings				
Allocated		**256,357**		259,012
Unallocated		**162,700**		138,687
Accumulated other comprehensive income (loss)		**(25,316)**		(26,968)
Total members' equity		**446,936**		423,700
Total liabilities and members' equity	**$**	**2,389,528**	$	2,200,023

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

First South Farm Credit, ACA

Consolidated Statements of 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	**$ 30,755**	$ 27,597	**$ 86,125**	$ 76,902
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**15,764**	13,609	**43,956**	36,911
Net interest income	**14,991**	13,988	**42,169**	39,991
Provision for loan losses	**575**	650	**1,105**	1,080
Net interest income after provision for loan losses	**14,416**	13,338	**41,064**	38,911
Noninterest Income				
Loan fees	**521**	649	**2,291**	2,144
Fees for financially related services	**425**	360	**347**	304
Patronage refunds from other Farm Credit institutions	**3,672**	3,396	**10,283**	9,602
Gains (losses) on sales of premises and equipment, net	**157**	79	**425**	79
Insurance Fund refunds	**—**	—	**432**	1,051
Total noninterest income	**4,775**	4,484	**13,778**	13,180
Noninterest Expense				
Salaries and employee benefits	**6,603**	6,422	**20,099**	19,444
Occupancy and equipment	**428**	492	**1,248**	1,404
Insurance Fund premiums	**395**	361	**1,108**	1,023
(Gains) losses on other property owned, net	**86**	25	**274**	63
Other operating expenses	**2,607**	1,974	**7,589**	6,078
Total noninterest expense	**10,119**	9,274	**30,318**	28,012
Income before income taxes	**9,072**	8,548	**24,524**	24,079
Provision (benefit) for income taxes	**6**	13	**17**	(39)
Net income	**$ 9,066**	$ 8,535	**$ 24,507**	$ 24,118

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

First South Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended September 30, 2019	For the Three Months Ended September 30, 2018	For the Nine Months Ended September 30, 2019	For the Nine Months Ended September 30, 2018
Net income	**$ 9,066**	$ 8,535	**$ 24,507**	$ 24,118
Other comprehensive income net of tax				
Employee benefit plans adjustments	**551**	472	**1,652**	1,416
Comprehensive income	**$ 9,617**	$ 9,007	**$ 26,159**	$ 25,534

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

First South Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2017	$ 54,174	$ 261,054	$ 111,152	$ (26,045)	$ 400,335
Comprehensive income			24,118	1,416	25,534
Capital stock/participation certificates issued/(retired), net	70				70
Retained earnings retired		(2,110)			(2,110)
Patronage distribution adjustment		68	(71)		(3)
Balance at September 30, 2018	$ 54,244	$ 259,012	$ 135,199	$ (24,629)	$ 423,826
Balance at December 31, 2018	**$ 52,969**	**$ 259,012**	**$ 138,687**	**$ (26,968)**	**$ 423,700**
Cumulative effect of change in accounting principle			**(321)**		**(321)**
Comprehensive income			**24,507**	**1,652**	**26,159**
Capital stock/participation certificates issued/(retired), net	**226**				**226**
Retained earnings retired		**(2,655)**			**(2,655)**
Patronage distribution adjustment			**(173)**		**(173)**
Balance at September 30, 2019	**$ 53,195**	**$ 256,357**	**$ 162,700**	**$ (25,316)**	**$ 446,936**

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

First South Farm Credit, ACA

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

ASUs Pending Effective Date

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

Potential effects of ASUs issued in previous periods:

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

- In August 2018, the FASB issued ASU 2018-14 Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans. The amendments in this Update remove disclosures that are no longer considered cost beneficial, clarify the specific requirements of certain disclosures, and add new disclosure requirements identified as relevant. Although narrow in scope, the amendments are considered an important part of the FASB's efforts to improve the effectiveness of disclosures in the notes to financial statements by applying concepts in the Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements. The amendments are effective for fiscal years ending after December 15, 2020, for public business entities. Early adoption is permitted. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

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

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

Accounting Standards Effective During the Period

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

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

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

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

- In February 2017, the FASB issued ASU 2017-06 Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): Employee Benefit Plan Master Trust Reporting (a consensus of the Emerging Issues Task Force). This Update amended the guidance related to employee benefit plan master trust reporting. The new guidance provides for presentation within the plan's financial statements of its interest in a master trust as a single line item; disclosure of the master trust's investments by general type as well as by the dollar amount of the plan's interest in each type; disclosure of the master trust's other assets and liabilities and the balances related to the plan; and elimination of required disclosures for Section 401(h) accounts that are already provided by the associated defined benefit plan. The amendments were effective for fiscal years beginning after December 15, 2018. Adoption of this guidance did not have a material impact on the statements of financial condition and results of operations.

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

  Transition Information

  - The guidance was adopted using the optional modified retrospective method and practical expedients for transition. Under this transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

- The package of practical expedients was elected, which allowed existing leases to be largely accounted for consistent with current guidance, except for the incremental balance sheet recognition for lessees.
- There will not be a material change to the timing of future expense recognition.
- Upon adoption, a cumulative-effect adjustment to equity of approximately $(321) was recorded. In addition, a Right of Use Asset in the amount of $1,775 and Lease Liability in the amount of $2,096 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	$ 1,693,952	$ 1,617,874
Production and intermediate-term	485,978	375,310
Loans to cooperatives	11,872	7,844
Processing and marketing	48,180	38,867
Farm-related business	14,295	12,845
Communication	6,866	6,664
Power and water/waste disposal	3,626	3,625
Rural residential real estate	10,845	9,745
Total loans	$ 2,275,614	$ 2,072,774

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

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

	September 30, 2019							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 9,726	$ 20,119	$ –	$ –	$ 19,063	$ –	$ 28,789	$ 20,119
Production and intermediate-term	7,433	17,736	22	–	341	–	7,796	17,736
Loans to cooperatives	11,898	–	–	–	–	–	11,898	–
Processing and marketing	11,997	21,609	12,435	3,105	2,000	–	26,432	24,714
Farm-related business	1,375	–	–	–	–	–	1,375	–
Communication	6,865	–	–	–	–	–	6,865	–
Power and water/waste disposal	3,636	–	–	–	–	–	3,636	–
Rural residential real estate	–	–	–	–	41	–	41	–
Total	$ 52,930	$ 59,464	$ 12,457	$ 3,105	$ 21,445	$ –	$ 86,832	$ 62,569

	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	$ 8,284	$ 16,457	$ –	$ –	$ 20,953	$ –	$ 29,237	$ 16,457
Production and intermediate-term	4,426	16,235	31	–	396	–	4,853	16,235
Loans to cooperatives	7,873	–	–	–	–	–	7,873	–
Processing and marketing	12,310	21,610	5,995	2,008	–	–	18,305	23,618
Communication	6,661	–	–	–	–	–	6,661	–
Power and water/waste disposal	3,636	–	–	–	–	–	3,636	–
Rural residential real estate	–	–	–	–	42	–	42	–
Total	$ 43,190	$ 54,302	$ 6,026	$ 2,008	$ 21,391	$ –	$ 70,607	$ 56,310

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	$ 44,401	$ 416,750	$ 1,232,801	$ 1,693,952
Production and intermediate-term	218,245	200,723	67,010	485,978
Loans to cooperatives	–	1,499	10,373	11,872
Processing and marketing	13,772	26,558	7,850	48,180
Farm-related business	1,814	7,967	4,514	14,295
Communication	3,093	3,773	–	6,866
Power and water/waste disposal	–	3,626	–	3,626
Rural residential real estate	87	1,862	8,896	10,845
Total loans	$ 281,412	$ 662,758	$ 1,331,444	$ 2,275,614
Percentage	12.37%	29.12%	58.51%	100.00%

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

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

	September 30, 2019	December 31, 2018
Real estate mortgage:		
Acceptable	96.70%	96.95%
OAEM	2.36	2.36
Substandard/doubtful/loss	0.94	0.69
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	88.60%	92.08%
OAEM	7.77	5.91
Substandard/doubtful/loss	3.63	2.01
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	96.52%	100.00%
OAEM	3.48	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	91.85%	100.00%
OAEM	8.15	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	97.74%	97.23%
OAEM	2.26	2.77
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	September 30, 2019	December 31, 2018
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Power and water/waste disposal:		
Acceptable	–%	100.00%
OAEM	100.00	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	98.22%	97.90%
OAEM	0.56	0.68
Substandard/doubtful/loss	1.22	1.42
	100.00%	100.00%
Total loans:		
Acceptable	94.73%	96.16%
OAEM	3.79	2.94
Substandard/doubtful/loss	1.48	0.90
	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	$ 5,227	$ 1,386	$ 6,613	$ 1,704,727	$ 1,711,340
Production and intermediate-term	2,379	1,685	4,064	489,804	493,868
Loans to cooperatives	–	–	–	11,876	11,876
Processing and marketing	–	–	–	48,398	48,398
Farm-related business	–	–	–	14,555	14,555
Communication	–	–	–	6,869	6,869
Power and water/waste disposal	–	–	–	3,628	3,628
Rural residential real estate	28	–	28	10,886	10,914
Total	$ 7,634	$ 3,071	$ 10,705	$ 2,290,743	$ 2,301,448

	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	$ 5,201	$ 859	$ 6,060	$ 1,626,368	$ 1,632,428
Production and intermediate-term	1,565	822	2,387	378,072	380,459
Loans to cooperatives	–	–	–	7,846	7,846
Processing and marketing	–	–	–	39,049	39,049
Farm-related business	–	–	–	12,989	12,989
Communication	–	–	–	6,665	6,665
Power and water/waste disposal	–	–	–	3,629	3,629
Rural residential real estate	23	–	23	9,789	9,812
Total	$ 6,789	$ 1,681	$ 8,470	$ 2,084,407	$ 2,092,877

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	$ 1,945	$ 1,552
Production and intermediate-term	2,858	2,198
Total	$ 4,803	$ 3,750
Accruing restructured loans:		
Real estate mortgage	$ 1,168	$ 1,195
Production and intermediate-term	1,181	1,269
Total	$ 2,349	$ 2,464
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 7,152	$ 6,214
Other property owned	2,581	2,879
Total nonperforming assets	$ 9,733	$ 9,093
Nonaccrual loans as a percentage of total loans	0.21%	0.18%
Nonperforming assets as a percentage of total loans and other property owned	0.43%	0.44%
Nonperforming assets as a percentage of capital	2.18%	2.13%

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

	September 30, 2019	December 31, 2018
Impaired nonaccrual loans:		
Current as to principal and interest	$ 1,624	$ 2,056
Past due	3,179	1,694
Total	$ 4,803	$ 3,750
Impaired accrual loans:		
Restructured	$ 2,349	$ 2,464
90 days or more past due	–	–
Total	$ 2,349	$ 2,464
Total impaired loans	$ 7,152	$ 6,214
Additional commitments to lend	$ 104	$ 50

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

	September 30, 2019			Three Months Ended September 30, 2019		Nine Months Ended September 30, 2019	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:							
Real estate mortgage	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	352	394	100	291	2	286	9
Total	$ 352	$ 394	$ 100	$ 291	$ 2	$ 286	$ 9
With no related allowance for credit losses:							
Real estate mortgage	$ 3,113	$ 5,018	$ –	$ 2,572	$ 17	$ 2,529	$ 77
Production and intermediate-term	3,687	4,833	–	3,046	20	2,995	90
Total	$ 6,800	$ 9,851	$ –	$ 5,618	$ 37	$ 5,524	$ 167
Total impaired loans:							
Real estate mortgage	$ 3,113	$ 5,018	$ –	$ 2,572	$ 17	$ 2,529	$ 77
Production and intermediate-term	4,039	5,227	100	3,337	22	3,281	99
Total	$ 7,152	$ 10,245	$ 100	$ 5,909	$ 39	$ 5,810	$ 176

	December 31, 2018			Year Ended December 31, 2018	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 402	$ 404	$ 117	$ 526	$ 51
Production and intermediate-term	399	434	110	523	50
Total	$ 801	$ 838	$ 227	$ 1,049	$ 101
With no related allowance for credit losses:					
Real estate mortgage	$ 2,345	$ 4,332	$ –	$ 3,072	$ 296
Production and intermediate-term	3,068	4,137	–	4,018	387
Total	$ 5,413	$ 8,469	$ –	$ 7,090	$ 683
Total impaired loans:					
Real estate mortgage	$ 2,747	$ 4,736	$ 117	$ 3,598	$ 347
Production and intermediate-term	3,467	4,571	110	4,541	437
Total	$ 6,214	$ 9,307	$ 227	$ 8,139	$ 784

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	Total
Activity related to the allowance for credit losses:							
Balance at June 30, 2019	$ 10,047	$ 3,756	$ 491	$ 34	$ 18	$ 61	$ 14,407
Charge-offs	(75)	(57)	–	–	–	–	(132)
Recoveries	56	50	–	–	–	–	106
Provision for loan losses	100	483	(57)	1	45	3	575
Balance at September 30,	$ 10,128	$ 4,232	$ 434	$ 35	$ 63	$ 64	$ 14,956
Balance at December 31,	$ 10,411	$ 3,072	$ 334	$ 37	$ 20	$ 67	$ 13,941
Charge-offs	(188)	(62)	–	–	–	–	(250)
Recoveries	107	53	–	–	–	–	160
Provision for loan losses	(202)	1,169	100	(2)	43	(3)	1,105
Balance at September 30,	$ 10,128	$ 4,232	$ 434	$ 35	$ 63	$ 64	$ 14,956
Balance at June 30, 2018	$ 9,505	$ 3,661	$ 355	$ 36	$ 18	$ 59	$ 13,634
Charge-offs	(110)	(142)	–	–	–	–	(252)
Recoveries	1	33	–	–	–	–	34
Provision for loan losses	457	136	51	1	1	4	650
Balance at September 30,	$ 9,853	$ 3,688	$ 406	$ 37	$ 19	$ 63	$ 14,066
Balance at December 31,	$ 9,588	$ 3,528	$ 390	$ 43	$ 19	$ 50	$ 13,618
Charge-offs	(135)	(531)	–	–	–	–	(666)
Recoveries	1	33	–	–	–	–	34
Provision for loan losses	399	658	16	(6)	–	13	1,080
Balance at September 30,	$ 9,853	$ 3,688	$ 406	$ 37	$ 19	$ 63	$ 14,066
Allowance on loans evaluated for impairment:							
Individually	$ –	$ 100	$ –	$ –	$ –	$ –	$ 100
Collectively	10,128	4,132	434	35	63	64	14,856
Balance at September 30,	$ 10,128	$ 4,232	$ 434	$ 35	$ 63	$ 64	$ 14,956
Individually	$ 117	$ 110	$ –	$ –	$ –	$ –	$ 227
Collectively	10,294	2,962	334	37	20	67	13,714
Balance at December 31,	$ 10,411	$ 3,072	$ 334	$ 37	$ 20	$ 67	$ 13,941
Recorded investment in loans evaluated for impairment:							
Individually	$ 3,113	$ 4,039	$ –	$ –	$ –	$ –	$ 7,152
Collectively	1,708,227	489,829	74,829	6,869	3,628	10,914	2,294,296
Balance at September 30,	$ 1,711,340	$ 493,868	$ 74,829	$ 6,869	$ 3,628	$ 10,914	$ 2,301,448
Individually	$ 2,747	$ 3,467	$ –	$ –	$ –	$ –	$ 6,214
Collectively	1,629,681	376,992	59,884	6,665	3,629	9,812	2,086,663
Balance at December 31,	$ 1,632,428	$ 380,459	$ 59,884	$ 6,665	$ 3,629	$ 9,812	$ 2,092,877

**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. There were no new TDRs that occurred during the periods presented.

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	$ 1,220	$ 1,528	$ 52	$ 333
Production and intermediate-term	1,181	1,269	–	–
Total loans	$ 2,401	$ 2,797	$ 52	$ 333
Additional commitments to lend	$ –	$ –		

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

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 8.45 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 $1,220 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 5 — Members' Equity

Accumulated Other Comprehensive Income

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Employee Benefit Plans:				
Balance at beginning of period	$ (25,867)	$ (25,101)	$ (26,968)	$ (26,045)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	551	472	1,652	1,416
Net current period other comprehensive income	551	472	1,652	1,416
Balance at end of period	$ (25,316)	$ (24,629)	$ (25,316)	$ (24,629)

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

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2019	2018	2019	2018	Income Statement Line Item
Defined Benefit Pension Plans:					
Periodic pension costs	$ (551)	$ (472)	$ (1,652)	$ (1,416)	See Note 7.
Net amounts reclassified	$ (551)	$ (472)	$ (1,652)	$ (1,416)	

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

Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

	September 30, 2019				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Recurring Assets	$ –	$ –	$ –	$ –	$ –
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 252	$ –	$ –	$ 252	$ 252
Other property owned	2,581	–	–	2,968	2,968
Nonrecurring Assets	$ 2,833	$ –	$ –	$ 3,220	$ 3,220
Other Financial Instruments					
Assets:					
Cash	$ 7,788	$ 7,788	$ –	$ –	$ 7,788
Loans	2,260,735	–	–	2,252,825	2,252,825
Other Financial Assets	$ 2,268,523	$ 7,788	$ –	$ 2,252,825	$ 2,260,613
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,898,038	$ –	$ –	$ 1,901,324	$ 1,901,324
Other Financial Liabilities	$ 1,898,038	$ –	$ –	$ 1,901,324	$ 1,901,324

	December 31, 2018				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Recurring Assets	$ –	$ –	$ –	$ –	$ –
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 574	$ –	$ –	$ 574	$ 574
Other property owned	2,879	–	–	3,311	3,311
Nonrecurring Assets	$ 3,453	$ –	$ –	$ 3,885	$ 3,885
Other Financial Instruments					
Assets:					
Cash	$ 11,502	$ 11,502	$ –	$ –	$ 11,502
Loans	2,058,259	–	–	2,004,519	2,004,519
Other Financial Assets	$ 2,069,761	$ 11,502	$ –	$ 2,004,519	$ 2,016,021
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,717,671	$ –	$ –	$ 1,690,148	$ 1,690,148
Other Financial Liabilities	$ 1,717,671	$ –	$ –	$ 1,690,148	$ 1,690,148

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	$ 3,220	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

Note 7 — Employee Benefit Plans

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Pension	$ 918	$ 697	$ 2,755	$ 2,089
401(k)	219	207	675	629
Other postretirement benefits	178	157	538	525
Total	$ 1,315	$ 1,061	$ 3,968	$ 3,243

The following is a table of pension 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	$ 2,671	$ –	$ 2,671
Other postretirement benefits	538	164	702
Total	$ 3,209	$ 164	$ 3,373

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

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

Note 8 — Commitments and Contingent Liabilities

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

Note 9 — Subsequent Events

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

On October 21, 2019, AgFirst's Board of Directors indicated an intention to declare, in December 2019, a special patronage distribution. The Association will receive between approximately $7,532 and $8,537 which will be recorded as patronage refunds from other Farm Credit institutions.