
MidAtlantic Farm Credit, ACA
SECOND QUARTER 2018

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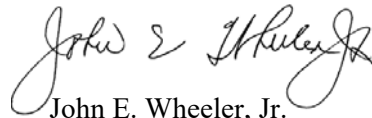
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CERTIFICATION

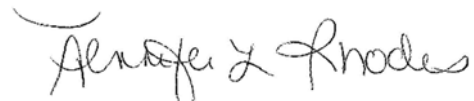
The undersigned certify that we have reviewed the June 30, 2018 quarterly report of MidAtlantic Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Thomas H. Truitt, Jr.
Chief Executive Officer



John E. Wheeler, Jr.
Chief Financial Officer



Jennifer L. Rhodes
Chair of the Board

August 8, 2018

MidAtlantic Farm Credit, ACA

Report on Internal Control Over Financial Reporting

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

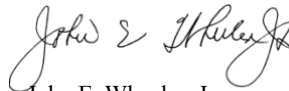
Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of June 30, 2018. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of June 30, 2018, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of June 30, 2018.



Thomas H. Truitt, Jr.
Chief Executive Officer



John E. Wheeler, Jr.
Chief Financial Officer

August 8, 2018

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of MidAtlantic Farm Credit, ACA (Association) for the period ended June 30, 2018. The comments contained in this report should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2017 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for the financing of short-term and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio encompasses a well diversified range of agricultural commodities, with cash grains, poultry and dairy representing the largest segments. In addition, the Association provides a significant amount of loans to lessors of agricultural real estate. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the opportunities for non-farm income, impacts the level of dependency on any particular commodity.

Gross loans at June 30, 2018 totaled \$2,742,407 compared to \$2,717,226 at December 31, 2017, increasing \$25,181 (0.93 percent) during the first six months. The Association's allowance for loan losses of \$27,988 increased \$2,039 (7.86 percent) during the first six months of 2018 resulting in net loans (gross loans less allowance for loan losses) of \$2,714,419 and \$2,691,277 at June 30, 2018 and December 31, 2017, respectively. Nonaccrual loans increased \$2,140 (9.38 percent) from \$22,822 at December 31, 2017 to \$24,962 at June 30, 2018 resulting in an increase in the ratio of nonaccrual loans to total loans from 0.84 percent to 0.91 percent. The increase in nonaccrual loans was not specific to any particular commodity group in the Association's portfolio. In addition, Other property owned of \$240 at December 31, 2017 (one property) remains the same at June 30, 2018.

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

Credit administration remains satisfactory and the overall credit quality of the Association's loan portfolio has remained acceptable. The allowance for loan losses represented 1.02 percent and 0.95 percent of total loans, and 112.12 percent and 113.70 percent of Nonaccrual loans, at June 30, 2018 and December 31, 2017, respectively. See also Note 2, *Loans and Allowance for Loan Losses*, in the Notes to the Consolidated Financial Statements.

RESULTS OF OPERATIONS

For the three months ended June 30, 2018

Net income for the three months ended June 30, 2018 totaled \$12,026, an increase of \$368 (3.16 percent) compared to the three months ended June 30, 2017. Major changes in the components of net income are identified as follows:

- Net interest income increased \$793 (4.70 percent) for the quarter ended June 30, 2018 compared to the same period in 2017. The increase in net interest income is primarily attributable to (a) an increase in the Association's equity and a 11.81 percent increase in the interest credit rate aggregately increasing net interest income \$617 and (b) a \$440 increase due to a \$74 million increase in the average daily balance of accruing portfolio volume, partially offset by (c) a \$181 decrease in the Association's portfolio margin primarily resulting from a decrease in the net interest margin and (d) an \$83 decrease in net interest recognized attributable to nonaccruing loans.
- The risks identified in the Association's Loan portfolio required a provision for loan losses of \$1,000 and \$500 to be recorded in the second quarter of 2018 and 2017, respectively. The Association's Nonaccrual loans increased from 0.84 percent at December 31, 2017 to 0.91 percent of the portfolio at June 30, 2018 and increased from 0.77 percent at June 30, 2017. See also Note 2, *Loans and Allowance for Loan Losses*, in the Notes to the Consolidated Financial Statements.
- "Patronage refunds from other Farm Credit institutions" on the Consolidated Statements of Income of \$4,062 and \$4,116, respectively, includes accruals for the three months ended June 30, 2018 and 2017 based on second quarter operations only;

management anticipates additional income for the remaining quarters in 2018. Since this income from AgFirst Farm Credit Bank (the Bank) is reasonably estimable and because there is a history of these earnings, management is of the opinion that including this income in quarterly operations provides shareholders with a more accurate forecast of annualized net income. The decrease in the accrual in 2018 is due to the combined impact of an increase in loan volume offset by an increase in the Association's equity which reduced borrowings from the Bank.

- Noninterest income decrease in the second quarter of 2018 of \$226 (4.00 percent) included (a) a decrease of \$103 from Loan fees, (b) a decrease of \$75 in Gains on other transactions, (c) a decrease of \$62 in Gains on sales of rural home loans, net, and (d) a \$54 decrease in Patronage related income, partially offset by (e) an increase of \$35 from Fees for financially related services, (f) an increase of \$25 in Gains on sales of premises and equipment, net, and (g) an \$8 increase in Other noninterest income.
- Noninterest expense for the second quarter of 2018 was \$10,020 as compared to \$10,273 for the second quarter of 2017 or a decrease of \$253 (2.46 percent).

The decrease of \$9 (0.13 percent) for Salaries and employee benefits includes favorable deferred personnel costs of \$5. Salaries increased \$270 (5.43 percent) due to several unfilled open positions, new hires joining the Association and normal salary increases, as well as a \$274 decrease (9.28 percent) in employee benefit plans. See also Note 7, *Employee Benefits Plans*, in the Notes to the Consolidated Financial Statements.

Insurance Fund Premium expense decreased \$285 (37.75 percent) due to (a) the decrease in the Farm Credit System Insurance Corporation (FCSIC) premium from 0.15 percent for the first six months of 2017 to 0.09 percent for the first six months of 2018, partially offset by (b) the decrease in volume during the second quarter of 2018 as compared to the second quarter of 2017.

Occupancy and equipment and Other operating expenses increased \$30 (1.21 percent) from \$2,473 to \$2,503, which includes expense increases in purchased services, travel, and communications, partially offset by decreases in training, public and member relations, and other operating expenses.

- Losses on other property owned, net increased \$11. The increase is primarily related to a writedown on one property sold in 2018.

- The Association recorded a Provision for income taxes of \$62 and \$110 respectively, for the second quarters of 2018 and 2017.

For the six months ended June 30, 2018

Net income for the six months ended June 30, 2018 totaled \$25,641 or \$2,144 (9.12 percent) greater than the six months ended June 30, 2017. Major changes in the components of net income are identified as follows:

- Net interest income for the six months was up \$703 (2.04 percent); there are several key factors impacting the results. The increase in net interest income is primarily attributable to (a) an increase of \$1,365 attributable to an increase in the equity and (b) a \$783 increase due to the increase in accruing loan volume. These increases were partially offset by (a) a decrease of \$883 in the income recognized from nonaccruing volume and (b) a \$562 decrease in the Association's portfolio margin.
- Charge-offs and risk identified in the Association's loan portfolio required a provision for loan losses of \$2,000 to be recorded in the first six months of 2018 as compared to a \$1,000 provision in the first six months of 2017.
- For the six months ended June 30, 2018, the Association accrued an estimated patronage receipt of \$8,100 as compared to \$7,971 for the same period in 2017. The increase of \$129 (1.62 percent) is due to the increase in outstanding loan volume. Since this income from the Bank is reasonably estimable and because there is a history of these earnings, management is of the opinion that including this income in quarterly operations provides shareholders with a more accurate forecast of annualized net income.
- Noninterest income included (a) an Insurance Fund refund of \$2,329 which is discussed below, (b) a \$129 increase in Patronage related income, (c) an increase of \$40 in Gain on sales of premises and equipment, net, (d) an increase of \$33 from Fees for financially related services, and (e) a \$16 increase in other noninterest income, partially offset by (f) a decrease of \$179 from Loan fees, (g) a decrease of \$162 in Gains on other transactions, and (h) a decrease of \$114 in Gains on sales of rural home loans, net.
- During the first quarter of 2018, the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligation, had assets exceeding the secure base amount as defined by the Farm Credit Act. As a result of the excess, FCSIC made certain distributions to the Farm Credit System Banks and certain Associations; MidAtlantic's share was \$1,452 and is recorded as Insurance Fund refund within the Noninterest Income section of the Consolidated

Statements of Income. The Farm Credit System Insurance Corporation (FCSIC) also retired the remaining Financial Assistance Corporation (FAC) outstanding shares; MidAtlantic received \$877 and is recorded as Insurance Fund refund within the Noninterest Income section of the Consolidated Statements of Income.

- Noninterest expense decreased \$324 (1.57 percent) for the first six months of 2018 as compared to 2017.

The year-to-date increase for Salaries and employee benefits of \$131 (0.92 percent) includes a decrease of \$501 (12.19 percent) for retirement related expenses and favorable deferred personnel costs of \$14. This was offset by a \$567 increase (5.77 percent) for annual salary and incentive compensation increases, and filling several staff positions.

Insurance fund premium expense decreased \$558 (37.47 percent) resulting from the FCSIC premium decrease for 2018, partially offset by increased loan volume.

Occupancy and equipment and Other operating expenses increased \$94 (1.94 percent) from \$4,834 to \$4,928 which includes expense increases in purchased services, travel, advertising and Farm Credit Administration (FCA) fees which were partially offset by decreases in public and member relations and other operating expenses.

- Losses on other property owned, net increased \$9. The increase is primarily related to a writedown on one property sold in 2018.
- The Association recorded a Provision for income taxes of \$140 and \$165, respectively, for the six months ended June 30, 2018 and 2017.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sectors. The Association utilizes the variable rate note to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total Notes payable to the Bank at June 30, 2018 was \$2,137,138 compared to \$2,121,161 at December 31, 2017. This increase during the period of \$15,977 (0.75 percent) corresponds to the increase in the Association's loan volume, receipt of prior year Bank patronage, current year net

cash generated from operating activities and offset by patronage payments to stockholders.

CAPITAL RESOURCES

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2018, that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Members' equity at June 30, 2018 totaled \$625,392, an increase of \$18,031 (2.97 percent) compared to total members' equity of \$607,361 at December 31, 2017. Total Comprehensive income of \$25,644 for the six months ended June 30, 2018 and net member capital stock/participation certificates issued of \$144, an estimated cash patronage distribution accrual for the first six months of 2018 totaling \$7,812, and net patronage distribution adjustment and retained earnings retired of \$55 account for the change.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. Effective January 1, 2017, the regulatory capital requirements for System Banks and associations were modified. The new regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. New regulations replaced core surplus and total surplus ratios with common equity tier 1 (CET1) capital, tier 1 capital, and total capital risk-based capital ratios. The new regulations also include a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio (PCR) remains in effect.

Risk-adjusted assets have been defined by FCA Regulations as the Balance Sheet assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the effect of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Calculation of PCR risk-adjusted assets includes the allowance for loan losses as a deduction from risk-adjusted assets. This differs from the other risk-based capital calculations.

The ratios are calculated using six-month average daily balances, in accordance with FCA regulations, as follows:

- The CET1 capital ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- The total capital ratio is tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated

debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The tier 1 leverage ratio is tier 1 capital, divided by average assets less regulatory deductions to tier 1 capital.
- The UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions to tier 1 capital.

The following sets forth the regulatory capital ratios, which were effective January 1, 2018:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of June 30, 2018
Risk-adjusted ratios:				
CET1 Capital	4.5%	1.25%	5.75%	19.50%
Tier 1 Capital	6.0%	1.25%	7.25%	19.50%
Total Capital	8.0%	1.25%	9.25%	21.43%
Permanent Capital Ratio	7.0%	0.0%	7.0%	20.63%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	20.54%
UREE Leverage Ratio	1.5%	0.0%	1.5%	19.38%

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

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

REGULATORY MATTERS

On May 10, 2018, the Farm Credit Administration adopted a final rule that primarily implements the requirements of Section 939A of the Dodd-Frank Act and grants associations greater flexibility regarding the risk management purposes for investments. The regulation also sets forth the types of eligible investments and establishes a portfolio limit on the amount of investments they may hold. Only securities that are issued by, or are unconditionally guaranteed or insured as to the timely payment of principal and interest by, the U.S. government or its agencies are eligible for risk management purposes. An association may purchase and hold investments not to exceed 10 percent of its 90-day average daily balance of outstanding loans on the last business day of the quarter. The final rule will become effective January 1, 2019.

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2017 Annual Report to Shareholders for recently issued accounting pronouncements. Additional information is provided in the following table.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The following Accounting Standards Updates (ASUs) were issued by the Financial Accounting Standards Board (FASB) but have not yet been adopted:

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
<ul style="list-style-type: none"> Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management’s estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets. Changes the present incurred loss impairment guidance for loans to a CECL model. The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit. Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. Effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. 	<ul style="list-style-type: none"> The Association has begun implementation efforts by establishing a cross-discipline governance structure. The Association is currently identifying key interpretive issues, and assessing existing credit loss forecasting models and processes against the new guidance to determine what modifications may be required. The Association expects that the new guidance will result in an increase in its allowance for credit losses due to several factors, including: <ol style="list-style-type: none"> The allowance related to loans and commitments will most likely increase to cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, An allowance will be established for estimated credit losses on debt securities, The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. The extent of the increase is under evaluation, but will depend upon the nature and characteristics of the Association’s portfolio at the adoption date, and the macroeconomic conditions and forecasts at that date. The Association expects to adopt the guidance in first quarter 2021.
ASU 2016-02 – Leases (Topic 842)	
<ul style="list-style-type: none"> Requires lessees to recognize leases on the balance sheet with lease liabilities and corresponding right-of-use assets based on the present value of lease payments. Lessor accounting activities are largely unchanged from existing lease accounting. The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification. Also, expands qualitative and quantitative disclosures of leasing arrangements. Requires adoption using a modified cumulative effect approach wherein the guidance is applied to all periods presented. Effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. 	<ul style="list-style-type: none"> The practical expedients allow entities to largely account for existing leases consistent with current guidance, except for the incremental balance sheet recognition for lessees. The Association has started its implementation of the Update which has included an initial evaluation of leasing contracts and activities. As a lessee the Association is developing its methodology to estimate the right-of-use assets and lease liabilities, which is based on the present value of lease payments but does not expect a material change to the timing of expense recognition. Given the limited changes to lessor accounting, the Association does not expect material changes to recognition or measurement, but it is early in the implementation process and the impact will continue to be evaluated. The Association is evaluating existing disclosures and may need to provide additional information as a result of adopting the Update. The Association expects to adopt the guidance in first quarter 2019 using the modified retrospective method and practical expedients for transition.

Shareholder Investment

Shareholder investment in the Association may be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank’s Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst’s web site at www.agfirst.com. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Whistleblower

Reports of suspected or actual wrongdoing involving the Association, its employees and/or Directors, can be made anonymously and confidentially through the Association’s Whistleblower Hotline (SpeakUp) at 1-844-321-9164 or speakupMAFC.ethix360.com.

MidAtlantic Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2018 <i>(unaudited)</i>	December 31, 2017 <i>(audited)</i>
Assets		
Cash	\$ 2,093	\$ 4,690
Loans	2,742,407	2,717,226
Allowance for loan losses	(27,988)	(25,949)
Net loans	2,714,419	2,691,277
Loans held for sale	248	—
Accrued interest receivable	19,596	15,267
Equity investments in other Farm Credit institutions	31,250	31,277
Premises and equipment, net	15,670	15,026
Other property owned	240	240
Accounts receivable	9,002	36,913
Other assets	2,921	2,804
Total assets	\$ 2,795,439	\$ 2,797,494
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 2,137,138	\$ 2,121,161
Accrued interest payable	5,466	5,018
Patronage refunds payable	7,933	28,030
Accounts payable	1,782	4,170
Other liabilities	17,728	31,754
Total liabilities	2,170,047	2,190,133
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	10,694	10,550
Retained earnings		
Allocated	365,340	365,603
Unallocated	249,677	231,530
Accumulated other comprehensive income (loss)	(319)	(322)
Total members' equity	625,392	607,361
Total liabilities and members' equity	\$ 2,795,439	\$ 2,797,494

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

MidAtlantic Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Interest Income				
Loans	\$ 33,817	\$ 30,958	\$ 66,537	\$ 61,874
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	16,120	14,069	31,258	27,334
Other	15	—	36	—
Total interest expense	16,135	14,069	31,294	27,334
Net interest income	17,682	16,889	35,243	34,540
Provision for loan losses	1,000	500	2,000	1,000
Net interest income after provision for loan losses	16,682	16,389	33,243	33,540
Noninterest Income				
Loan fees	229	332	479	658
Fees for financially related services	777	742	1,196	1,163
Patronage refunds from other Farm Credit institutions	4,062	4,116	8,100	7,971
Gains (losses) on sales of rural home loans, net	239	301	487	601
Gains (losses) on sales of premises and equipment, net	57	32	72	32
Gains (losses) on other transactions	—	75	10	172
Insurance Fund refund	—	—	2,329	—
Other noninterest income	62	54	120	104
Total noninterest income	5,426	5,652	12,793	10,701
Noninterest Expense				
Salaries and employee benefits	7,011	7,020	14,354	14,223
Occupancy and equipment	535	555	1,056	1,046
Insurance Fund premiums	470	755	931	1,489
(Gains) losses on other property owned, net	36	25	42	33
Other operating expenses	1,968	1,918	3,872	3,788
Total noninterest expense	10,020	10,273	20,255	20,579
Income before income taxes	12,088	11,768	25,781	23,662
Provision for income taxes	62	110	140	165
Net income	\$ 12,026	\$ 11,658	\$ 25,641	\$ 23,497

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

MidAtlantic Farm Credit, ACA
Consolidated Statements of
Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Net income	\$ 12,026	\$ 11,658	\$ 25,641	\$ 23,497
Other comprehensive income net of tax				
Employee benefit plans adjustments	1	11	3	21
Comprehensive income	\$ 12,027	\$ 11,669	\$ 25,644	\$ 23,518

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

MidAtlantic Farm Credit, ACA
Consolidated Statements of Changes in
Members' Equity

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2016	\$ 10,264	\$ 332,358	\$ 226,148	\$ (240)	\$ 568,530
Comprehensive income			23,497	21	23,518
Capital stock/participation certificates issued/(retired), net	191				191
Patronage distribution					
Cash			(6,250)		(6,250)
Retained earnings retired		(26)			(26)
Patronage distribution adjustment		294	(386)		(92)
Balance at June 30, 2017	\$ 10,455	\$ 332,626	\$ 243,009	\$ (219)	\$ 585,871
Balance at December 31, 2017	\$ 10,550	\$ 365,603	\$ 231,530	\$ (322)	\$ 607,361
Comprehensive income			25,641	3	25,644
Capital stock/participation certificates issued/(retired), net	144				144
Patronage distribution					
Cash			(7,812)		(7,812)
Retained earnings retired		(29)			(29)
Patronage distribution adjustment		(234)	318		84
Balance at June 30, 2018	\$ 10,694	\$ 365,340	\$ 249,677	\$ (319)	\$ 625,392

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

MidAtlantic Farm Credit, ACA

Notes to the Consolidated Financial Statements

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

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

Organization

The accompanying financial statements include the accounts of MidAtlantic Farm Credit, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2017, are contained in the 2017 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation

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

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

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

Significant Accounting Policies

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

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

other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

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

Accounting Standards Updates (ASUs) Issued During the Period

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

- In February 2018, the FASB issued ASU 2018-03 Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this Update include items brought to the Board's attention by stakeholders. The amendments clarify certain aspects of the guidance issued in Update 2016-01 as described below. The amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. All entities may early adopt these amendments for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, as long as they have adopted Update 2016-01. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- In February 2018, the FASB issued ASU 2018-02 Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and are intended to improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The Update also requires certain disclosures about stranded tax effects. The guidance is effective for all entities for fiscal years beginning after December 15, 2018,

and interim periods within those fiscal years. Early adoption is permitted. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

ASUs Pending Effective Date

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

Potential effects of ASUs issued in previous periods:

- In March 2017, the FASB issued ASU 2017-08 Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The guidance relates to certain callable debt securities and shortens the amortization period for any premium to the earliest call date. The Update will be effective for interim and annual periods beginning after December 15, 2018 for public business entities. Early adoption is permitted. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to better estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- In February 2016, the FASB issued ASU 2016-02 Leases (Topic 842). This Update, and subsequent clarifying guidance issued, requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. The amendments will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities. Early adoption is permitted. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

Accounting Standards Effective During the Period

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

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

- In March 2017, the FASB issued ASU 2017-07 Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. The amendments were effective January 1, 2018 for the Association. Adoption in 2018 did not have a material effect on the Association's financial statements, but did require reclassification of service costs to Other Operating Expenses.
- In February 2017, the FASB issued ASU 2017-05 Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The Update clarifies whether certain transactions are within the scope of the guidance on derecognition and the accounting for partial sales of nonfinancial assets, and defines the term in substance nonfinancial asset. The amendments conform the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue standard. The amendments were effective January 1, 2018 for the Association. Adoption in 2018 had no impact on the statements of financial condition and results of operations of the Association.
- In January 2017, the FASB issued ASU 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments provide a more robust framework to use in determining when a set of assets and activities is a business. They also support more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable. The ASU was effective January 1, 2018 for the Association. The amendments were applied prospectively. Adoption of the guidance in 2018 had no impact on the statements of financial condition and results of operations.
- In January 2016, the FASB issued ASU 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The Update was intended to improve the recognition and measurement of financial instruments. The new guidance makes targeted improvements to existing GAAP.

Transition Information

- The Association identified investment securities affected by this Update and adopted the guidance on January 1, 2018.
 - The amendments related to equity securities without readily determinable fair values were applied prospectively to equity investments that existed as of the date of adoption.
 - Application of the amendments did not require a cumulative effect adjustment.
 - Adoption did not have an impact on the Association's financial condition or results of operations.
 - The new standard did result in changes to certain disclosures.
-
- In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers (Topic 606). This guidance changed the recognition of revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance also included expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Based on input received from stakeholders, the FASB issued several additional Updates that generally provided clarifying guidance where there was the potential for diversity in practice, or address the cost and complexity of applying Topic 606.

Transition Information

- The Association identified ancillary revenues affected by this Update and adopted the guidance on January 1, 2018.

- The amendments were applied using the modified retrospective approach.
- The Association elected to only apply the guidance to contracts that were not completed at the date of initial application.
- Subtopics 610-20 on gains and losses from the derecognition of nonfinancial assets, and 340-40 on other assets and deferred costs-contracts with customers were adopted using the same transition options.
- Adoption did not have an impact on the Association's financial condition or results of operations.
- The new standard did result in enhanced disclosures about revenue (see Note 9, *Revenue from Contracts with Customers*).

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

	June 30, 2018	December 31, 2017
Real estate mortgage	\$ 1,681,390	\$ 1,660,982
Production and intermediate-term	793,888	808,479
Loans to cooperatives	36,374	25,598
Processing and marketing	65,290	54,996
Farm-related business	64,974	66,050
Communication	55,712	56,951
Power and water/waste disposal	3,910	4,162
Rural residential real estate	40,869	40,008
Total loans	<u>\$ 2,742,407</u>	<u>\$ 2,717,226</u>

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

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

	June 30, 2018							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 16,716	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,716	\$ -
Production and intermediate-term	53,599	37,532	10,776	3,668	-	-	64,375	41,200
Loans to cooperatives	10,204	-	26,204	-	-	-	36,408	-
Processing and marketing	23,843	22,014	3,506	-	-	-	27,349	22,014
Farm-related business	1,676	-	23,040	-	-	-	24,716	-
Communication	16,287	-	39,526	-	-	-	55,813	-
Power and water/waste disposal	-	-	3,920	-	-	-	3,920	-
Total	\$ 122,325	\$ 59,546	\$ 106,972	\$ 3,668	\$ -	\$ -	\$ 229,297	\$ 63,214

	December 31, 2017							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 18,971	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,971	\$ -
Production and intermediate-term	59,548	39,963	10,876	4,172	-	-	70,424	44,135
Loans to cooperatives	8,925	-	16,708	-	-	-	25,633	-
Processing and marketing	22,984	18,746	7,245	-	-	-	30,229	18,746
Farm-related business	713	-	23,052	-	-	-	23,765	-
Communication	17,498	-	39,571	-	-	-	57,069	-
Power and water/waste disposal	-	-	4,175	-	-	-	4,175	-
Total	\$ 128,639	\$ 58,709	\$ 101,627	\$ 4,172	\$ -	\$ -	\$ 230,266	\$ 62,881

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

	June 30, 2018			
	Due Less Than 1 Year	Due 1 Through 5 Years	Due After 5 Years	Total
	Real estate mortgage	\$ 63,459	\$ 542,037	\$ 1,075,894
Production and intermediate-term	162,009	405,883	225,996	793,888
Loans to cooperatives	-	33,377	2,997	36,374
Processing and marketing	277	56,288	8,725	65,290
Farm-related business	6,981	38,404	19,589	64,974
Communication	-	55,712	-	55,712
Power and water/waste disposal	-	2,339	1,571	3,910
Rural residential real estate	3,641	4,976	32,252	40,869
Total loans	\$ 236,367	\$ 1,139,016	\$ 1,367,024	\$ 2,742,407
Percentage	8.62%	41.53%	49.85%	100.00%

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

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

	June 30, 2018	December 31, 2017		June 30, 2018	December 31, 2017
Real estate mortgage:			Communication:		
Acceptable	93.92%	94.60%	Acceptable	100.00%	100.00%
OAEM	3.46	3.32	OAEM	0.00	0.00
Substandard/doubtful/loss	2.62	2.08	Substandard/doubtful/loss	0.00	0.00
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Production and intermediate-term:			Power and water/waste disposal:		
Acceptable	92.33%	93.28%	Acceptable	100.00%	100.00%
OAEM	4.27	4.86	OAEM	0.00	0.00
Substandard/doubtful/loss	3.40	1.86	Substandard/doubtful/loss	0.00	0.00
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Loans to cooperatives:			Rural residential real estate:		
Acceptable	100.00%	100.00%	Acceptable	93.24%	93.13%
OAEM	0.00	0.00	OAEM	3.29	3.21
Substandard/doubtful/loss	0.00	0.00	Substandard/doubtful/loss	3.47	3.66
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Processing and marketing:			Total loans:		
Acceptable	100.00%	100.00%	Acceptable	93.89%	94.53%
OAEM	0.00	0.00	OAEM	3.46	3.59
Substandard/doubtful/loss	0.00	0.00	Substandard/doubtful/loss	2.65	1.88
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Farm-related business:					
Acceptable	97.40%	97.32%			
OAEM	2.43	2.55			
Substandard/doubtful/loss	0.17	0.13			
	<u>100.00%</u>	<u>100.00%</u>			

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

	June 30, 2018					Recorded Investment 90 Days or More Past Due and Accruing Interest
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	
Real estate mortgage	\$ 7,435	\$ 11,000	\$ 18,435	\$ 1,675,784	\$ 1,694,219	\$ 108
Production and intermediate-term	3,274	6,651	9,925	789,916	799,841	—
Loans to cooperatives	—	—	—	36,535	36,535	—
Processing and marketing	—	—	—	65,446	65,446	—
Farm-related business	31	52	83	65,142	65,225	—
Communication	—	—	—	55,749	55,749	—
Power and water/waste disposal	—	—	—	3,940	3,940	—
Rural residential real estate	640	395	1,035	40,013	41,048	—
Total	\$ 11,380	\$ 18,098	\$ 29,478	\$ 2,732,525	\$ 2,762,003	\$ 108

	December 31, 2017					Recorded Investment 90 Days or More Past Due and Accruing Interest
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	
Real estate mortgage	\$ 5,073	\$ 8,733	\$ 13,806	\$ 1,656,984	\$ 1,670,790	\$ —
Production and intermediate-term	4,123	5,248	9,371	803,909	813,280	—
Loans to cooperatives	—	—	—	25,684	25,684	—
Processing and marketing	—	—	—	55,113	55,113	—
Farm-related business	—	52	52	66,225	66,277	—
Communication	—	—	—	57,024	57,024	—
Power and water/waste disposal	—	—	—	4,195	4,195	—
Rural residential real estate	550	274	824	39,306	40,130	—
Total	\$ 9,746	\$ 14,307	\$ 24,053	\$ 2,708,440	\$ 2,732,493	\$ —

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

	June 30, 2018	December 31, 2017
Nonaccrual loans:		
Real estate mortgage	\$ 15,252	\$ 14,750
Production and intermediate-term	8,692	7,008
Farm-related business	80	85
Rural residential real estate	938	979
Total	<u>\$ 24,962</u>	<u>\$ 22,822</u>
Accruing restructured loans:		
Real estate mortgage	\$ 15,387	\$ 13,090
Production and intermediate-term	12,659	6,709
Rural residential real estate	190	196
Total	<u>\$ 28,236</u>	<u>\$ 19,995</u>
Accruing loans 90 days or more past due:		
Total	<u>\$ —</u>	<u>\$ —</u>
Total nonperforming loans	\$ 53,198	\$ 42,817
Other property owned	240	240
Total nonperforming assets	<u>\$ 53,438</u>	<u>\$ 43,057</u>
Nonaccrual loans as a percentage of total loans	0.91%	0.84%
Nonperforming assets as a percentage of total loans and other property owned	1.95%	1.58%
Nonperforming assets as a percentage of capital	<u>8.54%</u>	<u>7.09%</u>

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

	June 30, 2018	December 31, 2017
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 5,697	\$ 7,670
Past due	19,265	15,152
Total	<u>\$ 24,962</u>	<u>\$ 22,822</u>
Impaired accrual loans:		
Restructured	\$ 28,236	\$ 19,995
90 days or more past due	—	—
Total	<u>\$ 28,236</u>	<u>\$ 19,995</u>
Total impaired loans	<u>\$ 53,198</u>	<u>\$ 42,817</u>
Additional commitments to lend	\$ 25	\$ 22

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

Impaired loans:	June 30, 2018			Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:							
Real estate mortgage	\$ 7,092	\$ 8,430	\$ 1,173	\$ 6,445	\$ 11	\$ 6,137	\$ 18
Production and intermediate-term	5,457	6,148	3,044	4,960	9	4,722	14
Farm-related business	80	94	16	72	—	69	—
Rural residential real estate	831	934	215	755	1	719	2
Total	<u>\$ 13,460</u>	<u>\$ 15,606</u>	<u>\$ 4,448</u>	<u>\$ 12,232</u>	<u>\$ 21</u>	<u>\$ 11,647</u>	<u>\$ 34</u>
With no related allowance for credit losses:							
Real estate mortgage	\$ 23,547	\$ 26,066	\$ —	\$ 21,400	\$ 36	\$ 20,376	\$ 59
Production and intermediate-term	15,894	18,447	—	14,444	23	13,754	39
Farm-related business	—	—	—	—	—	—	—
Rural residential real estate	297	426	—	271	1	257	1
Total	<u>\$ 39,738</u>	<u>\$ 44,939</u>	<u>\$ —</u>	<u>\$ 36,115</u>	<u>\$ 60</u>	<u>\$ 34,387</u>	<u>\$ 99</u>
Total:							
Real estate mortgage	\$ 30,639	\$ 34,496	\$ 1,173	\$ 27,845	\$ 47	\$ 26,513	\$ 77
Production and intermediate-term	21,351	24,595	3,044	19,404	32	18,476	53
Farm-related business	80	94	16	72	—	69	—
Rural residential real estate	1,128	1,360	215	1,026	2	976	3
Total	<u>\$ 53,198</u>	<u>\$ 60,545</u>	<u>\$ 4,448</u>	<u>\$ 48,347</u>	<u>\$ 81</u>	<u>\$ 46,034</u>	<u>\$ 133</u>

Impaired loans:	December 31, 2017			Year Ended December 31, 2017	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	\$ 7,623	\$ 9,332	\$ 1,142	\$ 6,482	\$ 197
Production and intermediate-term	4,179	5,002	2,146	3,553	108
Farm-related business	85	91	17	72	2
Rural residential real estate	870	955	199	740	22
Total	\$ 12,757	\$ 15,380	\$ 3,504	\$ 10,847	\$ 329
With no related allowance for credit losses:					
Real estate mortgage	\$ 20,217	\$ 22,137	\$ —	\$ 17,191	\$ 521
Production and intermediate-term	9,538	12,312	—	8,111	245
Farm-related business	—	7	—	—	—
Rural residential real estate	305	437	—	259	8
Total	\$ 30,060	\$ 34,893	\$ —	\$ 25,561	\$ 774
Total:					
Real estate mortgage	\$ 27,840	\$ 31,469	\$ 1,142	\$ 23,673	\$ 718
Production and intermediate-term	13,717	17,314	2,146	11,664	353
Farm-related business	85	98	17	72	2
Rural residential real estate	1,175	1,392	199	999	30
Total	\$ 42,817	\$ 50,273	\$ 3,504	\$ 36,408	\$ 1,103

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows:

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and water/waste disposal	Rural Residential Real Estate	Total
Activity related to the allowance for credit losses:							
Balance at March 31, 2018	\$ 10,390	\$ 15,110	\$ 784	\$ 191	\$ 5	\$ 457	\$ 26,937
Charge-offs	—	(32)	—	—	—	—	(32)
Recoveries	9	73	—	—	—	1	83
Provision for loan losses	(1,305)	2,524	(156)	(49)	(2)	(12)	1,000
Balance at June 30, 2018	\$ 9,094	\$ 17,675	\$ 628	\$ 142	\$ 3	\$ 446	\$ 27,988
Balance at December 31, 2017	\$ 10,216	\$ 14,379	\$ 711	\$ 168	\$ 5	\$ 470	\$ 25,949
Charge-offs	—	(52)	—	—	—	—	(52)
Recoveries	7	81	—	—	—	3	91
Provision for loan losses	(1,129)	3,267	(83)	(26)	(2)	(27)	2,000
Balance at June 30, 2018	\$ 9,094	\$ 17,675	\$ 628	\$ 142	\$ 3	\$ 446	\$ 27,988
Balance at March 31, 2017	\$ 9,692	\$ 13,661	\$ 818	\$ 218	\$ 11	\$ 469	\$ 24,869
Charge-offs	—	(114)	—	—	—	—	(114)
Recoveries	2	2	1	—	—	1	6
Provision for loan losses	159	418	(23)	(37)	(2)	(15)	500
Balance at June 30, 2017	\$ 9,853	\$ 13,967	\$ 796	\$ 181	\$ 9	\$ 455	\$ 25,261
Balance at December 31, 2016	\$ 9,715	\$ 13,304	\$ 634	\$ 219	\$ 11	\$ 494	\$ 24,377
Charge-offs	—	(132)	—	—	—	—	(132)
Recoveries	3	5	3	—	—	5	16
Provision for loan losses	135	790	159	(38)	(2)	(44)	1,000
Balance at June 30, 2017	\$ 9,853	\$ 13,967	\$ 796	\$ 181	\$ 9	\$ 455	\$ 25,261
Allowance on loans evaluated for impairment:							
Individually	\$ 1,173	\$ 3,044	\$ 16	\$ —	\$ —	\$ 215	\$ 4,448
Collectively	7,921	14,631	612	142	3	231	23,540
Balance at June 30, 2018	\$ 9,094	\$ 17,675	\$ 628	\$ 142	\$ 3	\$ 446	\$ 27,988
Individually	\$ 1,142	\$ 2,146	\$ 17	\$ —	\$ —	\$ 199	\$ 3,504
Collectively	9,074	12,233	694	168	5	271	22,445
Balance at December 31, 2017	\$ 10,216	\$ 14,379	\$ 711	\$ 168	\$ 5	\$ 470	\$ 25,949
Recorded investment in loans evaluated for impairment:							
Individually	\$ 15,252	\$ 8,692	\$ 80	\$ —	\$ —	\$ 938	\$ 24,962
Collectively	1,678,967	791,149	167,126	55,749	3,940	40,110	2,737,041
Balance at June 30, 2018	\$ 1,694,219	\$ 799,841	\$ 167,206	\$ 55,749	\$ 3,940	\$ 41,048	\$ 2,762,003
Individually	\$ 14,750	\$ 7,008	\$ 85	\$ —	\$ —	\$ 979	\$ 22,822
Collectively	1,656,040	806,272	146,989	57,024	4,195	39,151	2,709,671
Balance at December 31, 2017	\$ 1,670,790	\$ 813,280	\$ 147,074	\$ 57,024	\$ 4,195	\$ 40,130	\$ 2,732,493

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented.

Three Months Ended June 30, 2018					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 694	\$ 852	\$ -	\$ 1,546	
Production and intermediate-term	678	7,408	-	8,086	
Total	<u>\$ 1,372</u>	<u>\$ 8,260</u>	<u>\$ -</u>	<u>\$ 9,632</u>	
Post-modification:					
Real estate mortgage	\$ 695	\$ 853	\$ -	\$ 1,548	\$ -
Production and intermediate-term	680	7,412	-	8,092	-
Total	<u>\$ 1,375</u>	<u>\$ 8,265</u>	<u>\$ -</u>	<u>\$ 9,640</u>	<u>\$ -</u>

Six Months Ended June 30, 2018					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 2,185	\$ 1,541	\$ -	\$ 3,726	
Production and intermediate-term	678	8,290	-	8,968	
Rural residential real estate	110	-	8	118	
Total	<u>\$ 2,973</u>	<u>\$ 9,831</u>	<u>\$ 8</u>	<u>\$ 12,812</u>	
Post-modification:					
Real estate mortgage	\$ 2,190	\$ 1,520	\$ -	\$ 3,710	\$ -
Production and intermediate-term	680	8,095	-	8,775	-
Rural residential real estate	111	-	8	119	-
Total	<u>\$ 2,981</u>	<u>\$ 9,615</u>	<u>\$ 8</u>	<u>\$ 12,604</u>	<u>\$ -</u>

Three Months Ended June 30, 2017					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 344	\$ 689	\$ -	\$ 1,033	
Production and intermediate-term	803	2,778	-	3,581	
Total	<u>\$ 1,147</u>	<u>\$ 3,467</u>	<u>\$ -</u>	<u>\$ 4,614</u>	
Post-modification:					
Real estate mortgage	\$ 344	\$ 702	\$ -	\$ 1,046	\$ -
Production and intermediate-term	803	2,794	-	3,597	-
Total	<u>\$ 1,147</u>	<u>\$ 3,496</u>	<u>\$ -</u>	<u>\$ 4,643</u>	<u>\$ -</u>

Six Months Ended June 30, 2017					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 879	\$ 1,325	\$ -	\$ 2,204	
Production and intermediate-term	803	3,996	-	4,799	
Total	<u>\$ 1,682</u>	<u>\$ 5,321</u>	<u>\$ -</u>	<u>\$ 7,003</u>	
Post-modification:					
Real estate mortgage	\$ 879	\$ 1,338	\$ -	\$ 2,217	\$ -
Production and intermediate-term	803	4,012	-	4,815	-
Total	<u>\$ 1,682</u>	<u>\$ 5,350</u>	<u>\$ -</u>	<u>\$ 7,032</u>	<u>\$ -</u>

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

The following table presents the outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the periods presented. Payment default is defined as a payment that was thirty days or more past due.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Defaulted troubled debt restructurings:				
Real estate mortgage	\$ 1,573	\$ —	\$ 3,105	\$ —
Production and intermediate-term	324	—	550	—
Rural residential real estate	104	—	104	—
Total	\$ 2,001	\$ —	\$ 3,759	\$ —

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.

	Total TDRs		Nonaccrual TDRs	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Real estate mortgage	\$ 18,775	\$ 17,275	\$ 3,388	\$ 4,185
Production and intermediate-term	14,834	8,828	2,175	2,119
Farm-related business	28	33	28	33
Rural residential real estate	664	580	474	384
Total loans	\$ 34,301	\$ 26,716	\$ 6,065	\$ 6,721
Additional commitments to lend	\$ 25	\$ 18		

The following table presents information as of period end:

	June 30, 2018
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ 240
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ —

Note 3 — Investments

Equity Investments in Other Farm Credit System Institutions

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

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 10.90 percent of the issued stock of the Bank as of June 30, 2018 net of any reciprocal investment. As of that date, the Bank's assets totaled \$32.0 billion and shareholders' equity totaled \$2.3 billion. The Bank's earnings were \$152 million for the first six months of 2018. In addition, the Association held investments of \$2,462 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

	Changes in Accumulated Other Comprehensive Income by Component (a)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Employee Benefit Plans:				
Balance at beginning of period	\$ (320)	\$ (230)	\$ (322)	\$ (240)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	1	11	3	21
Net current period other comprehensive income	1	11	3	21
Balance at end of period	\$ (319)	\$ (219)	\$ (319)	\$ (219)

	Reclassifications Out of Accumulated Other Comprehensive Income (b)				
	Three Months Ended June 30,		Six Months Ended June 30,		Income Statement Line Item
	2018	2017	2018	2017	
Defined Benefit Pension Plans:					
Periodic pension costs	\$ (1)	\$ (11)	\$ (3)	\$ (21)	See Note 7.
Net amounts reclassified	\$ (1)	\$ (11)	\$ (3)	\$ (21)	

(a) Amounts in parentheses indicate debits to AOCI.

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

Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

		June 30, 2018				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements						
Assets:						
Assets held in trust funds	\$	2,538	\$ 2,538	\$ –	\$ –	\$ 2,538
Recurring Assets	\$	2,538	\$ 2,538	\$ –	\$ –	\$ 2,538
Liabilities:						
Recurring Liabilities	\$	–	\$ –	\$ –	\$ –	\$ –
Nonrecurring Measurements						
Assets:						
Impaired loans	\$	9,012	\$ –	\$ –	\$ 9,012	\$ 9,012
Other property owned		240	–	–	270	270
Nonrecurring Assets	\$	9,252	\$ –	\$ –	\$ 9,282	\$ 9,282
Other Financial Instruments						
Assets:						
Cash	\$	2,093	\$ 2,093	\$ –	\$ –	\$ 2,093
Loans		2,705,655	–	–	2,637,061	2,637,061
Other Financial Assets	\$	2,707,748	\$ 2,093	\$ –	\$ 2,637,061	\$ 2,639,154
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	2,137,138	\$ –	\$ –	\$ 2,098,157	\$ 2,098,157
Other Financial Liabilities	\$	2,137,138	\$ –	\$ –	\$ 2,098,157	\$ 2,098,157
		December 31, 2017				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements						
Assets:						
Assets held in trust funds	\$	2,562	\$ 2,562	\$ –	\$ –	\$ 2,562
Recurring Assets	\$	2,562	\$ 2,562	\$ –	\$ –	\$ 2,562
Liabilities:						
Recurring Liabilities	\$	–	\$ –	\$ –	\$ –	\$ –
Nonrecurring Measurements						
Assets:						
Impaired loans	\$	9,253	\$ –	\$ –	\$ 9,253	\$ 9,253
Other property owned		240	–	–	270	270
Nonrecurring Assets	\$	9,493	\$ –	\$ –	\$ 9,523	\$ 9,523
Other Financial Instruments						
Assets:						
Cash	\$	4,690	\$ 4,690	\$ –	\$ –	\$ 4,690
Loans		2,682,024	–	–	2,644,135	2,644,135
Other Financial Assets	\$	2,686,714	\$ 4,690	\$ –	\$ 2,644,135	\$ 2,648,825
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	2,121,161	\$ –	\$ –	\$ 2,105,418	\$ 2,105,418
Other Financial Liabilities	\$	2,121,161	\$ –	\$ –	\$ 2,105,418	\$ 2,105,418

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the

fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Inputs to Valuation Techniques

Management determines the Association's valuation policies and procedures. The Bank performs the majority of the

Association's valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements at June 30, 2018

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 9,282	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

Note 7 — Employee Benefit Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Pension	\$ 1,313	\$ 1,532	\$ 2,760	\$ 3,064
401(k)	293	260	567	506
Other postretirement benefits	157	298	318	597
Total	\$ 1,763	\$ 2,090	\$ 3,645	\$ 4,167

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

	Actual YTD Through 6/30/18	Projected Contributions For Remainder of 2018	Projected Total Contributions 2018
Pension	\$ 59	\$ 5,503	\$ 5,562
Other postretirement benefits	318	308	626
Total	\$ 377	\$ 5,811	\$ 6,188

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2018.

Further details regarding employee benefit plans are contained in the 2017 Annual Report to Shareholders.

Note 8 — Commitments and Contingent Liabilities

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

On January 1, 2018, Accounting Standards Update 2014-09 Revenue from Contracts with Customers (Topic 606) became effective. The core principle of the new standard is that companies should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Note 9 — Revenue from Contracts with Customers

The Association maintains contracts with customers to provide support services in various areas such as accounting, lending transactions, consulting, insurance, and information technology. The Association does not generally incur costs to obtain contracts. As most of the contracts are to provide access to expertise or system capacity that the Association maintains, there are no material incremental costs to fulfill these contracts that should be capitalized. Total revenue recognized from contracts with customers was as follows:

<i>(dollars in thousands)</i>	<u>Three Months Ended June 30, 2018</u>	<u>Six Months Ended June 30, 2018</u>
Revenue recognized from contracts with customers:		
At a point in time	\$ 722	\$ 1,083
Over time	170	344
Total	<u>\$ 892</u>	<u>\$ 1,427</u>

Note 10 — Subsequent Events

The Association evaluated subsequent events and determined there were none requiring disclosure through August 8, 2018, which was the date the financial statements were issued.