

The First Quarter Ended March 31, 2018



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The consolidated financial statements of *AgTexas Farm Credit Services* ("Association") are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. Other financial information included in the quarterly report is consistent with that in the consolidated financial statements and there are no significant changes in the association's internal controls or in other factors that could significantly affects such controls during the quarter.

The undersigned certify that this quarterly report has been reviewed and prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate and complete to the best of his knowledge and belief.

Tim McDonald, Chief Executive Officer May 9, 2018

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Dennis Anthony, Chairman, Board of Directors May 9, 2018

Jerry Spruill, Chief Financial Officer May 9, 2018



## Management's Discussion and Analysis

The first quarter consolidated financial statements of AgTexas Farm Credit Services, including its wholly-owned subsidiaries AgTexas, PCA and AgTexas, FLCA (collectively referred to herein as the "Association"), is unaudited, but contains all adjustments necessary for a fair presentation of the interim financial condition and results of operations. The statements are prepared in conformity with generally accepted accounting principles and prevailing practices within the banking industry. In preparing these consolidated statements and meeting its responsibility for reliable financial information, management depends upon the Association's accounting and internal control systems which have been designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized and recorded.

The Association is a member of the *Farm Credit System* ("**System**"), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended and the regulations of the *Farm Credit Administration* ("**FCA**") promulgated thereunder.

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations the Association for the quarter ended March 31, 2018 and should be read in conjunction with the accompanying *unaudited consolidated financial statements* ("CFS") and the *Association's 2017 Annual Report to Stockholders* ("2017 Annual Report"). Management prepared the accompanying CFS under the oversight of the Association's Audit Committee.

## Significant Events.

The Association distributed patronage of approximately \$12.8 million in cash and an additional \$2.8 million in allocated equities in the first quarter of 2018. This represented the 2017 patronage declared by the Association.

#### Loan Portfolio.

Total loans outstanding at March 31, 2018, including nonaccrual loans, were \$1,776,128,548 compared to \$1,853,249,655 at December 31, 2017, reflecting a decrease of 4.2 percent. Nonaccrual loans as a percentage of total loans outstanding were 1.0 percent at March 31, 2018, compared to 1.2 percent at December 31, 2017.

The Association recorded \$28,495 in recoveries and \$1,244,273 in charge-offs for the quarter ended March 31, 2018 and \$24 in recoveries and \$0 in charge-offs for the same period in 2017. The Association's allowance for credit losses, which consists of the allowance for loan losses and the reserve for unfunded credit commitments, was 0.6 percent and 0.5 percent of total loans outstanding as of March 31, 2018 and December 31, 2017, respectively.

The financial performance of the Association may be significantly impacted by the quality of loans within the loan portfolio. Internal policies and procedures, as well as third party credit reviews and examinations help to ensure asset quality is properly reflected. Additional detail on credit quality is illustrated in the following table.

	March 31, 2018	March 31, 2017	December 31, 2017
Acceptable	95.4%	94.7%	94.7%
OAEM	1.3%	2.7%	2.2%
Substandard/doubtful	3.3%	2.6%	3.1%
	100.0%	100.0%	100.0%



	March 31, 2018			December 31, 2017		
Loan Type		Amount	%		Amount	%
Real estate mortgage	\$	1,000,723,848	56.3%	\$	999,829,310	53.9%
Production and						
intermediate term		552,286,096	31.1%		641,092,903	34.6%
Agribusiness:						
Loans to cooperatives		6,280,408	0.4%		5,799,640	0.3%
Processing and marketing		86,745,903	4.9%		79,503,746	4.3%
Farm-related business		20,228,498	1.1%		19,533,037	1.1%
Communication		14,740,081	0.8%		10,741,186	0.6%
Energy		5,079,524	0.3%		4,962,838	0.3%
Rural residential real estate		6,962,508	0.4%		6,431,219	0.3%
Lease receivables		482,576	0.0%		516,696	0.0%
Mission-related investments		82,599,106	4.7%		84,839,080	4.6%
Total	\$	1,776,128,548	100.0%	\$	1,853,249,655	100.0%

Changes in the Association's loan portfolio from December 31, 2017 to March 31, 2018 follow:

The Association's portfolio includes significant *mission-related investments* ("**MRIs**"), including the *Rural America Bond Pilot Program* ("**RAB**") as approved by the FCA. RAB is designed to meet the growing and changing needs of agricultural enterprises, agribusinesses and various infrastructure needs in rural communities through investment in these areas. FCA ended the RAB pilot program as of December 31, 2014.

**Risk Exposure**. High risk assets include impaired loans and other property owned. Impaired loans are comprised of nonaccrual, past due  $\geq$  90 days and still accruing interest and formally restructured loans. The following table illustrates the Association's components and trends of high risk assets:

	March 31, 2018				December 31, 2017			
		Amount	%		Amount	%		
Nonaccrual	\$	17,172,590	87.9%	\$	22,490,616	85.2%		
90 days past due and still								
accruing interest		1,371,249	7.0%		2,890,170	11.0%		
Formally restructured		-	0.0%		-	0.0%		
Other property owned, net		1,000,000	5.1%		1,000,000	3.8%		
Total	\$	19,543,839	100.0%	\$	26,380,786	100.0%		

Results of Operations. Changes in the Association's results of operations for the quarters ended March 31, 2018 and 2017 follow:

. .

	Quarter ended				
	Ma	arch 31, 2018	March 31, 201		
		Amount		Amount	
Interest income	\$	20,131,591	\$	16,225,161	
Interest expense		(9,221,564)		(6,671,864)	
(Provision for) reversal of loan losses		(2,221,966)		23,899	
Net interest margin		8,688,061		9,577,196	
Noninterest income		4,449,836		3,384,740	
Noninterest expense		(7,508,238)		(7,317,417)	
Net income	\$	5,629,659	\$	5,644,519	



## Management's Discussion and Analysis

Interest margin (interest income less interest expense) is the principal source of earnings and results from relative volumes of interestearning assets and interest-bearing liabilities, yields on interest-earning assets and rates on interest-bearing liabilities. Increases in interest income and expense are due to growth in volume along with increasing interest rates. Provision for loan losses increase is due to a large specific reserve on a loan relationship. Noninterest income increase is primarily due to a FCSIC refund of \$1.1 million. Noninterest expense increased modestly over the prior period.

The effects of changes in average volumes, yields and rates on interest margin follow:

•	For the three n		For the three months ended			
	March 3	1, 2018	March 31, 2017			
	Average		Average			
	Balance	Interest	Balance	Interest		
Total loans and investments	\$ 1,790,737,176	\$ 20,131,591	\$1,575,682,229	\$ 16,225,161		
Interest-bearing liabilities	1,590,926,108	9,221,564	1,397,543,192	6,671,864		
Impact of capital	\$ 199,811,068		\$ 178,139,037			
Net interest income		\$ 10,910,027		\$ 9,553,297		
			=			
	201	8	20	17		
	Average	e Yield	Average Yield			
Yield on loans and investments	4.56	6%	4.18%			
Cost of interest-bearing	2.35	5%	1.94%			
Interest rate spread	2.21	%	2.24%			
Interest rate margin	2.47	7%	2.46%			
C						
		Quarter ende	ed March 31:			
			s. 2017			
		Increase (decrease) due to				
	Volur	<b>`</b>	ate Tot	al		
Interest income				06,430		
Interest expense	,	, . ,	, . ,	49,700		
Net interest income				56,730		

The Association's return on average assets was 1.22 percent and 1.39 percent for the quarters ended March 31, 2018 and 2017, respectively. The Association's return on average equity was 9.22 percent and 10.34 percent for the quarters ended March 31, 2018 and 2017, respectively.

**Liquidity and Funding Sources.** *Interest rate risk* ("**IRR**") inherent in the loan portfolio is substantially mitigated through the funding relationship with the FCBT. FCBT manages IRR through direct loan pricing and asset/liability management. The Association's primary source of liquidity and funding is a direct note payable to FCBT. The following schedule summarizes the Association's borrowings:

	M	larch 31, 2018	December 31, 20		
Note payable to the Bank	\$	1,562,618,607	\$	1,645,463,626	
Accrued interest on note payable		3,209,630		3,128,827	
Total	\$	1,565,828,237	\$	1,648,592,453	



## Management's Discussion and Analysis

The Association operates under a *general financing agreement* ("**GFA**") with the bank. The current GFA is effective through September 30, 2018. The primary source of liquidity and funding for the Association is a direct loan from the bank. The outstanding balance of \$1,562,618,607 as of March 31, 2018, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.40 percent at March 31, 2018. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the bank and is governed by the GFA. The decrease in note payable to the bank since December 31, 2017, is due to the Association's decrease in loan volume. The Association's own funds, which represent the amount of the Association may borrow from the bank as of March 31, 2018, was \$1,761,788,602 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, unless sooner terminated by the bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the bank, upon giving the bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the bank 120 days' prior written notice.

**Capital Resources**. The Association's members' equity was \$249,778,070 and \$244,702,697 at March 31, 2018 and December 31, 2017, respectively, a \$5,075,373 increase. The increase approximates current quarter's earnings. The Association's debt as a percentage of members' equity was 6.32:1 as of March 31, 2018, compared to 6.91:1 as of December 31, 2017. FCA regulations require associations to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and *unallocated retained earnings and equivalents* ("**UREE**") ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of March 31, 2018, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements. See Note 1 in CFS.

**Relationship With FCBT**. The Association has a statutory obligation to borrow only from FCBT, which is discussed in note 10, *Note Payable to FCBT*, in the Association's consolidated financial statements in the 2017 Annual Report.

FCBT's ability to access Association capital is discussed in note 2, *Summary of Significant Accounting Policies*, in the Association's consolidated financial statements in the 2017 Annual Report, within the *Farm Credit Bank of Texas Capital Stock* section.

FCBT's role to help mitigate Association exposure to IRR is described in the *Liquidity and Funding Sources* section of *Management's Discussion and Analysis of Financial Condition and Results of Operations* and note 10, *Note Payable to FCBT*, in the Association's consolidated financial statements in the 2017 Annual Report.

FCBT provides computer systems to support the critical operations of all *10th Farm Credit District* ("**District**") associations. In addition, each association has operating systems and facility-based systems that are not supported by FCBT. As disclosed in note 14, *Related Party Transactions*, in the Association's consolidated financial statements in the 2017 Annual Report, FCBT provides many services to the Association, which include administrative, marketing and accounting services and information systems.

The Association's financial condition may be impacted by factors that affect FCBT. The financial condition and results of operations of FCBT may materially affect Association stockholders' investment in the Association.

Annual and Quarterly Stockholder Report Availability. The District's annual and quarterly stockholder reports, as well as those of the bank, are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. Copies of the district's quarterly and annual stockholder reports also can be requested by e-mail at *fcb@farmcreditbank.com*. The annual and quarterly stockholder reports for the bank and the district are also available on its website at *www.farmcreditbank.com*.

Annual and quarterly stockholder reports for the Association are available free of charge on the Association's website www.agtexas.com or by *i*) writing to AgTexas Farm Credit Services, P.O. Box 53240, Lubbock, Texas 79453, *ii*) calling (806) 687-4068, or *iii*) e-mailing jerry.spruill@agtexas.com.



# **Unaudited Consolidated Balance Sheets**

	March 31, 2018		December 31, 2017		
		Unaudited	Audited		
Assets					
Cash	\$	33,082	\$	33,668	
Investments		2,038,917		2,669,098	
Loans		1,776,128,548		1,853,249,655	
Less: allowance for loan losses		9,049,216		8,079,162	
Net loans		1,767,079,332		1,845,170,493	
Accrued interest receivable		19,197,612		22,157,921	
Investment in and receivable from					
the Farm Credit Bank of Texas:					
Capital stock		31,235,885		31,235,885	
Other		2,625,919		12,410,854	
Other property owned, net		1,000,000		1,000,000	
Premises and equipment		20,222,869		19,445,056	
Other assets		2,509,169		1,172,557	
Total assets	\$	1,845,942,785	\$	1,935,295,532	
<u>Liabilities</u>					
Note payable to the Farm Credit Bank of Texas	\$	1,562,618,607	\$	1,645,463,626	
Advance conditional payments		15,146,111		11,129,758	
Accrued interest payable		3,209,630		3,128,827	
Drafts outstanding		-		1,046,189	
Accrued postretirement benefit liability		7,591,316		7,533,991	
Patronage distributions payable		32		12,769,137	
Other liabilities		7,599,019		9,521,307	
Total liabilities		1,596,164,715		1,690,592,835	
<u>Members' Equity</u>					
Capital stock and participation certificates		4,109,400		4,151,105	
Preferred stock		20,000,000		20,000,000	
Allocated retained earnings		22,266,970		22,266,970	
Unallocated retained earnings		129,129,849		124,012,510	
Additional paid-in capital		75,310,003		75,310,003	
Accumulated other comprehensive income		(1,038,152)		(1,037,891)	
Total members' equity		249,778,070		244,702,697	
Total liabilities and members' equity	\$	1,845,942,785	\$	1,935,295,532	

# AG TEXAS FARM CREDIT SERVICES

## **Unaudited Consolidated Statements of Comprehensive Income**

	For the three months ended					
	March 31, 2018	March 31, 2017 Unaudited				
	Unaudited					
Interest income						
Loans	\$ 20,096,537	\$ 16,176,767				
Investments	35,054	48,394				
Total interest income	20,131,591	16,225,161				
Interest expense						
Note payable to the Farm Credit Bank of Texas	9,210,507	6,660,788				
Advance conditional payments	11,057	11,076				
Total interest expense	9,221,564	6,671,864				
Net interest income	10,910,027	9,553,297				
Provision for (reversal of) loan losses Net interest income after	2,221,966	(23,899)				
provision for losses	8,688,061	9,577,196				
Noninterest income						
Farm Credit Bank of Texas patronage income	2,598,981	2,390,661				
Loan fees	161,433	248,943				
Fees for financially related services	390,004	299,216				
Other	1,299,418	445,920				
Total noninterest income	4,449,836	3,384,740				
Noninterest expenses						
Salaries and employee benefits	4,956,188	4,731,890				
Directors' expense	124,221	117,821				
Purchased services	508,095	423,451				
Travel	286,560	257,787				
Occupancy and equipment	400,560	381,514				
Communication	90,139	94,896				
Advertising	121,041	172,719				
Public and member relations	276,088	260,734				
Federally regulated examination fees	126,281	116,425				
FCSIC insurance premiums	285,910	417,308				
Other components of net periodic						
postretirement benefit cost	74,147	59,995				
Other noninterest expense	259,008	282,878				
Total noninterest expenses	7,508,238	7,317,417				
Net income	5,629,659	5,644,519				
Other comprehensive income:						
Change in postretirement benefit plans	(261)	(14,802)				
Comprehensive income	\$ 5,629,398	\$ 5,629,717				

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



# Unaudited Consolidated Statements of Changes in Members' Equity

	-	pital Stock/				Additional		ccumulated Other	Total
		rticipation	Preferred		l Earnings	Paid-In		mprehensive	Members'
	C	ertificates	Stock	Allocated	Unallocated	Capital	In	come (Loss)	Equity
Balance at December 31, 2016	\$	4,050,575	\$ -	\$25,144,487	\$ 112,924,216	\$75,446,357	\$	(278,282)	\$ 217,287,353
Comprehensive income		-	-	-	5,644,519	-		(14,802)	5,629,717
Preferred stock issued		-	20,000,000	-	-	-		-	20,000,000
Capital stock/participation									
certificates issued		219,835	-	-	-	-		-	219,835
Capital stock/participation									
certificates retired		(221,345)	-	-	-	-		-	(221,345)
Patronage dividends:									
Paid or accrued		-	-	-	(63,034)	-		-	(63,034)
Balance at March 31, 2017	\$	4,049,065	\$20,000,000	\$25,144,487	\$ 118,505,701	\$75,446,357	\$	(293,084)	\$ 242,852,526
Balance at December 31, 2017	\$	4,151,105	\$20,000,000	\$22,266,970	\$ 124,012,510	\$75,310,003	\$	(1,037,891)	\$ 244,702,697
Comprehensive income		-	-	-	5,629,659	-		(261)	5,629,398
Capital stock/participation								( )	
certificates issued		176,355	-	-	-	-		-	176,355
Capital stock/participation		,							,
certificates retired		(218,060)	-	-	-	-		-	(218,060)
Preferred stock dividends		-	-	-	(500,000)	-		-	(500,000)
Patronage dividends:					( ) )				( ) )
Paid or accrued		-	-	-	(12,320)	-		-	(12,320)
Balance at March 31, 2018	\$	4,109,400	\$20,000,000	\$22,266,970	\$ 129,129,849	\$75,310,003	\$	(1,038,152)	\$ 249,778,070
							_		



#### Note 1: Organization, Operations and Significant Accounting Policies

AgTexas Farm Credit Services ("AgTX ACA") and its wholly-owned subsidiaries, AgTexas, PCA ("PCA") and AgTexas, FLCA ("FLCA") are collectively referred to herein as the "Association." AgTX ACA provides financing and related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. FLCA makes secured long-term agricultural real estate and rural home mortgage loans. PCA makes short- and intermediate-term loans for agricultural production or operating purposes. AgTX ACA is a lending institution of the *Farm Credit System* ("System"), which was established by Acts of Congress to meet the needs of American agriculture. AgTX ACA serves 43 counties in in central and west Texas.

These notes and the encompassing unaudited consolidated financial statements for AgTX ACA (collectively referred to herein as "**CFS**"), include the accounts of PCA and FLCA. All significant intercompany balances and transactions are eliminated in consolidation. In management's opinion, these CFS reflect all adjustments necessary to fairly state results for the interim periods presented, which are of a normal recurring nature.

The accompanying unaudited financial statements have been prepared in accordance with *accounting principles generally accepted in the U.S.* ("GAAP") for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2017, as contained in the 2017 Annual Report to Stockholders.

In the opinion of management, the CFS contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with GAAP, except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by *Farm Credit Administration* ("FCA"), Associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2017 as contained in the 2017 Annual Report to Stockholders. The preparation of financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2018. Descriptions of the significant accounting policies are included in the 2017 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

Significant Recent Accounting Pronouncements. In February 2018, the Financial Accounting Standards Board ("FASB") issued guidance entitled "Income Statement — Reporting Comprehensive Income — Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This guidance allows for the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the recently issued tax legislation, Tax Cuts and Jobs Act ("TCJA") that lowered the federal corporate tax rate from 35% to 21%. The amount of the reclassification shall include the effect of the change in the tax rate on gross deferred tax amounts and related valuation allowances at the date of enactment of the TCJA related to items remaining in accumulated other comprehensive income. The guidance becomes effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

In August 2017, FASB issued guidance entitled "*Targeted Improvements to Accounting for Hedging Activities*." The guidance better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance also addresses the timing of effectiveness testing, qualitative and quantitative effectiveness testing and components that can be excluded from effectiveness testing. This guidance becomes effective for interim and annual periods beginning after December 15, 2018. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.



In March 2017, the FASB issued guidance entitled "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost." The guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not impact the Association's financial condition but could change the classification of certain items in the results of operations.

In August 2016, the FASB issued guidance entitled "*Classification of Certain Cash Receipts and Cash Payments*." The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations but could change the classification of certain items in the statement of cash flows.

In June 2016, FASB issued guidance entitled "*Measurement of Credit Losses on Financial Instruments*". The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, FASB issued guidance entitled "*Leases*." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In January 2016, FASB issued guidance entitled "*Recognition and Measurement of Financial Assets and Liabilities*". For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not impact the Association's financial condition or its results of operations.

In May 2014, FASB issued guidance entitled, "*Revenue from Contracts with Customers*", which governs revenue recognition from contracts with customers and requires recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by FASB are excluded from the scope of this new revenue recognition guidance. Accordingly, most of the Association's contracts will be excluded from the scope of this new guidance. In August 2015, FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association determined the effect was not material to its financial condition or results of operations and will not change its current recognition practices.

Reclassifications. Certain prior year amounts have been aggregated and/or reclassified to conform with the current interim presentation.



### Note 2: Held to Maturity ("HTM") Investment Securities

*Federal Agricultural Mortgage Corporation* ("**Farmer Mac**") guaranteed *agricultural mortgage-backed securities* ("**AMBS**") comprise the Association's investment portfolio and the Association services the underlying loans. Additional information follows:

	March 31, 2018								
		Gross	Gross		Weighted				
	Amortized	Unrealized	Unrealized		Average				
	Cost	Gains	Losses	Fair Value	Yield				
AMBS	\$ 2,038,917	\$ -	\$ (8,880)	\$ 2,030,037	5.69%				
		D	ecember 31, 20	17					
		D Gross	ecember 31, 20 Gross	17	Weighted				
	Amortized		,	17	Weighted Average				
	Amortized Cost	Gross	Gross	17 Fair Value	e				

The Association has not experienced impairments of these securities. Farmer Mac guarantees the underlying mortgages and the Association has the ability and intent to hold these securities to maturity or pay-off and it is unlikely the Association would be required to sell these securities. These AMBS have contractual weighted average maturities of 3.6 years as of March 31, 2018, however, expected maturities differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

#### Note 3: Loans and Allowance for Loan Losses ("ALL")

Loans. Loan *carrying amounts* (outstanding principal adjusted as applicable for capitalized accrued interest, direct partial charge-offs, deferred fees or costs on originated loans and unamortized purchase premiums and discounts; excludes uncapitalized accrued interest) by portfolio *segment* follows:

	March 31, 2018				December 31, 2017			
Loan Type	Amount		%	Amount		%		
Real estate mortgage	\$ 1,000,723,848		56.3%	\$	999,829,310	53.9%		
Production and								
intermediate term		552,286,096	31.1%		641,092,903	34.6%		
Agribusiness:								
Loans to cooperatives		6,280,408	0.4%		5,799,640	0.3%		
Processing and marketing		86,745,903	4.9%		79,503,746	4.3%		
Farm-related business		20,228,498	1.1%		19,533,037	1.1%		
Communication		14,740,081	0.8%		10,741,186	0.6%		
Energy		5,079,524	0.3%		4,962,838	0.3%		
Rural residential real estate		6,962,508	0.4%		6,431,219	0.3%		
Lease receivables		482,576	0.0%		516,696	0.0%		
Mission-related investments		82,599,106	4.7%		84,839,080	4.6%		
Total	\$	1,776,128,548	100.0%	\$	1,853,249,655	100.0%		



Mission-related investment and real estate mortgage loans purchased with 100% U.S. government agency or government sponsored enterprise guarantees present essentially no credit risk other than purchase premiums, which are forfeited when borrowers prepay or refinance their loans before the premiums are fully amortized. Management anticipates and considers potential prepayments to estimate an appropriate amortization period. Net purchased premiums included in the mission-related investment and real estate mortgage loan balances above as of March 31, 2018 and December 31, 2017, follow:

	Ma	rch 31, 2018	Dece	mber 31, 2017
Real estate mortgage	\$	5,715,452	\$	6,210,537
Mission-related investments		864,510	_	999,190
Total premium	\$	6,579,962	\$	7,209,727

The Association may purchase or sell participations in loans to diversify risk, manage loan volume and comply with FCA regulations. The following table presents information regarding the balances of participations purchased and sold as of March 31, 2018:

	Other Farm Cre	dit Institutions	Non-Farm Cree	dit In	stitutions	Total					
	Participations	Participations	Participations	Par	ticipations	Participations	Participations				
	Purchased	Sold	Purchased		Sold	Purchased	Sold				
Real estate mortgage	\$ 63,683,457	\$ 151,463,082	\$ 235,432,442	\$	2,911,856	\$ 299,115,899	\$ 154,374,938				
Production and											
intermediate term	48,054,567	382,646,145	-		-	48,054,567	382,646,145				
Agribusiness	92,382,752	-	-		-	92,382,752	-				
Communication	14,740,081	-	-		-	14,740,081	-				
Energy	5,079,524	-	-		-	5,079,524	-				
Lease receivables	340,773				-	340,773					
Total	\$ 224,281,154	\$ 534,109,227	\$ 235,432,442	\$	2,911,856	\$ 459,713,596	\$ 537,021,083				

The Association is authorized under the Farm Credit Act to accept *advance conditional payments* ("ACPs") from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured and interest is generally paid by the association on such balances. Balances of ACPs were \$28,378,846 and \$25,375,875 at March 31, 2018 and December 31, 2017, respectively.

Credit Quality. Loans are the Association's primary asset. Collectability of these assets is critical to the Association's financial position and results of operations. Collectability is primarily a function of credit quality.

Loans that have not performed in accordance with terms demonstrate heightened credit risk and the level and trends in non-performing loans is a strong indicator of credit quality. Non-performing loans and *other property owned* ("**OPO**") comprise non-performing assets.



The recorded investment in a loan, as defined by GAAP, includes the outstanding principal adjusted as applicable for accrued interest, direct partial charge-offs, deferred fees or costs on originated loans and unamortized purchase premiums and discounts; the recorded investment in a loan does not include an allocation of the ALL or any specific valuation adjustments. The recorded investment in non-performing asset balances by loan portfolio segment and OPO follow:

	Ма	urch 31, 2018	Dece	mber 31, 2017
Nonaccrual loans:				
Real estate mortgage	\$	10,299,219	\$	11,168,908
Production and intermediate term		5,102,033		9,633,858
Agribusiness		200,356		-
Rural residential real estate		-		52,308
Mission-related investments		1,570,982		1,635,542
Total nonaccrual loans		17,172,590		22,490,616
Accruing restructured loans:				
Real estate mortgage		-		-
Production and intermediate term		-		-
Agribusiness		-		-
Rural residential real estate		-		-
Mission-related investments		-		-
Total accruing restructured loans		-		-
Accruing loans 90 days or more past due:				
Real estate mortgage		397,257		-
Production and intermediate term		973,992		2,890,170
Agribusiness		-		-
Rural residential real estate		-		-
Mission-related investments		-		-
Total accruing loans 90 days				
or more past due		1,371,249		2,890,170
Total non-performing loans		18,543,839		25,380,786
Other property owned		1,000,000		1,000,000
Total non-performing assets	\$	19,543,839	\$	26,380,786



Age analysis of the recorded investment in past due loans by loan segment follows:

March 31, 2018	••••	00 F				Recorded
	30-89	90 Days	Total	Not Past Due or		Investment
	Days	or More	Past	less than 30	Total	>90 days and
	Past Due	Past Due	Due	Days Past Due	Loans	Accruing
Real estate mortgage	\$ 4,213,701	\$ 9,219,144	\$13,432,845	\$ 998,547,841	\$ 1,011,980,686	\$ 397,257
Production and						
intermediate-term	7,922,139	4,665,589	12,587,728	546,515,083	559,102,811	973,992
Loans to cooperatives	-	-	-	6,311,314	6,311,314	-
Processing and marketing	-	-	-	86,938,365	86,938,365	-
Farm-related business	-	-	-	20,376,814	20,376,814	-
Communication	-	-	-	14,779,168	14,779,168	-
Energy	-	-	-	5,093,549	5,093,549	-
Rural residential real estate	435,088	-	435,088	6,565,356	7,000,444	-
Lease receivables	-	-	-	489,176	489,176	-
Mission-related investments	-	1,570,982	1,570,982	81,607,834	83,178,816	-
Total	\$12,570,928	\$15,455,715	\$28,026,643	\$ 1,767,224,500	\$ 1,795,251,143	\$ 1,371,249
December 31, 2017						Recorded
,	30-89	90 Days	Total	Not Past Due or		Investment
	Days	or More	Past	less than 30	Total	>90 days and
	Past Due	Past Due	Due	Days Past Due	Loans	Accruing
Real estate mortgage	\$ 7,073,786	\$ 5,104,579	\$12,178,365	\$ 1,000,604,161	\$ 1,012,782,526	<u> </u>
Production and						
intermediate-term	6,922,468	3,885,180	10,807,648	638,435,762	649,243,410	2,890,170
Loans to cooperatives	-	-	-	5,828,168	5,828,168	-
Processing and marketing	-	-	-	79,639,308	79,639,308	-
Farm-related business	1,999,154	-	1,999,154	17,752,608	19,751,762	-
Communication	-	-	-	10,772,792	10,772,792	-
Energy	-	-	-	4,975,385	4,975,385	-
Rural residential real estate	-	-	-	6,464,062	6,464,062	-
Lease receivables	-	_	-	523,880	523,880	-
Mission-related investments	-	1,635,542	1,635,542	83,695,133	85,330,675	-
Total	\$15,995,408	\$10,625,301	\$26,620,709			\$ 2,890,170

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

Management has rated each loan in the portfolio using the System's 14-point rating system. These aggregated classifications are a significant indicator of credit quality. The classification categories are defined as follows:

- Acceptable assets are expected to be fully collectible and represent the highest quality;
- Other assets especially mentioned ("OAEM") assets are currently collectible but exhibit some potential weakness;
- Substandard assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan;
- Doubtful assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable; and
- Loss assets are considered uncollectible.



The following table presents the Association's loan portfolio segment balances, including accrued interest thereon, as a percentage of the total category, as classified by management and aggregated under the FCA's Uniform Loan Classification System:

Real estate mortgage         96.9%         95.9%           Acceptable         96.9%         1.9%           Substandard/doubtful         2.2%         2.2%           Production and intermediate term         91.8%         91.4%           Acceptable         91.8%         91.4%           OAEM         2.5%         3.5%           Substandard/doubtful         5.7%         5.1%           Loans to cooperatives         100.0%         96.6%           Acceptable         100.0%         1.4%           Vacceptable         00.0%         0.0%           OAEM         0.0%         1.00.0%           Substandard/doubtful         0.0%         0.0%           Processing and marketing         96.7%         100.0%           Acceptable         90.0%         100.0%           Substandard/doubtful         3.3%         0.0%           Substandard/doubtful         0.0%         0.0%           Communication         0.0%         0.0%           Acceptable         100.0%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Communication         0.0%         0.0%		March 31, 2018	December 31, 2017
OAEM         0.9%         1.9%           Substandard/doubtful         2.2%         2.2%           Production and intermediate term         00.0%         100.0%           Acceptable         91.8%         91.4%           OAEM         2.5%         3.5%           Substandard/doubtful         5.7%         5.1%           Loans to cooperatives         00.0%         0.00%           Acceptable         00.0%         0.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Processing and marketing         0.0%         0.0%           Acceptable         0.0%         0.0%           Substandard/doubtful         3.3%         0.0%           Farm-related business         99.0%         100.0%           Acceptable         0.0%         0.0%           Communication         0.0%         0.0%           Acceptable         100.0%         100.0%           Communication         0.0%         0.0%           Acceptable         0.00%         0.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Commun		06.00/	05.00/
Substandard/doubtful         2.2% 100.0% 100.0%         2.2% 100.0% 100.0%           Production and intermediate term Acceptable         91.8% 91.4% 0AEM         91.4% 2.5% 3.5%           OAEM         2.5% 5.0%         3.5% 5.0%           Loans to cooperatives Acceptable         100.0% 0.0%         100.0% 0.0%           Acceptable         00.0% 0.0%         0.0% 0.0%           Substandard/doubtful         0.0% 0.0%         100.0% 0.0%           Processing and marketing Acceptable         96.7% 0.00%         100.0% 0.0%           Substandard/doubtful         3.3% 0.0%         0.0% 0.0%           Substandard/doubtful         3.3% 0.0%         0.0% 0.0%           Substandard/doubtful         100.0% 0.0%         100.0%           Communication Acceptable         0.0% 0.0%         0.0% 0.0%           Acceptable         000.0% 0.0%         0.0% 0.0%           Substandard/doubtful         0.0% 0.0%         0.0% 0.0%           Substandard/doubtful         0.0% 0.0%         0.0% 0.0%           Communication Acceptable         0.0% 0.0%         0.0% 0.0%           Acceptable         0.0% 0.0%         0.0% 0.0%           OAEM         0.0% 0.0%         0.0% 0.0%           Substandard/doubtful         0.0% 0.0%         0.0% 0.0% <tr< td=""><td><u>^</u></td><td></td><td></td></tr<>	<u>^</u>		
IOD.0%         IOD.0%           Production and intermediate term Acceptable         91.8%         91.4%           OAEM         2.5%         3.5%           Substandard/doubtful         5.7%         5.1%           Loans to cooperatives         00.0%         100.0%           Acceptable         100.0%         98.6%           OAEM         0.0%         0.0%           Substandard/doubtful         0.00%         14%           Processing and marketing         Acceptable         96.7%           Acceptable         96.7%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         3.3%         0.0%           Acceptable         99.0%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         100.0%         100.0%           Communication         100.0%         100.0%           Acceptable         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Communication         0.0%         0.0%           Acceptable         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Cocepta			
Production and intermediate term         91.8%         91.4%           Acceptable         91.8%         3.5%           Substandard/doubtful         5.7%         5.1%           Loans to cooperatives         100.0%         100.0%           Acceptable         100.0%         0.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Processing and marketing         0.0%         100.0%           Acceptable         96.7%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         3.3%         0.0%           Farm-related business         90.9%         100.0%           Acceptable         90.0%         100.0%           Communication         0.0%         0.0%           Acceptable         100.0%         100.0%           Communication         0.0%         0.0%           Acceptable         100.0%         100.0%           Communication         0.0%         0.0%           Acceptable         100.0%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%	Substandard/doubtin		
Acceptable         91.8%         91.4%           OAEM         2.5%         3.5%           Substandard/doubtful         5.7%         5.1%           Loans to cooperatives         100.0%         100.0%           Acceptable         100.0%         98.6%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         1.4%           Processing and marketing         Acceptable         96.7%           Acceptable         96.7%         100.0%           Coheman         0.0%         0.0%           Substandard/doubtful         3.3%         0.0%           Substandard/doubtful         3.3%         0.0%           Acceptable         99.0%         100.0%           Communication         0.0%         0.0%           Acceptable         100.0%         1000.0%           Construction         0.0%         0.0%           Acceptable         0.0%         0.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Communication         0.0%         0.0%           Acceptable         0.0%         0.0%           Acceptable	Production and intermediate term		
OAEM         2.5%         3.5%           Substandard/doubtful         5.7%         5.1%           Loans to cooperatives         100.0%         100.0%           Acceptable         100.0%         0.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Processing and marketing         96.7%         100.0%           Acceptable         96.7%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         3.3%         0.0%           Substandard/doubtful         3.3%         0.0%           GAEM         0.0%         0.00%           Communication         0.0%         0.0%           Acceptable         100.0%         100.0%           Communication         0.0%         0.0%           Acceptable         100.0%         100.0%           Communication         0.0%         0.0%           Acceptable         100.0%         100.0%           Communication         0.0%         0.0%           Acceptable         0.0%         0.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.		91.8%	91.4%
Idease         Idease         Idease           Loans to cooperatives         Acceptable         00.0%         98.6%           OAEM         0.0%         0.0%         0.0%           Substandard/doubtful         0.0%         1.4%         0.0%           Processing and marketing         96.7%         100.0%         0.0%           Acceptable         96.7%         100.0%         0.0%           Substandard/doubtful         3.3%         0.0%         0.0%           Farm-related business         99.0%         100.0%         0.0%           Acceptable         99.0%         100.0%         0.0%           Communication         100.0%         0.0%         0.0%           Acceptable         100.0%         100.0%         0.0%           OAEM         0.0%         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%         0.0%           Acceptable         100.0%         100.0%         100.0%           Acceptable         0.0%         0.0%         0.0%           Acceptable         0.0%         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%         0.0%           Coeptable <t< td=""><td></td><td>2.5%</td><td>3.5%</td></t<>		2.5%	3.5%
Loans to cooperatives         100.0%         98.6%           Acceptable         100.0%         0.0%           Substandard/doubtful         0.0%         1.4%           Processing and marketing         0.0%         100.0%           Acceptable         96.7%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         3.3%         0.0%           Farm-related business         99.0%         100.0%           Acceptable         99.0%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         1.0%         0.0%           Substandard/doubtful         1.0%         0.0%           Communication         0.0%         0.0%           Acceptable         0.0%         0.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Energy         100.0%         100.0%         100.0%           Acceptable         0.0%         0.0%         0.0%           Substandard/doubtful         0.0%         1.00.0%         100.0%           Caceptable         92.9%         93.0%         0.0%           Acceptabl	Substandard/doubtful	5.7%	5.1%
Acceptable         100.0%         98.6%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         1.4%           Processing and marketing         0.0%         100.0%           Acceptable         96.7%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         3.3%         0.0%           Farm-related business         99.0%         100.0%           Acceptable         99.0%         0.0%           OAEM         0.0%         0.0%           Substandard/doubtful         1.0%         0.0%           OAEM         0.0%         0.0%           Substandard/doubtful         1.00.0%         100.0%           Communication         100.0%         100.0%           Acceptable         0.0%         0.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Macceptable         00.0%         0.0%           Acceptable         0.0%         0.0%           Acceptable         0.0%         0.0%           Acceptable         92.9%         93.0%           Acceptable         92.9%		100.0%	100.0%
OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         1.4%           Processing and marketing         96.7%         100.0%           Acceptable         96.7%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         3.3%         0.0%           Farm-related business         90.0%         100.0%           Acceptable         99.0%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         1.0%         0.0%           Communication         100.0%         100.0%           Acceptable         100.0%         0.0%           OAEM         0.0%         0.0%           Substandard/doubtful         100.0%         100.0%           Communication         0.0%         0.0%           Acceptable         100.0%         100.0%           Codeptable         0.0%         0.0%           Acceptable         0.0%         0.0%           Acceptable         0.0%         100.0%           Acceptable         0.0%         100.0%           Acceptable         92.9%         93.0%           OAEM         0.0%	Loans to cooperatives		
Substandard/doubtful         0.0%         1.4%           Processing and marketing         100.0%         100.0%           Acceptable         96.7%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         3.3%         0.0%           Farm-related business         99.0%         100.0%           Acceptable         99.0%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         1.0%         0.0%           Communication         0.0%         0.0%           Acceptable         100.0%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Rural residential real estate         2.8%         3.0%           Acceptable         97.2%         95.3%           OAEM         2.8%         3.0%           Substandard/doubtful         0.0%         0.0%           OAEM		100.0%	98.6%
IO0.0%         IO0.0%           Processing and marketing Acceptable         96.7%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         3.3%         0.0%           Farm-related business Acceptable         99.0%         100.0%           Acceptable         99.0%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         1.0%         0.0%           Communication         100.0%         100.0%           Acceptable         0.0%         0.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Communication         0.0%         0.0%           Acceptable         100.0%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Naceptable         97.2%         95.3%           OAEM         2.8%         3.0%           Substandard/doubtful         0.0%         0.0%           IO0.0%         100.0%         100.0%           IO0.0%         0.0%         0.0%           Acceptable         92.9%         <		0.0%	0.0%
Processing and marketing Acceptable         96.7%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         3.3%         0.0%           Substandard/doubtful         3.3%         0.0%           Acceptable         99.0%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         1.0%         0.0%           Communication         0.0%         0.0%           Acceptable         0.00%         0.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Communication         0.0%         0.0%           Acceptable         0.00%         0.0%           Substandard/doubtful         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Acceptable         97.2%         95.3%           OAEM         2.8%         3.0%           Substandard/doubtful         0.0%         0.0%           Macceptable         92.9%         93.0%           OAEM         7.1%         7.0%           Substandard/doubtf	Substandard/doubtful		
Acceptable         96.7%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         3.3%         0.0%           Farm-related business         99.0%         100.0%           Acceptable         99.0%         0.0%           OAEM         0.0%         0.0%           Substandard/doubtful         1.0%         0.0%           Communication         100.0%         100.0%           Acceptable         100.0%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Acceptable         100.0%         100.0%           Communication         0.0%         0.0%           Acceptable         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Marceptable         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Acceptable         97.2%         95.3%           OAEM         2.8%         3.0%           Substandard/doubtful         0.0%         1.00.0%           I00.0%         100.0%         100.0%           Acceptable         92.9%<		100.0%	100.0%
OAEM         0.0%         0.0%           Substandard/doubtful         3.3%         0.0%           Farm-related business         100.0%         100.0%           Acceptable         99.0%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         100.0%         0.0%           Communication         100.0%         0.0%           Acceptable         0.0%         0.0%           OAEM         0.0%         0.0%           Substandard/doubtful         100.0%         100.0%           Communication         0.0%         0.0%           Acceptable         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Nural residential real estate         2.8%         3.0%           Acceptable         92.9%         93.0%           OAEM         0.0%         100.0%           Substandard/doubtful         0.0%         0.0%           I00.0%         100.0%         100.0%           Substandard/doubtful         0.0%         0.0%           OAEM         7.1%         7.0%           Substandard/doubt			4.0.0.00/
Substandard/doubtful         3.3%         0.0%           Farm-related business         100.0%         100.0%           Acceptable         99.0%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         1.0%         0.0%           Communication         100.0%         100.0%           Acceptable         100.0%         0.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Nacceptable         100.0%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Naceptable         0.0%         100.0%           OAEM         2.8%         3.0%           OAEM         2.8%         3.0%           OAEM         0.0%         1.7%           Substandard/doubtful         0.0%         0.0%           I00.0%         100.0%         100.0%           Substandard/doubtful         0.0%         0.0%           Nission-related investments			
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Farm-related business         99.0%         100.0%           Acceptable         99.0%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         1.0%         0.0%           Communication         100.0%         100.0%           Acceptable         100.0%         0.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Energy         100.0%         100.0%           Acceptable         100.0%         0.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Marceptable         0.0%         0.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Nural residential real estate         2.8%         3.0%           Acceptable         97.2%         95.3%           OAEM         2.8%         3.0%           Substandard/doubtful         0.0%         100.0%           Marceptable         92.9%         93.0%           OAEM         7.1%         7.0%           Acceptable         98.1%	Substandard/doubtrui		
Acceptable         99.0%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         1.0%         0.0%           Communication         100.0%         100.0%           Acceptable         100.0%         0.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Energy         100.0%         100.0%           Acceptable         100.0%         100.0%           Communication         0.0%         0.0%           Acceptable         100.0%         100.0%           Energy         100.0%         0.0%           Acceptable         0.0%         0.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         100.0%           Rural residential real estate         3.0%         3.0%           Acceptable         97.2%         95.3%           OAEM         2.8%         3.0%           Substandard/doubtful         0.0%         100.0%           Ioo.0%         100.0%         100.0%           Macceptable         92.9%         93.0%           OAEM         7.1%         7.0	Form related bugin agg	100.078	100.076
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Communication         100.0%         100.0%           Acceptable         100.0%         0.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Energy         100.0%         100.0%           Acceptable         100.0%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Mural residential real estate         0.0%         0.0%           Acceptable         97.2%         95.3%           OAEM         2.8%         3.0%           Substandard/doubtful         0.0%         100.0%           Lease receivables         2.8%         3.0%           Acceptable         92.9%         93.0%           OAEM         7.1%         7.0%           Substandard/doubtful         0.0%         0.0%           Mission-related investments         98.1%         98.1%           Acceptable         98.1%         98.1%           OAEM         0.0%         0.0%           Substandard/doubtful         1.9%         1.9%           Total Loans         95.4%         94.7%           Acceptable	Substandard/doubtin		
Acceptable         100.0%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Energy         100.0%         100.0%           Acceptable         100.0%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Mural residential real estate         0.0%         0.0%           Acceptable         97.2%         95.3%           OAEM         2.8%         3.0%           Substandard/doubtful         0.0%         100.0%           Lease receivables         2.8%         3.0%           Acceptable         92.9%         93.0%           OAEM         7.1%         7.0%           Substandard/doubtful         0.0%         0.0%           Mission-related investments         98.1%         98.1%           Acceptable         98.1%         98.1%           OAEM         0.0%         0.0%           Substandard/doubtful         1.9%         1.9%           Total Loans         95.4%         94.7%           Acceptable         95.4%         94.7%           OAEM         1.3%	Communication		
$\begin{array}{c cccc} OAEM & 0.0\% & 0.0\% \\ Substandard/doubtful & 0.0\% & 0.0\% \\ \hline Substandard/doubtful & 0.0\% & 0.0\% \\ \hline I00.0\% & 100.0\% & 100.0\% \\ \hline OAEM & 0.0\% & 0.0\% \\ Substandard/doubtful & 0.0\% & 0.0\% \\ \hline Substandard/doubtful & 0.0\% & 0.0\% \\ \hline Rural residential real estate \\ Acceptable & 97.2\% & 95.3\% \\ OAEM & 2.8\% & 3.0\% \\ Substandard/doubtful & 0.0\% & 1.7\% \\ \hline I00.0\% & 100.0\% \\ \hline Lease receivables & \\ Acceptable & 92.9\% & 93.0\% \\ OAEM & 7.1\% & 7.0\% \\ Substandard/doubtful & 0.0\% & 0.0\% \\ \hline Mission-related investments \\ Acceptable & 98.1\% & 98.1\% \\ OAEM & 0.0\% & 100.0\% \\ \hline Total Loans \\ Acceptable & 95.4\% & 94.7\% \\ OAEM & 1.3\% & 2.2\% \\ Substandard/doubtful & 1.3\% & 2.2\% \\ Substandard/doubtful & 3.3\% & 3.1\% \\ \hline \end{array}$		100.0%	100.0%
Interview         Interview <thinterview< th="">         Interview         <thinterview< th="">         Interview         Interview</thinterview<></thinterview<>	<u>^</u>	0.0%	0.0%
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Acceptable         100.0%         100.0%           OAEM         0.0%         0.0%           Substandard/doubtful         0.0%         0.0%           Rural residential real estate         100.0%         100.0%           Acceptable         97.2%         95.3%           OAEM         2.8%         3.0%           Substandard/doubtful         0.00%         1.7%           Maximum Composition         100.0%         100.0%           Lease receivables         2.8%         3.0%           Acceptable         92.9%         93.0%           OAEM         7.1%         7.0%           Substandard/doubtful         0.00%         0.0%           Mission-related investments         7.1%         7.0%           Acceptable         98.1%         98.1%           OAEM         0.0%         0.0%           Substandard/doubtful         1.9%         1.9%           Total Loans         4cceptable         95.4%         94.7%           OAEM         1.3%         2.2%           Substandard/doubtful         3.3%         3.1%		100.0%	100.0%
$\begin{array}{c c c c c c c c c c c c c c c c c c c $	••		
Substandard/doubtful $0.0\%$ $0.0\%$ Rural residential real estate $100.0\%$ $100.0\%$ Acceptable $97.2\%$ $95.3\%$ OAEM $2.8\%$ $3.0\%$ Substandard/doubtful $0.0\%$ $1.7\%$ Mass receivables $0.0\%$ $100.0\%$ Acceptable $92.9\%$ $93.0\%$ OAEM $7.1\%$ $7.0\%$ Substandard/doubtful $0.0\%$ $0.0\%$ Mission-related investments $98.1\%$ $98.1\%$ Acceptable $98.1\%$ $98.1\%$ OAEM $1.00.0\%$ $100.0\%$ Mission-related investments $98.1\%$ $98.1\%$ Acceptable $98.1\%$ $98.1\%$ OAEM $0.0\%$ $100.0\%$ Substandard/doubtful $1.9\%$ $1.9\%$ Total Loans $4cceptable$ $95.4\%$ $94.7\%$ OAEM $1.3\%$ $2.2\%$ Substandard/doubtful $3.3\%$ $3.1\%$	<u>^</u>		
Image: Number of the state         Image: Number of the state           Acceptable         97.2%         95.3%           OAEM         2.8%         3.0%           Substandard/doubtful $0.0\%$ $1.7\%$ Lease receivables $0.0\%$ $100.0\%$ Acceptable $92.9\%$ $93.0\%$ OAEM $7.1\%$ $7.0\%$ Substandard/doubtful $0.0\%$ $0.0\%$ Mission-related investments $98.1\%$ $98.1\%$ Acceptable $98.1\%$ $98.1\%$ OAEM $0.0\%$ $100.0\%$ Mission-related investments $98.1\%$ $98.1\%$ Acceptable $98.1\%$ $98.1\%$ OAEM $0.0\%$ $100.0\%$ Substandard/doubtful $1.9\%$ $1.9\%$ Total Loans $95.4\%$ $94.7\%$ Acceptable $95.4\%$ $94.7\%$ OAEM $1.3\%$ $2.2\%$ Substandard/doubtful $3.3\%$ $3.1\%$			
Rural residential real estate         97.2%         95.3%           Acceptable         97.2%         95.3%           OAEM         2.8%         3.0%           Substandard/doubtful         0.0%         1.7%           I00.0%         100.0%         100.0%           Lease receivables         92.9%         93.0%           Acceptable         92.9%         93.0%           OAEM         7.1%         7.0%           Substandard/doubtful         0.0%         0.0%           Mission-related investments         4cceptable         98.1%           Acceptable         98.1%         98.1%           OAEM         0.0%         0.0%           Substandard/doubtful         1.9%         1.9%           Total Loans         4cceptable         95.4%         94.7%           OAEM         1.3%         2.2%           Substandard/doubtful         3.3%         3.1%	Substandard/doubtful		
Acceptable       97.2%       95.3%         OAEM       2.8%       3.0%         Substandard/doubtful       0.0%       1.7%         100.0%       100.0%       100.0%         Lease receivables       92.9%       93.0%         Acceptable       92.9%       93.0%         OAEM       7.1%       7.0%         Substandard/doubtful       0.0%       0.0%         Mission-related investments       98.1%       98.1%         Acceptable       98.1%       98.1%         OAEM       0.0%       100.0%         Mission-related investments       98.1%       98.1%         Acceptable       98.1%       98.1%         OAEM       0.0%       1.00.0%         Total Loans       4cceptable       95.4%       94.7%         OAEM       1.3%       2.2%         Substandard/doubtful       3.3%       3.1%		100.0%	100.0%
OAEM         2.8%         3.0%           Substandard/doubtful         0.0%         1.7%           100.0%         100.0%         100.0%           Lease receivables         92.9%         93.0%           Acceptable         92.9%         93.0%           OAEM         7.1%         7.0%           Substandard/doubtful         0.0%         0.0%           Mission-related investments         100.0%         100.0%           Acceptable         98.1%         98.1%           OAEM         0.0%         0.0%           Substandard/doubtful         1.9%         1.9%           Total Loans         4cceptable         95.4%         94.7%           OAEM         1.3%         2.2%         Substandard/doubtful         3.3%         3.1%		07.20/	05.20/
Substandard/doubtful         0.0%         1.7%           100.0%         100.0%         100.0%           Lease receivables         92.9%         93.0%           Acceptable         92.9%         93.0%           OAEM         7.1%         7.0%           Substandard/doubtful         0.0%         0.0%           Mission-related investments         4cceptable         98.1%           Acceptable         98.1%         98.1%           OAEM         0.0%         0.0%           Substandard/doubtful         1.9%         1.9%           Total Loans         4cceptable         95.4%         94.7%           OAEM         1.3%         2.2%           Substandard/doubtful         3.3%         3.1%	<u>^</u>		
100.0%         100.0%           Lease receivables         92.9%         93.0%           Acceptable         92.9%         93.0%           OAEM         7.1%         7.0%           Substandard/doubtful         0.0%         0.0%           Mission-related investments         98.1%         98.1%           Acceptable         98.1%         0.0%           OAEM         0.0%         0.0%           Substandard/doubtful         1.9%         1.9%           Total Loans         4cceptable         95.4%         94.7%           OAEM         1.3%         2.2%           Substandard/doubtful         3.3%         3.1%			
Lease receivables         92.9%         93.0%           Acceptable         92.9%         93.0%           OAEM         7.1%         7.0%           Substandard/doubtful         0.0%         0.0%           Mission-related investments         100.0%         100.0%           Acceptable         98.1%         98.1%           OAEM         0.0%         0.0%           Substandard/doubtful         1.9%         1.9%           Total Loans         4cceptable         95.4%         94.7%           OAEM         1.3%         2.2%         Substandard/doubtful         3.3%         3.1%	Substandard/doubtin		
Acceptable         92.9%         93.0%           OAEM         7.1%         7.0%           Substandard/doubtful         0.0%         0.0%           Mission-related investments         100.0%         100.0%           Acceptable         98.1%         98.1%           OAEM         0.0%         0.0%           Substandard/doubtful         1.9%         1.9%           Total Loans         4cceptable         95.4%         94.7%           OAEM         1.3%         2.2%           Substandard/doubtful         3.3%         3.1%	Lease receivables	100.070	100.070
OAEM         7.1%         7.0%           Substandard/doubtful         0.0%         0.0%           Mission-related investments         100.0%         100.0%           Acceptable         98.1%         98.1%           OAEM         0.0%         0.0%           Substandard/doubtful         1.9%         1.9%           Total Loans         4cceptable         95.4%         94.7%           OAEM         1.3%         2.2%         Substandard/doubtful         3.3%         3.1%		92.9%	93.0%
IOD.0%         IOD.0%           Mission-related investments         98.1%           Acceptable         98.1%           OAEM         0.0%           Substandard/doubtful         1.9%           Total Loans         100.0%           Acceptable         95.4%           OAEM         1.3%           Substandard/doubtful         3.3%	<u>^</u>		
Image: 100.0%         Image: 100.0%           Mission-related investments         98.1%         98.1%           Acceptable         98.1%         98.1%           OAEM         0.0%         0.0%           Substandard/doubtful         1.9%         1.9%           Total Loans         4cceptable         95.4%         94.7%           OAEM         1.3%         2.2%           Substandard/doubtful         3.3%         3.1%	Substandard/doubtful	0.0%	0.0%
Acceptable         98.1%         98.1%           OAEM         0.0%         0.0%           Substandard/doubtful         1.9%         1.9%           Total Loans         100.0%         100.0%           Acceptable         95.4%         94.7%           OAEM         1.3%         2.2%           Substandard/doubtful         3.3%         3.1%			
OAEM         0.0%         0.0%           Substandard/doubtful         1.9%         1.9%           Total Loans         100.0%         100.0%           Acceptable         95.4%         94.7%           OAEM         1.3%         2.2%           Substandard/doubtful         3.3%         3.1%	Mission-related investments		
Substandard/doubtful         1.9%         1.9%           100.0%         100.0%         100.0%           Total Loans         95.4%         94.7%           OAEM         1.3%         2.2%           Substandard/doubtful         3.3%         3.1%	Acceptable	98.1%	98.1%
IOD.0%         IOD.0%           Total Loans         4.7%           Acceptable         95.4%         94.7%           OAEM         1.3%         2.2%           Substandard/doubtful         3.3%         3.1%	OAEM	0.0%	0.0%
Total LoansAcceptable95.4%OAEM1.3%Substandard/doubtful3.3%	Substandard/doubtful	1.9%	1.9%
Acceptable         95.4%         94.7%           OAEM         1.3%         2.2%           Substandard/doubtful         3.3%         3.1%		100.0%	100.0%
OAEM         1.3%         2.2%           Substandard/doubtful         3.3%         3.1%			
Substandard/doubtful 3.3% 3.1%	<u>^</u>		
	Substandard/doubtful		
		100.0%	100.0%



Based on current information and events, management has determined it is probable that scheduled payments of principal or interest on the following loans will not be collected when due according to the contractual terms of the loan agreements and has classified these loans as impaired. Once classified as impaired, management then determines the amount of impairment, if any, on each individual impaired loan; aggregated impairment on individual impaired loans is included in management's estimate of an appropriate ALL at each reporting date.

Impaired loan information, by loan portfolio segment, follows:

		March 31, 2018		Ľ	December 31, 201	17
		Unpaid			Unpaid	
	Recorded	Principal	Related	Recorded	Principal	Related
	Investment	Balance <sup>a</sup>	Allowance	Investment	Balance <sup>a</sup>	Allowance
Impaired loans with a related						
allowance for credit losses:						
Real estate mortgage	\$ 1,133,576	\$ 1,133,576	\$ 614,310	\$ -	\$ -	\$ -
Production and intermediate term	3,635,167	4,958,174	3,251,920	5,181,200	5,265,207	2,243,200
Farm-related business	200,356	202,376	115,500	-	-	-
Rural residential real estate	-	-	-	-	-	-
Mission-related investments	-	-	-	-	-	-
Total	4,969,099	6,294,126	3,981,730	5,181,200	5,265,207	2,243,200
Impaired loans with no related						
allowance for credit losses:						
Real estate mortgage	\$ 9,562,900	\$ 9,978,986	\$ -	\$11,168,908	\$11,604,775	\$ -
Production and intermediate term	2,440,858	4,632,679	-	7,342,828	9,561,723	-
Farm-related business	-	-	-	-	-	-
Rural residential real estate	-	-	-	52,308	52,308	-
Mission-related investments	1,570,982	1,570,982	-	1,635,542	1,635,542	-
Total	13,574,740	16,182,647	-	20,199,586	22,854,348	-
Total impaired loans:						
Real estate mortgage	\$10,696,476	\$11,112,562	\$ 614,310	\$11,168,908	\$11,604,775	\$ -
Production and intermediate term	6,076,025	9,590,853	3,251,920	12,524,028	14,826,930	2,243,200
Farm-related business	200,356	202,376	115,500	-	-	-
Rural residential real estate	-	-	-	52,308	52,308	-
Mission-related investments	1,570,982	1,570,982	-	1,635,542	1,635,542	-
Total	\$18,543,839	\$22,476,773	\$ 3,981,730	\$25,380,786	\$28,119,555	\$ 2,243,200



	For the Qua March				For the Qua March			For the Year Ended December 31, 2017					
	Average	Iı	nterest	Average		In	terest		rage	I	nterest		
	Impaired	Iı	ncome	I	mpaired	In	come	Impa	aired	Ι	ncome		
	Loans	Rec	cognized		Loans	Rec	ognized	Lo	ans	Ree	cognized		
Impaired loans with a related allowance for credit losses:													
Real estate mortgage	\$ 780,908	\$	-	\$	792,179	\$	-	\$	-	\$	-		
Production and intermediate term	3,463,209		-		-		-	5	28,653		41,299		
Farm-related business	217,258		-		-		-		-		-		
Rural residential real estate	-		-		-		-		-		-		
Mission-related investments	-		-		-		-		-		-		
Total	4,461,375		-		792,179		-	5	28,653		41,299		
Impaired loans with no related allowance for credit losses:													
Real estate mortgage	\$ 7,607,975	\$	4,316	\$	9,205,845	\$	4,550	\$ 6.7	54,379	\$	75,474		
Production and intermediate term	4,710,611		57,957		3,429,502		5,806		16,955		403,681		
Farm-related business	-		-		-		-	,	,		,		
Rural residential real estate	-		-		191,680		-		57,219		-		
Mission-related investments	1,602,869		-		3,457,177		-	3,1	36,537		-		
Total	13,921,455		62,273	1	6,284,204		10,356	15,3	65,090		479,155		
Total impaired loans:													
Real estate mortgage	\$ 8,388,883	\$	4,316	\$	9,998,024	\$	4,550	\$ 6,7	54,379	\$	75,474		
Production and intermediate term	8,173,820		57,957		3,429,502		5,806	5,9	45,608		444,980		
Farm-related business	217,258		-		-		-		-		-		
Rural residential real estate	-		-		191,680		-		57,219		-		
Mission-related investments	1,602,869		-		3,457,177		-	3,1	36,537		-		
Total	\$18,382,830	\$	62,273	\$1	7,076,383	\$	10,356	\$15,8	93,743	\$	520,454		

<sup>a</sup> Unpaid principal balance represents the recorded principal balance of the loan.

A restructuring of a debt constitutes a troubled debt restructuring 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. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

There were no troubled debt restructurings that occurred in the first quarter 2017. The following table provides additional information on troubled debt restructurings that occurred in the first quarter of 2018. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred.

	Pren	odification	Posti	nodification		
	Ou	tstanding	Ou	tstanding		
For the Three Months Ended	R	ecorded	Recorded			
March 31, 2018	Inv	vestment	In	vestment		
Troubled debt restructurings:						
Production and intermediate term	\$	205,612	\$	200,356		



As of March 31, 2018, the total recorded investment of troubled debt restructured loans was \$1,871,701, all of which was classified as nonaccrual, with specific allowance for loan losses of \$115,500. Commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were \$0 at March 31, 2018 and \$0 at December 31, 2017.

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

		Loans Modi	fied as	TDRs	TDRs in Nonaccrual Status*							
	Mare	ch 31, 2018	Dece	ember 31, 2017	Mai	rch 31, 2018	Dece	ember 31, 2017				
Real estate mortgage	\$	100,363	\$	100,363	\$	100,363	\$	100,363				
Farm-related business		200,356		-		200,356		-				
Mission-related investments		1,570,982		1,635,542		1,570,982		1,635,542				
Total	\$	1,871,701	\$	1,735,905	\$	1,871,701	\$	1,735,905				

\*represents the portion of loans modified as TDRs that are in nonaccrual status

The predominant form of concession granted for troubled debt restructuring includes modifications to extend the term and delay payments. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case management assesses all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring. There were no loans restructured in the 12 month period ending March 31, 2018 that subsequently defaulted.

Allowance for Loan Losses ("ALL"). A summary of changes in ALL and period end recorded investment in loans is as follows:

		eal Estate Aortgage		roduction and termediate Term	b	Agri- usiness		Commun- ication	F	Energy	Res	Rural sidential al Estate		Lease ceivable		Mission- Related avestments		Total
Allowance for Credit																		
Losses:																		
Balance at																		
December 31, 2017	\$	1,883,213	\$	5,758,165	\$	343,268	\$	48,052	\$	32,494	\$	7,765	\$	2,862	\$	3,343	\$	8,079,162
Charge-offs		-		(1,244,273)		-		-		-		-		-		-		(1,244,273)
Recoveries		12,760		15,735		-		-		-		-		-		-		28,495
Provision for loan losses		205,898		2,047,834		(39,704)		3,342		4,048		1,290		(506)		(236)		2,221,966
Other		(995)		(66,839)		32,987		183		(1,497)		27		-		-		(36,134)
Balance at						· · · · ·												
March 31, 2018	\$	2,100,876	\$	6,510,622	\$	336,551	\$	51,577	\$	35,045	\$	9,082	\$	2,356	\$	3,107	\$	9,049,216
Ending Balance: Individually evaluated for impairment Collectively evaluated for impairment	\$ \$	614,310 1,486,566	\$ \$	3,251,920 3,258,702	\$ \$	115,500 221,051	\$ \$	- 51,577	\$ \$	- 35,045	\$ \$	- 9,082	\$ \$	- 2,356	\$ \$	- 3,107	\$ \$	3,981,730 5,067,486
Acquired with deter-																		
iorated credit quality	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
Recorded Investment in Loans Outstanding: Ending Balance at March 31, 2018 Individually evaluated for	\$1,	011,980,686	\$ :	559,102,811	\$1	13,626,493	\$	14,779,168	\$ 5	5,093,549	\$ 7	7,000,444	\$Z	489,176	\$	83,178,816	\$1	,795,251,143
impairment	\$	10,696,476	\$	6,076,025	\$	200,356	\$	-	\$	-	\$	-	\$	-	\$	1,570,982	\$	18,543,839
Collectively evaluated for impairment Acquired with deter- iorated credit quality	\$1,	001,284,210	\$ : \$	553,026,786	\$1 \$	-	\$ \$	14,779,168	\$ 5 \$	-	\$ 7 \$	7,000,444 -	\$ 4 \$	489,176	\$ \$	81,607,834	\$ 1 \$	,776,707,304



		Real Estate Mortgage		roduction and termediate Term	b	Agri- usiness		Commun- ication	1	Energy	Re	Rural sidential al Estate		ease eivable		Mission- Related		Total
Allowance for Credit																		
Losses:																		
Balance at																		
March 31, 2016	\$	1,645,914	\$	4,111,717	\$	367,991	\$	42,319	\$	70,108	\$	8,203	\$	786	\$	5,513	\$	6,252,551
Charge-offs		-				-		-		-		-		-				-
Recoveries		24		-		-		-		-		-		-		-		24
Provision for loan losses		146,052		(145,748)		(47,173)		11,918		10,518		(979)		1,680		(167)		(23,899)
Other		(255)		(511,178)		24,828		(5,082)		(10,205)		79		(68)		-		(501,881)
Balance at		()		(- ) /		,		(-) /						()				(
March 31, 2017	\$	1,791,735	\$	3,454,791	\$	345,646	\$	49,155	\$	70,421	\$	7,303	\$	2,398	\$	5,346	\$	5,726,795
Ending Balance:																		
Individually evaluated for																		
impairment	\$	-	\$	350,600	\$	-	\$	-	\$	-	\$	10,100	\$	-	\$	-	\$	360,700
Collectively evaluated for	·			, , , , , , , , , , , , , , , , , , , ,	-							,	·					· · · · ·
impairment	\$	1,791,735	\$	3,104,191	\$	345,646	\$	49,155	\$	70,421	\$	(2,797)	\$	2,398	\$	5,346	\$	5,366,095
Acquired with deter-		,,		- , - , -		)		- ,		,		())	<u> </u>	<u>j</u>		- )		- , ,
iorated credit quality	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
1	•		-															
Recorded Investment																		
in Loans Outstanding:																		
Ending Balance at																		
March 31, 2017	\$	897,487,643	<b>\$</b> 4	194.157.309	\$ 10	00,616,297	\$	12,425,549	\$4	1,189,495	\$ 5	5,261,542	\$3	326.193	\$	96,678,678	\$1	611,142,706
Individually evaluated for	*			.,				,,,		.,,		, ,			*			,,,,
impairment	\$	9,177,671	\$	4,024,226	\$	-	\$	-	\$	-	\$	187,531	\$	-	\$	3,454,611	\$	16,844,039
Collectively evaluated for		, .,		, , , -							,	)				, ,-		, ,
impairment	\$	888,309,972	\$ 4	190,133,083	\$ 10	00,616,297	\$	12,425,549	\$4	4,189,495	\$ 5	5,074,011	\$3	326,193	\$	93,224,067	\$1	,594,298,667
Acquired with deter-	Ŧ			,,	- 1		-	_,, ,	-	,,	÷ •	,		,,-,0	-	,== .,		,,
iorated credit quality	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
	4				÷		~				4		Ψ		4		7	

#### Note 4: Capital

The Association's board of directors has established a *Capital Adequacy Plan* ("**Plan**") that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

**Regulatory Capitalization Requirements.** Effective January 1, 2017, the regulatory capital requirements for System banks and associations were modified. The new regulations replaced existing core surplus and total surplus ratios with common equity tier 1, tier 1 capital and total capital risk-based capital ratios. The new regulations also added a tier 1 leverage ratio and an *unallocated retained earnings equivalents* ("**UREE**") leverage ratio. The permanent capital ratio continues to remain in effect. Association requirements and capital ratios as of March 31, 2018 and December 31, 2017 are as follow:





		Capital			
	Regulatory	Conservation		As of	As of
	Minimums	Buffer *	Total	March 31, 2018	December 31, 2017
Risk-adjusted:					
Common equity tier 1 ratio	4.50%	2.50%	7.00%	11.95%	12.27%
Tier 1 capital ratio	6.00%	2.50%	8.50%	11.95%	12.27%
Total capital ratio	8.00%	2.50%	10.50%	13.68%	13.94%
Permanent capital ratio	7.00%	0.00%	7.00%	13.23%	13.52%
Non-risk-adjusted:					
Tier 1 leverage ratio	4.00%	1.00%	5.00%	10.65%	10.76%
UREE leverage ratio	1.50%	0.00%	1.50%	10.33%	10.27%

\*The 2.5% capital conservation buffer for the risk-adjusted ratios will be phased in over a three year period ending on December 31, 2019.

Regulatory capital, risk-adjusted assets and average assets have been defined by FCA Regulations. Following are the amounts included in the calculation of the capital ratios as of March 31, 2018 and December 31, 2017:

						Risk weighted assets/ Adjusted				
		Regulatory Capital				average total assets				
		3/31/2018	12/31/2017		3/31/2018			12/31/2017		
Risk-adjusted capital ratios										
Common equity tier 1 ratio	\$	195,261,675	\$	204,224,973	\$	1,634,475,684	\$	1,664,821,279		
Tier 1 capital ratio		195,261,675		204,224,973		1,634,475,684		1,664,821,279		
Total capital ratio		223,640,300		232,065,628		1,634,475,684		1,664,821,279		
Permanent capital ratio		215,261,675		224,224,973		1,627,281,133		1,658,286,197		
Non-risk-adjusted capital ratios										
Tier 1 leverage ratio		195,261,675		204,224,973		1,832,868,379		1,897,991,731		
UREE leverage ratio		189,324,330		195,007,160		1,832,868,379		1,897,991,731		

**Preferred stock issuance.** In January 2017, the Association received clearance from FCA and the board approved the issuance of 20 million shares of a series of preferred stock, par value of \$1.00 per share. The stock was issued March 24, 2017. The stock was designated as *Fixed-to-Floating Rate Perpetual Cumulative Preferred Stock, Series A* ("**Series A Preferred Stock**"). The Series A Preferred stock has a fixed rate dividend of 5% for ten years, payable semi-annually. After ten years, the dividend rate becomes a floating rate at 5.00% above 6-month LIBOR. On or after 5 years, the Association may, at its option, redeem all or part of the Series A Preferred Stock. The Series A Preferred Stock is non-voting, except: (*i*) to materially change in the Association's Charter or Bylaws that would materially adversely affect the holder of Series A Preferred Stock, (*ii*) to create, issue or authorize any class of stock ranking senior to the Series A Preferred Stock as to dividends or liquidation.





The Association conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. The Association operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. During 2018, the Association is participating in a patronage program. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized.

#### Note 6: Fair Value Measurements

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See note 15 to the 2017 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

March 31, 2018	Fair Va	Total Fair			
	Level 1 Level 2		Level 3	Value	
Assets:					
Assets held in nonqualified benefit trusts	\$120,169	\$ -	\$ -	\$ 120,169	
December 31, 2017	Fair Va	Total Fair			
	Level 1	Level 2	Level 3	Value	
Assets:					
Assets held in nonqualified benefit trusts	\$110,960	\$ -	\$ -	\$ 110,960	

Assets and liabilities measured at fair value on a nonrecurring basis for each of the fair value hierarchy values are summarized below:

March 31, 2018	Fair Value Measurement Using							otal Fair
	Level 1		Level 2		Level 3		Value	
Assets:								
Loans*	\$	-	\$	-	\$	987,369	\$	987,369
Other property owned		-		-		1,000,000		1,000,000
December 31, 2017	Fair Value Measurement Using Total Fair						otal Fair	
	Le	Level 1 Level 2		vel 2	Level 3			Value
Assets:								
Loans*	\$	-	\$	-	\$ 2	2,938,000	\$	2,938,000
Other property owned		-		-		1,000,000		1,000,000

\*Represents the fair value of certain loans that were evaluated for impairment under authoritative guidance "Accounting by Creditors for Impairment of a Loan." The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.



#### Information About Recurring and Nonrecurring Level 3 Fair Value Measurements

With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs, as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs, such as income and expense, comparable sales, replacement cost and comparability adjustments.

#### **Valuation Techniques**

As more fully discussed in note 2 to the 2017 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see notes to the 2017 Annual Report to Stockholders.

#### Assets Held in Nonqualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

#### Loans Evaluated for Impairment

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying real estate collateral since the loans were collateral-dependent. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

#### Note 7: Employee Benefit Plans

Employee Retirement Benefits. The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three months ended March 31:

	2018	2017		
Service cost	\$ 36,363	\$	34,734	
Interest cost	74,408		74,796	
Amortization of prior service credits	(11,102)		(14,802)	
Amortization of net actuarial loss	 10,841		-	
Net periodic benefit cost	\$ 110,510	\$	94,728	

The Association's liability for the unfunded accumulated obligation for these benefits at March 31, 2018, was \$7,591,316 and is reported as "Accrued postretirement benefit liability" on the balance sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item "Other components of net periodic postretirement benefit cost" on the income statement.

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The Association expected to contribute \$1,784,391 to its pension plan in 2018. As of March 31, 2018, all 2018 expected contributions have been made.



The Association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in "Salaries and employee benefits" in the CFS. The following table summarizes the changes in accumulated other comprehensive income (loss) for the three months ended March 31:

	 2018	2017		
Accumulated other comprehensive				
income (loss) at January 1	\$ (1,037,891)	\$	(278,282)	
Amortization of prior service credit and				
net actuarial loss	 (261)		(14,802)	
Accumulated other comprehensive				
income at March 31	\$ (1,038,152)	\$	(293,084)	

#### **Note 8: Commitments and Contingent Liabilities**

The Association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

#### **Note 9: Subsequent Events**

Association management has evaluated subsequent events through May 9, 2018, which is the date the CFS were issued or available to be issued, with no significant events to report.