Message from the Chairman of the Board and the Chief Executive Officer

Colonial Farm Credit continued its mission of supporting rural communities and agriculture with reliable, consistent credit and financial services in 2018.

Growing conditions were challenging throughout the year due to excessive rain. Most commodity prices remained low, and the combination of weather and prices made 2018 a tougher year than 2017. We continued our annual initiative to talk with our customers during the fall harvest season to gauge any challenges that they may be faced with. The results indicate that overall risk is very manageable, and we are well positioned to help our customers – see more on this below.

Loan demand was strong for land and construction loans, and better for working capital and equipment compared to last year. Overall, average loan volume was 2.5% higher than 2017.

Credit quality remained very sound. At year end, non-earning assets (mainly loans for which the accrual of interest has been stopped, or nonaccrual loans) dropped to 0.4 percent of total assets, the lowest level we've seen in over 10 years.

Net income in 2018 was $18.4 million, and was supported by these positive and unexpected events:

- A $3.8 million special distribution from AgFirst Farm Credit Bank (our funding bank),
- Over $1.0 million of interest income from the reinstatement or payoff of several large nonaccrual loans, and
- An unexpected refund from the Farm Credit System Insurance Corporation that was over $800 thousand.

The one-time events noted above and our strong credit quality, capital position, and earnings allowed your board of directors to approve an extraordinary patronage refund of $16.1 million, which is roughly 45 percent higher than last year's patronage refund of $11.1 million.

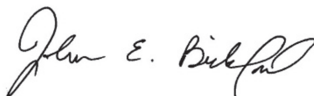
The $16.1 million distribution supported by the one time events will be paid out in May. This compares to our 2018 budgeted refund of $8.9 million. We expect patronage distributions to return to historical budgeted ranges in 2019.

This is the 21st consecutive year we have returned a portion of our profits to our customers. We are pleased to be in the financial position to return these earnings to you, and we know the timing will be appreciated given the price and weather challenges of 2018.

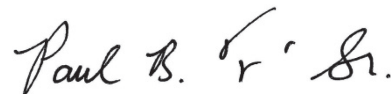
During 2019, we will continue to focus our efforts on serving the credit needs of all eligible customers and assisting customers who have been adversely impacted by farming conditions.

As the Farm Credit System enters its 103rd year, your cooperative is positioned to prosper in any foreseeable environment by virtue of our strong financial position, diverse and high quality loan portfolio, sound underwriting standards, excellent employees, and exceptional governance. Our combination of competitive rates, patronage refunds, personal service, and extensive local knowledge is unmatched in the financial services world.

Thank you for your loyalty and support. We look forward to serving your financial needs in 2019 and beyond.



John E. Bickford
Chairman of the Board



Paul B. Franklin, Sr.
Chief Executive Officer

March 13, 2019

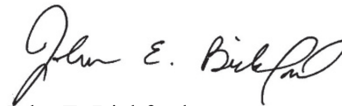
Report of Management

The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by management of Colonial Farm Credit, ACA (Association) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the consolidated financial statements and financial information contained in this report.

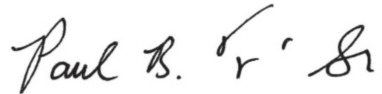
Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the Association are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Association maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Board of Directors.

The consolidated financial statements have been audited by independent auditors, whose report appears elsewhere in this annual report. The Association is also subject to examination by the Farm Credit Administration.

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2018 Annual Report of Colonial 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.



John E. Bickford
Chairman of the Board



Paul B. Franklin, Sr.
Chief Executive Officer

Diane S. Fowlkes
Chief Financial Officer

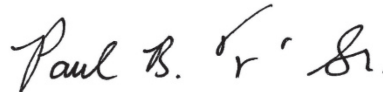
March 13, 2019

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 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 December 31, 2018, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2018.



Paul B. Franklin, Sr.
Chief Executive Officer

Diane S. Fowlkes
Chief Financial Officer

March 13, 2019

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	2018	2017	December 31, 2016	2015	2014
Balance Sheet Data					
Cash	**$ 66**	$ 66	$ 63	$ 62	$ 94
Loans	**670,269**	636,119	641,762	638,278	613,608
Allowance for loan losses	**(2,245)**	(2,427)	(3,006)	(3,762)	(3,723)
Net loans	**668,024**	633,692	638,756	634,516	609,885
Equity investments in other Farm Credit institutions	**6,809**	6,890	6,949	6,729	6,711
Other property owned	**37**	—	78	70	787
Other assets	**17,585**	16,719	17,677	15,980	17,295
Total assets	**$ 692,521**	$ 657,367	$ 663,523	$ 657,357	$ 634,772
Notes payable to AgFirst Farm Credit Bank*	**$ 484,103**	$ 456,390	$ 467,883	$ 470,033	$ 454,670
Accrued interest payable and other liabilities with maturities of less than one year	**21,695**	16,812	19,977	16,186	15,406
Total liabilities	**505,798**	473,202	487,860	486,219	470,076
Capital stock and participation certificates	**5,047**	4,795	4,699	4,659	4,615
Unallocated retained earnings	**181,684**	179,414	170,978	166,447	159,909
Accumulated other comprehensive income (loss)	**(8)**	(44)	(14)	32	172
Total members' equity	**186,723**	184,165	175,663	171,138	164,696
Total liabilities and members' equity	**$ 692,521**	$ 657,367	$ 663,523	$ 657,357	$ 634,772
Statement of Income Data					
Net interest income	**$ 21,403**	$ 19,070	$ 19,146	$ 18,289	$ 18,057
Provision for (reversal of allowance for) loan losses	**(78)**	(337)	(775)	(237)	46
Noninterest income (expense), net	**(3,122)**	40	(4,837)	(4,716)	(1,717)
Net income	**$ 18,359**	$ 19,447	$ 15,084	$ 13,810	$ 16,294
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.76%**	2.99%	2.29%	2.18%	2.60%
Total members' equity	**9.57%**	10.66%	8.46%	8.09%	10.06%
Net interest income as a percentage of average earning assets	**3.29%**	3.00%	2.97%	2.95%	2.95%
Net (chargeoffs) recoveries to average loans	**(0.016)%**	(0.038)%	0.003%	0.045%	(0.031)%
Total members' equity to total assets	**26.96%**	28.02%	26.47%	26.03%	25.95%
Debt to members' equity (:1)	**2.71**	2.57	2.78	2.84	2.85
Allowance for loan losses to loans	**0.33%**	0.38%	0.47%	0.59%	0.61%
Permanent capital ratio	**26.26%**	26.05%	25.93%	25.31%	24.39%
Total surplus ratio	**	**	25.29%	24.64%	23.69%
Core surplus ratio	**	**	25.29%	24.64%	23.69%
Common equity tier 1 capital ratio	**26.17%**	25.94%	**	**	**
Tier 1 capital ratio	**26.17%**	25.94%	**	**	**
Total regulatory capital ratio	**26.52%**	26.38%	**	**	**
Tier 1 leverage ratio	**27.85%**	27.72%	**	**	**
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**27.93%**	27.85%	**	**	**
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 16,117**	$ 11,046	$ 10,602	$ 7,275	$ 7,069

** General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 2019.*
*** Not applicable due to changes in regulatory capital requirements effective January 1, 2017.*

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of Colonial Farm Credit, ACA, (Association) for the year ended December 31, 2018 with comparisons to the years ended December 31, 2017 and December 31, 2016. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 100 years. The System's mission is to maintain and improve the income and well-being of American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration, (FCA), which is an independent safety and soundness regulator.

The Association is a cooperative, which is owned by the members (also referred to throughout this Annual Report as stockholders or shareholders) served. The territory of the Association extends across a diverse agricultural region of eastern Virginia and southern Maryland. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, ***www.agfirst.com***, or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or writing to Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, ***www.colonialfarmcredit.com***, or by calling 1-804-746-1252, or writing to Diane Fowlkes, Colonial Farm Credit, ACA, 7104 Mechanicsville Turnpike, Mechanicsville, VA 23111. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the internet, 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 Association.

FORWARD LOOKING INFORMATION

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the Farm Credit System, as a government-sponsored enterprise, as well as investor and rating-agency reactions to events involving other government-sponsored enterprises and other financial institutions; and
- actions taken by the Federal Reserve System in implementing monetary policy.

AGRICULTURAL OUTLOOK

The following United States Department of Agriculture (USDA) analysis provides a general understanding of the U.S. agricultural economic outlook. However, this outlook does not take into account all aspects of the Association's business. References to USDA information in this section refer to the U.S. agricultural market data and are not limited to information/data in the Association's territory.

Production agriculture is a cyclical business that is heavily influenced by commodity prices, weather, tax and trade policies, interest rates and various other factors. From 2010 through 2014, the U.S. farm sector generally experienced favorable economic conditions driven by high commodity and livestock prices and increasing farmland values. This generally fostered improved financial strength across the farm sector, with farmer working capital peaking in 2012. Working capital is defined as the amount of cash and cash convertible assets minus liabilities due to creditors within 12 months. However, since 2014, the agricultural environment has been more challenging. Currency fluctuations, large inventories and current U.S. trade policies, including the retaliatory action by other countries, have begun to adversely impact demand and prices for agricultural exports, which have reduced net farm income (a broad measure of profits) and eroded farmer working capital. Higher interest rates could exacerbate the reduction in net farm income by increasing interest expense for farmers with floating-rate loans or other liabilities that reprice periodically to current market interest rates. The following table illustrates USDA data on net farm income and farmer working capital:

	Year Ended December 31,			
(dollars in billions)	**2018***	**2017**	**2016**	**2015**
Net Farm Income	$66.295	$75.381	$61.542	$81.053
Farmer Working Capital	$49.879	$72.279	$65.197	$82.657

*Forecasted

The substantial risk-bearing capacity, gained prior to 2015, has afforded U.S. crop producers time to transition their operations to the new environment of lower commodity prices, compressed margins and higher interest rates. Optimal input usage, adoption of cost-saving technologies, negotiation of adjustments to various business arrangements, such as rental cost of agriculture real estate, and effective use of hedging and other price risk management strategies are all critical in yielding positive net farm income for producers. Producers who are able to realize cost of production efficiencies and market their farm products effectively are most likely to adapt to the current price environment. However, if these current market conditions persist, farm sector financial strength will continue to weaken, challenging a greater number of producers who may not be able to sufficiently adjust their operations to avoid loan repayment challenges.

The February 2019 USDA forecast estimates 2018 farmers' net cash income, which is a measure of the cash income after payment of business expenses, at $95.0 billion, down $9.0 billion from 2017. The forecasted decrease in farmers' net cash income for 2018 is primarily due to an expected increase in cash expenses of $11.9 billion, led by increases in fuels/oil, interest, feed, and hired labor.

The February 2019 USDA outlook for the farm economy, as a whole, projects 2019 farmers' net cash income to increase to $97.7 billion, a $2.7 billion increase from 2018. The forecasted increase in farmers' net cash income for 2019 is primarily due to an expected decrease in cash expenses of $4.4 billion and increase in cash receipts for crops of $2.2 billion, partially offset by a decrease in direct government payments of $2.8 billion.

As estimated by the USDA in November 2018, the System's market share of farm business debt (defined as debt incurred by those involved in on-farm agricultural production) decreased slightly to 40.4 percent at December 31, 2017 (the latest available data), as compared with 40.9 percent at December 31, 2016.

While 2018 net farm income and working capital have declined, a healthy U.S. economy is expected to support domestic demand for most agricultural commodities in the foreseeable future. The primary area of risk will remain the export component of the demand for U.S. agricultural commodities, with a stronger dollar and ongoing uncertainty surrounding the future of U.S. trade policy. Major cash crops in the U.S. are projected to remain at elevated supply levels resulting from a combination of factors, including overall excellent crop conditions, tariffs and strong harvests in recent years. In addition to cash crops, pork and dairy are heavily dependent upon exports and most susceptible to foreign trade-related disruptions. The risk in the export component of the demand for U.S. agricultural commodities has been minimally mitigated by Market Facilitation Program assistance to producers impacted by retaliatory tariffs. Additionally, the revised Dairy Margin Protection Program in the 2018 Farm Bill and the new Dairy Revenue Protection Program will provide some support for dairy farmers. Mid-sized dairies, especially operations that are more highly leveraged or have high relative costs, will continue to face financial challenges at least into mid-2019.

The following table sets forth the commodity prices per bushel for certain crops, by hundredweight for hogs, milk, and beef cattle, and by pound for broilers and turkeys from December 31, 2015 to December 31, 2018:

Commodity	12/31/18	12/31/17	12/31/16	12/31/15
Hogs	$43.40	$48.60	$43.10	$42.80
Milk	$16.40	$17.20	$18.90	$17.30
Broilers	$0.51	$0.50	$0.48	$0.47
Turkeys	$0.50	$0.53	$0.74	$0.89
Corn	$3.54	$3.23	$3.32	$3.65
Soybeans	$8.57	$9.30	$9.64	$8.76
Wheat	$5.28	$4.50	$3.90	$4.75
Beef Cattle	$117.00	$118.00	$111.00	$122.00

In a prolonged period of less favorable conditions in agriculture, the Association's financial performance and credit quality measures would likely be negatively impacted. Any negative impact from these less favorable conditions should be lessened by geographic and commodity diversification and the influence of off-farm income sources supporting agricultural-related debt. However, agricultural borrowers who are more reliant on off-farm income sources may be more adversely impacted by a weakened general economy.

CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management must make judgments about matters that are inherently uncertain. For a complete

discussion of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements. The following is a summary of certain critical policies.

- *Allowance for loan losses* — The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic and political conditions, loan portfolio composition, credit quality and prior loan loss experience.

  Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated fair value of any collateral. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

  Management considers the following factors in determining and supporting the level of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties in farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences. Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities.

  Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Association's results of operations.

ECONOMIC CONDITIONS

The US economy grew 3% in 2018. With a strong labor market and economic activity rising at a solid rate, the Fed raised the interest rate four times in 2018. Stock market volatility spiked as investors responded to numerous factors including, the effects of corporate tax cuts and concerns of an economic slowdown, monetary policy changes and trade negotiations between China and the US. Housing demand remained relatively high but inventory decreased, contributing to existing home sales decreasing 8.7 percent and the median sales price increasing by 2.5 percent from 2017 in the South region, according to the National Association of Realtors.

Economic conditions in Virginia and Maryland generally improved as payroll employment grew, business conditions strengthened and housing market indicators were fairly positive. According to *Forbes Magazine*, Virginia was named the fourth best state in the country in which to do business based on costs, labor supply, regulatory environment, current economic climate, growth prospects, and quality of life. Maryland ranked twenty-seventh, a nine spot improvement in the last two years.

As the period of low commodity prices continues, producers in many agricultural sectors face reduced profitability, particularly for certain row crops. Excessive rain late in the year affected certain crop yields across the territory.

The outlook for 2019 is generally forecasted to be similar to 2018, marked with moderate economic growth, continued low commodity prices, and potentially rising interest rates.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, processing and marketing operations, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans through numerous product types.

The diversification of the Association loan volume by type for each of the past three years is shown below.

Loan Type	December 31, 2018		2017		2016	
Real estate mortgage	$ 422,749	63.07 %	$ 397,457	62.48 %	$ 382,056	59.53 %
Production and intermediate-term	172,996	25.81	168,323	26.46	176,051	27.43
Loans to cooperatives	4,803	0.72	6,797	1.07	7,213	1.12
Processing and marketing	22,008	3.28	16,466	2.59	23,441	3.65
Farm-related business	5,483	0.82	5,868	0.92	7,414	1.16
Communication	513	0.08	602	0.09	520	0.08
Power and water/waste disposal	2,433	0.36	3,039	0.48	2,183	0.34
Rural residential real estate	36,287	5.41	34,572	5.43	39,891	6.22
International	2,997	0.45	2,995	0.47	2,993	0.47
Total	$ 670,269	100.00 %	$ 636,119	100.00 %	$ 641,762	100.00 %

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified.

The Association has a regional office in Hughesville, Maryland. All other regional offices are in the state of Virginia. The geographic distribution of the loans by regional office for the past three years is as follows:

Regional Office	December 31, 2018	2017	2016
Farmville	27.15%	26.97%	27.24%
Hughesville	10.01	9.69	9.77
Mechanicsville	28.70	29.64	28.44
Tappahannock	9.89	8.88	9.43
Windsor	24.25	24.82	25.12
	100.00%	100.00%	100.00%

Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer.

The major commodities in the Association's loan portfolio are shown below. As an additional hedge against agriculture industry risk, over 55 percent of the Association's loans at December 31, 2018 were made to borrowers whose repayment capacity was highly dependent upon off-farm income.

Commodity Group	Percent of Portfolio 2018	2017	2016
Field Crops	29%	28%	28%
Timber	29	28	27
Part-time Farmers and Other	21	23	23
Livestock	16	16	16
Rural Home	5	5	6
Total	100%	100%	100%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers, including part-time farmers. The Association's loan portfolio includes field crops such as cash grains, peanuts, tobacco, and cotton; timber products; and livestock operations including poultry, dairy, beef cattle, swine, and horses. Many of these operations are diversified within their enterprise and/or with crop production, which reduces overall risk exposure. Demand, supply, weather, and international trade are some of the factors affecting the prices of these commodities. Even though the number and average loan size has increased over the past several years, the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

The increase in gross loan volume for the twelve months ended December 31, 2018, is attributed to increased demand for loans to finance real estate and equipment purchase, construction, and working capital.

Over the past few years, the majority of the Association's growth has come from real estate mortgages, which make up over half of the Association's portfolio. Production and intermediate-term loans are also a substantial portion of the portfolio. The short-term portfolio, which is comprised heavily of working capital loans, normally reaches a peak balance in late summer and rapidly declines in the fall months as commodities are marketed and proceeds are applied to these loans. This rapid decline was not see late in 2018.

During 2018, the Association continued buying loan participations within the System on a selective basis. This provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income. Loan balances for the participation portfolio have decreased in recent years as competition for quality credits has been strong.

Loan Participations:	December 31, 2018	2017	2016
Participations Purchased – FCS Institutions	$ 50,459	$ 54,837	$ 58,366
Participations Sold	–	–	–
Total	$ 50,459	$ 54,837	$ 58,366

The Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests for the period ended December 31, 2018.

The Association sells qualified long-term residential mortgage loans into the secondary market. For the years ended December 31, the Association originated loans for resale totaling $38,515 in 2018, $44,775 in 2017, and $49,946 in 2016, which were sold into the secondary market.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association reviews the credit quality of the loan portfolio on an ongoing basis. With the approval of the Association Board of Directors, the Association establishes underwriting standards and lending policies that provide direction to the lending staff. Underwriting standards include, among other things, an evaluation of:

- Character – borrower integrity and credit history
- Capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income
- Collateral – protection for the lender in the event of default and a potential secondary source of repayment
- Capital – ability of the operation to survive unanticipated risks
- Conditions – intended use of the loan funds

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Long term real estate loans must be collateralized by first liens on real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Long term real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for most real estate loans of more than $250. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

We review the credit quality of the loan portfolio on an ongoing basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System, which is used by all Farm Credit System institutions. Below are the classification definitions.

- 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 facts, conditions and values that make collection in full highly questionable.
- Loss – Assets are considered uncollectible.

The following table presents selected statistics related to the credit quality of loans, including accrued interest, at December 31.

Credit Quality	2018	2017	2016
Acceptable & OAEM	98.87%	98.31%	97.92%
Substandard	1.13%	1.69%	2.08%
Total	100.00%	100.00%	100.00%

The Association had no loans with credit quality of Doubtful or Loss for the reporting periods above.

The Association's loan portfolio is divided into performing and high-risk categories. The high-risk assets, including accrued interest, are detailed below:

	December 31,		
High-risk Assets	**2018**	**2017**	**2016**
Nonaccrual loans	$ 2,804	$ 5,123	$ 6,264
Restructured loans	475	506	376
Accruing loans 90 days past due	–	–	–
Total high-risk loans	3,279	5,629	6,640
Other property owned	37	–	78
Total high-risk assets	$ 3,316	$ 5,629	$ 6,718
Ratios			
Nonaccrual loans to total loans	0.42%	0.81%	0.98%
High-risk assets to total assets	0.48%	0.86%	1.01%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased $2,319 or 45.27 percent in 2018. The significant reduction in nonaccrual loans in 2018 was primarily attributed to one large account that was paid in full, which accounted for 70 percent of the decrease. Several other accounts that were in nonaccrual status during the year were either fully collected or reinstated due to the improved performance of the loan. Of the $2,804 in nonaccrual volume at December 31, 2018, $1,618 or 58 percent, compared to 74 percent and 27 percent at December 31, 2017, and 2016, respectively, were current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be reinstated to accrual status.

Loan restructuring is available to financially distressed borrowers who meet certain criteria. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the Association and the borrower.

Allowance for Loan Losses

The allowance for loan losses at each period end was determined according to generally accepted accounting principles and considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio.

The following table presents the activity in the allowance for loan losses for the most recent three years:

	Year Ended December 31,		
Allowance for Loan Losses Activity:	**2018**	**2017**	**2016**
Balance at beginning of year	$ 2,427	$ 3,006	$ 3,762
Charge-offs:			
Real estate mortgage	(19)	(8)	(212)
Agribusiness	–	–	–
Rural residential real estate	–	(1)	(61)
Production and intermediate-term	(177)	(306)	(98)
Total charge-offs	(196)	(315)	(370)
Recoveries:			
Real estate mortgage	28	–	233
Agribusiness	–	–	–
Rural residential real estate	14	4	67
Production and intermediate-term	51	69	89
Total recoveries	93	73	389
Net (charge-offs) recoveries	(103)	(242)	19
Provision for (reversal of) loan losses	(79)	(337)	(775)
Balance at end of year	$ 2,245	$ 2,427	$ 3,006
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.016%)	(0.038%)	0.003%

The net loan charge-offs were primarily associated with default occurring in loans that were under-collateralized. Several nonaccrual loans were fully collected during the year.

The allowance for loan losses by loan type for the most recent three years is as follows:

	December 31,		
Allowance for Loan Losses by Type	**2018**	**2017**	**2016**
Real estate mortgage	$ 1,371	$ 1,287	$ 1,219
Production and intermediate-term	633	912	1,503
Agribusiness	104	94	117
Communication	2	2	2
Power and Water/Waste Disposal	8	10	7
Rural residential real estate	117	112	149
International	10	10	9
Total allowance	$ 2,245	$ 2,427	$ 3,006

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators is shown below:

Allowance for Loan Losses	December 31,		
as a Percentage of:	**2018**	**2017**	**2016**
Total loans	0.33%	0.38%	0.47%
Nonperforming loans	68.47%	43.12%	45.27%
Nonaccrual loans	80.06%	47.38%	47.99%

Please refer to Note 3, *Loans and Allowance for Loan Losses*, of the Notes to the Consolidated Financial Statements, for further information concerning the allowance for loan losses.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income, the difference between interest income and interest expense, was $21,403, $19,070 and $19,146 in 2018, 2017, and 2016, respectively. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual Income	Total
12/31/18 - 12/31/17				
Interest income	$ 496	$ 2,580	$ 1,156	$ 4,232
Interest expense	257	1,642	–	1,899
Change in net interest income	$ 239	$ 938	$ 1,156	$ 2,333
12/31/17 - 12/31/16				
Interest income	$ (404)	$ 1,257	$ (159)	$ 694
Interest expense	(369)	1,139	–	770
Change in net interest income	$ (35)	$ 118	$ (159)	$ (76)

* *Volume variances can be the result of increased/decreased loan volume or from changes in the percentage composition of assets and liabilities between periods.*

Noninterest Income

Noninterest income for each of the three years ended December 31 is shown in the following table:

	For the Year Ended December 31,			Percentage Increase/(Decrease)	
Noninterest Income	**2018**	**2017**	**2016**	**2018/ 2017**	**2017/ 2016**
Loan fees	$ 483	$ 456	$ 464	5.92%	(1.72)%
Fees for financially related services	69	51	49	35.29	4.08
Lease income	81	73	90	10.96	(18.89)
Patronage refund from other Farm Credit Institutions	7,337	7,843	6,487	(6.45)	20.90
Gains (losses) on sales of rural home loans, net	564	702	820	(19.66)	(14.39)
Gains (losses) on sales of premises and equipment, net	51	38	67	34.21	(43.28)
Gains (losses) on other transactions	(18)	80	(164)	(122.50)	148.78
FCSIC refund	835	–	–	100.00	–
Other noninterest income	101	120	171	(15.83)	(29.82)
Total noninterest income	$ 9,503	$ 9,363	$ 7,984	1.50%	17.27 %

The Association receives patronage refunds from the Bank based on its notes payable. In 2018, 2017, and 2016 the Association received a special patronage distribution of $3,835, $4,377, and $2,921 respectively, in addition to the normal patronage of 75 basis points.

Gains on sale of rural home loans decreased $138 or 20 percent for the year ended December 31, 2018 due to closing fewer rural home loans in 2018.

Gains on other transactions decreased $98 or 123 percent for the year ended December 31, 2018. The decrease in gains is primarily due to a lower provision for unfunded commitments in the grain sector and a loss from pension plan change due to market performance in 2018.

The Farm Credit System Insurance Corporation (FCSIC) issued a refund of $835 in 2018. The refund was comprised of $512 Financial Assistance Corporation (FAC) stock and a $323 premium refund based on premiums retained from prior years exceeding the 2% secure base requirement.

Other noninterest income decreased $19 or 16 percent in 2018 primarily as a result of a lower volume of outstanding unclaimed equities to be transferred to income than required in 2017.

Noninterest Expense

Noninterest expense for each of the three years ended December 31 is shown in the following table:

	For the Year Ended December 31,			Percentage Increase/(Decrease)	
Noninterest Expense	**2018**	**2017**	**2016**	**2018/ 2017**	**2017/ 2016**
Salaries and employee benefits	$ 9,237	$ 8,573	$ 9,142	7.75%	(6.22)%
Occupancy and equipment	532	595	496	(10.59)	19.96
Insurance Fund premiums	415	678	791	(38.79)	(14.29)
(Gains)losses on other Property owned, net	3	22	23	(86.36)	(4.35)
Other operating expenses	2,426	(555)	2,362	537.12	(123.50)
Total noninterest expense	$ 12,613	$ 9,313	$ 12,814	35.43%	(27.32)%

Salaries and employee benefits increased from 2017 to 2018 primarily due to an increase in employee salaries from the addition of three positions and increased incentive pay. The increase was offset by increased deferred loan origination costs due to more loan closings in 2018 than in 2017.

Insurance Fund premiums decreased 39 percent for the year ended December 31, 2018, compared to 2017. FCSIC set premiums at 9 basis points of adjusted insured debt outstanding for 2018, a reduction of 6 basis points from the 15 basis points premium for 2017. In addition, there was a 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments for all periods reported.

Other operating expenses increased $2,981 from 2017 to 2018, primarily due to a modification of the method of recording expenses for the Association's defined benefit pension plan and other postretirement benfits plan. This change resulted in the reduction of Other Liabilities by $4,102 on the Association's Balance Sheets, and a corresponding reduction of employee benefit plan settlement costs on the Association's Statements of Income of $4,102 during 2017. Refer to Note 9, *Employee Benefit Plans*, of the Notes to the Consolidated Financial Statements, for further information concerning postretirement benefit expenses.

Income Taxes

The Association recorded a provision for income taxes of $12 for the year ended December 31, 2018, as compared to a provision of $10 for 2017 and a provision of $7 for 2016. Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, and Note 12, *Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

Key results of operations comparisons for each of the years ended December 31 are shown in the following table:

Key Results of Operations Comparisons	For the Year Ended 12/31/18	12/31/17	12/31/16
Return on average assets	2.76%	2.99%	2.29%
Return on average members' equity	9.57%	10.66%	8.46%
Net interest income as a percentage of average earning assets	3.29%	3.00%	2.97%
Net (charge-offs) recoveries to average loans	(0.016%)	(0.038%)	0.003%

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income. Our goal is to generate earnings sufficient to fund operations, maintain adequate capitalization of the Association, and provide a strong patronage refund to our members. To meet this goal, the economy must continue the improvement shown in recent years and the Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

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, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. The variable rate note is utilized by the Association to fund variable rate loan advances and operating fund requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

Total notes payable to the Bank at December 31, 2018, were $484,103 as compared to $456,390 at December 31, 2017, and $467,883 at December 31, 2016. The increase from 2017 to 2018 was attributable to increased loan volume. The decrease from 2016 to 2017 was attributable to the increase in retained earnings being greater than loan volume growth. The average volume of outstanding notes payable to the Bank was $463,773 and $455,005 for the years ended December 31, 2018 and 2017, respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association's participation in secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association.

The Association had no lines of credit from third party financial institutions as of December 31, 2018.

Funds Management

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable and rising earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 90-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

The majority of the interest rate risk in the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control risk associated with the loan portfolio.

Relationship with the Bank

The Association's statutory obligation to borrow only from the Bank is discussed in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements in this annual report.

The Bank's ability to access capital of the Association is discussed in Note 4, *Investment in Other Farm Credit Institutions*, of the Notes to the Consolidated Financial Statements.

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding" section of this Management's Discussion and Analysis and in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, included in this annual report.

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.

Total members' equity at December 31, 2018, increased 1.39 percent to $186,723 from the December 31, 2017 total of $184,165. At December 31, 2017, total members' equity increased 4.84 percent from the December 31, 2016 total of $175,663. The increases were attributed to net income partially offset by cash patronage.

Total capital stock and participation certificates were $5,047 on December 31, 2018, compared to $4,795 on December 31, 2017 and $4,699 on December 31, 2016. The increases in 2017 and 2018 were related to stock purchased by new members.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) non-patronage sourced participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared estimated patronage distributions of $16,117 in 2018, $11,046 in 2017, and $10,602 in 2016.

The Association's Board of Directors adopted a resolution for 2018 that includes a provision to exclude interest contractually due in prior years from the basis on which patronage is factored for nonaccrual loans. This provision allows a borrower whose account(s) has been in nonaccrual status to receive patronage, on the current year's interest obligation, in the year that the account(s) returns to accruing status or is paid in full.

Additionally, the resolution also allows for a separate "pool" to be established for any loans originated by the Association for which a portion of the loan is sold as a participation to another lending institution.

YOUNG, BEGINNING AND SMALL (YBS) FARMERS AND RANCHERS PROGRAM

The Association's mission is to provide financial services to the agricultural and rural communities, which includes providing credit to Young, Beginning and Small farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit.

The Association is committed to the future success of Young, Beginning and Small farmers.

- Young farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.
- Beginning farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.
- Small farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than $250 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

The following table outlines the loan volume and number of YBS loans in the loan portfolio for the Association.

	As of December 31, 2018	
	Number of Loans	Amount of Loans
Young	892	$74,677
Beginning	2,288	$218,596
Small	4,353	$359,379

Note: For purposes of the above table, a loan could be classified in more than one category, depending upon the characteristics of the underlying borrower.

The 2012 USDA Ag census is as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory there were 13,431 reported farmers of which by definition 582 or 4.3 percent were Young, 2,557 or 19.0 percent were beginning, and 12,519 or 93.2 percent were small. Comparatively, as of December 31, 2018, the demographics of the Association's agricultural portfolio contained 4,739 farmers, of which by definition 695 or 14.7 percent were Young, 1,938 or 40.9 percent were Beginning, and 3,411 or 72.0 percent were Small.

The Association currently has a high market share of YBS farmers within its territory. As of December 31, 2018, the Association was doing business with 119.4 percent of the Young farmers, 75.8 percent of the Beginning farmers, and 27.2 percent of the Small farmers identified by the 2012 USDA Ag census data. In spite of that large market share, the Association made 507 loans to farmers classified as Young, Beginning, or Small for $50,167,684 in new volume for the year ending December 31, 2018. The Association has 36 guaranteed loans for $12,203 to Young, Beginning, and Small farmers, representing 61.85 percent of the total volume of Association loans that are guaranteed.

The board-approved YBS farmer goals for the next three years are to have loans with at least 85 percent of Young farmers, at least 50 percent of Beginning farmers, and at least 30 percent of Small farmers. These goals are based on the 2012 USDA Ag census. Progress towards meeting these goals is reported quarterly to the board of directors.

The following strategies and outreach programs have been conducted, allowing the Association to meet its objectives and goals of the YBS farmer program.

- Support of 4-H, FFA, and young farmer organizations through sponsorships and donations
- Sponsor seminars on farm transition planning and financial management.
- Promote FSA guaranteed loan program for YBS borrowers to allow the Association to manage risk while providing more opportunities and financing to this group
- Promote our youth loan program to provide loans to youth involved in 4H and FFA projects, primarily livestock or crop production
- Support the Colonial Agricultural Educational Foundation and Agriculture in the Classroom programs in Virginia and Maryland

- Participating with Virginia and Maryland Farm Bureaus in their young farmer programs
- Partner with neighboring Farm Credit Associations to offer the AgBiz Planner Program. This ten-module course teaches Young farmers about financial management and business planning
- Support YBS activities at Virginia Tech, Virginia State University, and University of Maryland
- Sponsorship and partnership with local farmers' markets and local food cooperatives
- Small farm loan program allows for a lower credit score threshold for applicants with small farms who meet other eligibility criteria

Capital

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 three-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, 2017:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2018	2017
Risk-adjusted ratios:					
CET1 Capital Ratio	4.5%	1.25%	5.75%	26.17%	25.94%
Tier 1 Capital Ratio	6.0%	1. 25%	7. 25%	26.17%	25.94%
Total Capital Ratio	8.0%	1. 25%	9. 25%	26.52%	26.38%
Permanent Capital Ratio	7.0%	0.0%	7.0%	26.26%	26.05%
Non-risk-adjusted:					
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	27.85%	27.72%
UREE Leverage Ratio	1.5%	0.0%	1.5%	27.93%	27.85%

** 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.
The following sets forth regulatory Capital ratios as previously reported:

	Regulatory Minimum	2016	2015	2014	2013	2012
Permanent Capital Ratio	7.00%	25.93%	25.31%	24.39%	23.62%	22.26%
Total Surplus Ratio	7.00%	25.29%	24.64%	23.69%	22.90%	21.52%
Core Surplus Ratio	3.50%	25.29%	24.64%	23.69%	22.90%	21.52%

REGULATORY MATTERS

On May 10, 2018, the Farm Credit Administration adopted a final rule that amends the regulations governing investments of System banks and associations. The final rule strengthens eligibility criteria for the investments the banks may purchase and hold. It also implements Section 939A of the Dodd-Frank Act by removing references to and requirements for credit ratings and substitutes the eligibility requirement with other appropriate standards of credit worthiness. In addition, it grants associations greater flexibility regarding the risk management purposes for investments and limits the type and amount of investments that an association 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 association 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 became effective January 1, 2019.

Farm Bill

The Agricultural Improvement Act of 2018 (Farm Bill) was signed into law on December 20, 2018. This new Farm Bill will govern an array of federal farm and food programs, including commodity price support payments, farm credit, conservation programs, research, rural development and foreign and domestic food programs for five years through 2023. The new Farm Bill continues to provide support for crop insurance and commodity support programs, strengthen livestock disaster programs, and provides dairy producers with an updated voluntary margin protection program that will provide additional risk management options to dairy operations.

The Farm Bill also clarifies and updates the Insurance Corporation’s authorities to act as conservator or receiver of a System institution. The Congressional Conference Committee report states that Congress intends “for the authorities of the Corporation to be functionally equivalent to the parallel authorities of the Federal Deposit Insurance Corporation.” In addition, the Farm Bill provides, among other authorities, the Insurance Corporation with the authority to organize, and the Farm Credit Administration to charter, a System bridge bank, which has all the powers of a System bank with a maximum life span of five years.

Many provisions of the Farm Bill will require the United States Department of Agriculture to develop rules and procedures to fully implement these authorities. The timing for the issuance of those rules is uncertain.

LIBOR TRANSITION

On July 27, 2017, the United Kingdom Financial Conduct Authority (the Conduct Authority) announced that it will no longer persuade or compel such banks to submit rates for the calculation of the LIBOR rates after 2021. The Conduct Authority regulates the panel banks that submit quotes for the purpose of calculating LIBOR to the Intercontinental Exchange (ICE) Benchmark Administration (the entity that is responsible for calculating LIBOR). Accordingly, it is uncertain whether the ICE Benchmark Administration will continue to quote LIBOR after 2021. Furthermore, in the United States, efforts to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee (ARRC) of the Federal Reserve Board and the Federal Reserve Bank of New York. Specifically, the ARRC has proposed the Secured Overnight Financing Rate (SOFR) as the recommended alternative to LIBOR and the Federal Reserve Bank of New York began publishing SOFR in April of 2018. SOFR is based on a broad segment of the overnight Treasury repurchase market and is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities.

At this time, it is not possible to predict, among other uncertainties, whether (i) LIBOR will be discontinued, (ii) the effect of any changes to the methodology for calculating LIBOR, or (iii) any establishment of alternative reference rates or any other reforms to LIBOR that may be enacted in the United Kingdom, in the United States or elsewhere. Uncertainty as to the nature of such potential changes, alternative reference rates or other reforms may adversely affect the trading market for LIBOR based instruments, including certain of the Systemwide Debt Securities, System borrowings, loans, investments, derivatives, other System assets and liabilities and preferred stock that are indexed to LIBOR. Accordingly, reform of, or the replacement or disappearance of, LIBOR and the proposed regulation of LIBOR and other “benchmarks” may adversely affect the rates of interest the System pays on its Systemwide Debt Securities (including changes to their value and liquidity, return, and usefulness for intended purpose), on other borrowings and preferred stock, as well as the value of and return on loans and investments and the value and effectiveness of derivatives. This could adversely affect the System’s cash flows. Moreover, if LIBOR is replaced, System institutions will need to take steps to restructure their debt and derivatives, which could adversely affect operations.

The System institutions are currently evaluating the potential impact of the eventual replacement of the LIBOR benchmark interest rate, including the possibility of using SOFR as the alternative to LIBOR. While each system institution is required by the regulator to have a transition plan, the transition from

LIBOR to SOFR is expected to be complex and to include the development of term and credit adjustments to minimize, to the extent possible, discrepancies between LIBOR and SOFR. Accordingly, the transition may introduce additional basis risk for market participants, including when an alternative index, e.g., SOFR, exists in conjunction with LIBOR. There can be no guarantee that SOFR will become the dominant alternative to U.S. dollar LIBOR or that SOFR will be widely used. In addition, other alternatives may or may not be developed with additional complications.

Changes in LIBOR may result in interest rates and/or payments that are higher or lower than, or that do not otherwise correlate over time with, the interest rates and/or payments that would have been associated with LIBOR-based Systemwide Debt Securities, or loans or investments that are based on LIBOR, which may increase or decrease the payments to be made on such LIBOR-based Systemwide Debt Securities, or loans or investments that are based on LIBOR.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 2, *Summary of Significant Accounting Policies*, in the Notes to the Consolidated Financial Statements for 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	
• 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.	• The Association has begun implementation efforts by establishing a cross-discipline governance structure and will implement a third-party model. The Association is currently identifying key interpretive issues and assessing 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: 1. The allowance related to loans and commitments will most likely increase to cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on any debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of the increase is under evaluation, but will depend upon the nature and characteristics of the 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)	
• 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. A recent amendment provides an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. • Effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted.	• 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 completed its evaluation of leasing contracts and activities and developed its methodology to estimate the right-of-use assets and lease liabilities, which is based on the present value of lease payments. There will not be a material change to the timing of expense recognition. • Given the limited changes to lessor accounting, there were no material changes to recognition or measurement for the Association. • The Association will need to provide additional disclosure information as a result of adopting the Update. • The Association will adopt the guidance in first quarter 2019 using the optional modified retrospective method and practical expedients for transition. • Upon adoption, the Association will record a cumulative-effect adjustment to equity of approximately $9 thousand. In addition, a Right of Use Asset in the amount of $100 thousand and Lease Liability in the amount of $109 thousand will be recorded.

Disclosure Required by Farm Credit Administration Regulations

Description of Business

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations are incorporated herein by reference to Note 1, *Organization and Operations*, of the Consolidated Financial Statements included in this Annual Report to shareholders.

The description of significant developments that had or could have a material impact on earnings, interest rates to borrowers, borrower patronage or dividends, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, concentrations of assets, and changes in patronage policies or practices, if any, is incorporated in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report.

The association is involved in three Unincorporated Business Entities (UBE), which were organized for the purpose of acquiring and managing unusual or complex collateral associated with loans.

Ethanol Holding Company, LLC, is a Delaware Limited Liability Company. The entity was organized for stated purpose of acquiring, holding, managing, preserving and, if appropriate, operating the assets of BFE Operating Company, LLC, Buffalo Lakes Energy, LLC and Pioneer Trail Energy, LLC (the "BFE Entities") and Ethanol Holding Company Minnesota Sub, LLC and Ethanol Holding Company Nebraska Sub, LLC, until such time as such assets may be sold or otherwise disposed of pursuant to the terms of the Operating Agreement of Ethanol Holding Company, LLC.

CBF Holdings, LLC is a North Carolina limited liability company. Subject to and upon the terms of the Operating Agreement, the purpose of CBF Holdings, LLC is to acquire, maintain, operate in an idle mode, market, and re-sell the Purchased Assets (an ethanol plant) and to engage in such activities as may be approved by the Majority Interest (collectively, the "Business"), in each case subject to any limitations of the Act or the Applicable Laws of any jurisdiction in which the Company transacts business. The Company shall be authorized to engage in any and all other activities related to the foregoing. Articles of dissolution for CBF Holdings, LLC were filed with the North Carolina Secretary of State as of June 4, 2018 as its intended purpose has been served and has no further business matters to attend to.

Colonial OPO, LLC is a limited liability company in Virginia. The sole purpose of Colonial OPO is to acquire, hold, manage, preserve, and if appropriate, operate the assets of acquired property associated with loans until the time such assets may be sold or otherwise disposed.

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity, all of which are located in Virginia or Maryland:

Location	Description	Form of Ownership
7104 Mechanicsville Tnpk. Mechanicsville, VA	Administrative/ Regional Office	Owned
135 Queen Street Tappahannock, VA	Regional Office	Owned
18639 Eltham Road West Point, VA	Office	Owned
428 E. Main Street Waverly, VA	Office	Owned
11295 Windsor Boulevard Windsor, VA	Regional Office	Owned
1700-A S. Main Street Farmville, VA	Regional Office	Owned
201 E. Danville Street South Hill, VA	Office	Owned
22323 E. Main Street Courtland, VA	Office	Rented (1) ($1,022 per month)
8307 Old Leonardtown Road Hughesville, MD	Regional Office	Rented (2) ($1,500 per month)
13915 Boydton Plank Road Ste B Dinwiddie, VA	Office	Rented (3) ($800 per month)
22776 Timberlake Road Ste A Lynchburg, VA	Office	Rented (4) ($1,337 per month)
135 Hanbury Road Ste C - 2 Chesapeake, VA	Office	Rented (5) ($1,504 per month)
2987 River Road West Goochland, VA	Office	Rented (6) ($1,500 per month)

(1) 1 year lease terminating on February 28, 2019.
(2) Month-to-month lease through April 30, 2019.
(3) 2 year lease terminating on August 31, 2019.
(4) 5 year lease terminating on February 28, 2019.
(5) 3 year lease terminating on July 31, 2020.
(6) 2 year lease terminating on February 1, 2021.

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 11, *Commitments and Contingencies*, of the Consolidated Financial Statements included in this Annual Report.

Description of Capital Structure

Information to be disclosed in this section is incorporated herein by reference to Note 7, *Members' Equity*, of the Consolidated Financial Statements included in this Annual Report.

Description of Liabilities

The description of liabilities, contingent liabilities and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 6, 9 and 12 of the Consolidated Financial Statements included in this Annual Report.

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

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in this Annual Report and is to be disclosed in this section, is incorporated herein by reference.

Senior Officers

The following represents certain information regarding the senior officers of the Association and their business experience for the past five years:

Senior Officer	Position
Paul B. Franklin Sr.	***President and Chief Executive Officer*** since March 2017. Previously served as Chief Lending Officer for the Association. Serves as Treasurer for the Hanover Education Foundation (non-profit organization) and a director for the Virginia Agribusiness Council (advocates for the business interests of the diversified industry of agricultural and forestry).
James S. Belfield	***Chief Information Officer*** since April 2000. Serves as a board member of the Virginia Cooperative Council (trade association for cooperatives).
Diane S. Fowlkes	***Chief Financial Officer and Treasurer*** since August 2013. Serves as a director and finance committee member for the Virginia Foundation for Agriculture in the Classroom (provides youth agricultural education).
Ronnie G. Gill	***Chief Lending Officer -Branch Operations*** since October 2012. Serves as Treasurer for the Virginia Grain Producers Association (promotion and marketing of grain). He also serves as a director for the Northern Neck Farm Museum (antique farm museum), the Virginia Tech College of Agriculture and Life Sciences Alumni Organization (support of college and alumni enrichment), and Chairman for the Essex County Agricultural and Forestry Economic Development Advisory Board (works to sustain and enhance the rural and agricultural economy in the county).
Michael J. Lacks	***Chief Lending Officer-Commercial Loans*** since March 2017. Previously served as Relationship Manager in the Commercial Loan Group for the Association.
Karen Suzanne Nicely	***Director of Human Resources and Corporate Secretary*** since October 2003.
Patrick J. Tewell	***Chief Credit Officer*** since January 2017. Previously served as Examiner for Farm Credit Administration.

The total amount of compensation earned by the CEO and all senior officers and other highly compensated employees as a group during the years ended December 31, 2018, 2017, and 2016, is as follows:

Name of Individual or Number in Group	Year	Salary	Bonus	Deferred Comp.	Change in Pension Value	Perq/ Other*	Total
Paul B. Franklin	2018	$ 261,468	$ 57,750	$ _	$ 175,826	$ 14,828	$ 509,873
Paul B. Franklin	2017	$ 238,724	$ 53,750	$ _	$ 410,646	$ 13,208	$ 716,328
Greg B. Farmer (retired in March, 2017)	2017	$ 69,001	$ 14,410	$ –	$ 977,753	$ 4,088	$ 1,065,262
Greg B. Farmer	2016	$ 304,287	$ 67,258	$ –	$ 267,626	$ 16,169	$ 655,340
6	2018	$ 849,090	$ 177,374	$ _	$ (72,759)	$ 62,882	$ 1,016,587
7	2017	$ 846,857	$ 304,605	$ –	$ 629,890	$ 72,859	$ 1,854,211
6	2016	$ 847,542	$ 297,029	$ –	$ 687,053	$ 53,081	$ 1,884,706

* *The Perquisites/Other amount disclosed in the above chart includes company contributions to 401(k) plan (See Note 9, Employee Benefits Plans, to the Financial Statements), group life insurance premiums, compensation value for Association provided automobile , spouse travel expense and Farm Credit apparel expense.*

The disclosure of information on the total compensation paid during 2018 to any senior officer or to any other employee included in the aggregate group total as reported in the table above is available and will be disclosed to the shareholders of the institution upon request.

The institution's shareholders have the authority to petition for an advisory vote on CEO and senior officers' compensation. For the year ended December 31, 2018, no advisory votes were held.

The present value of pension benefits is the value at a specific date of the expected future benefit payment stream based on actuarial assumptions, chiefly the discount rate. Other assumptions are also used, such as expected retirement age and life expectancy. Changes in the actuarial assumptions can increase or decrease the pension values.

The discount rate, which is derived using an AA corporate bond yield curve, is updated every year based on the interest rate environment at December 31. A decrease in the discount rate will normally increase the present values and vice versa. In most cases, an increase in the discount rate assumption from the prior year partially offset by an increase in benefits earned caused the pension values to decrease at December 31, 2018.

At December 31, 2014, the life expectancy actuarial assumption was updated to reflect recent mortality studies indicating longer life spans. This change increased pension values as the benefit payments are expected to be made for a longer time span.

The disclosure of information on the total compensation paid during 2018 to any senior officer or to any other employee included in the aggregate group total as reported in the table above is available and will be disclosed to the shareholders of the institution upon request.

Two individuals included in the senior officer or other highly compensated employee group had $0 changes in the value of

pension benefits. One was included in the AgFirst Farm Credit Cash Balance Retirement Plan, which has been terminated and benefits were distributed to participants in 2018. See *Note 9, Employee Benefit Plans* for additional details. One individual was hired after the Cash Balance Plan was closed and therefore has no pension benefits.

Prior to the end of each fiscal year the Board reviews the appropriateness of an incentive plan for all Association employees for the following year. In addition to a base salary, employees and senior officers can earn additional compensation under an incentive plan. The Association's 2018 incentive plan was designed to motivate employees to exceed the business plan goals during the fiscal year and covered all staff members employed as of December 31, 2018. A separate incentive plan is in place for appraisal personnel. The plan focused on meeting target earnings, patronage distribution, credit administration, credit quality, and customer service goals. The plan allowed for both individual and group incentives based on performance criteria. Allowable incentives ranged up to 22 percent of base pay at the end of the plan year for senior officers, and up to 19 percent of base pay in effect at the end of the plan year for other employees depending upon their position. For 2018, the Board approved an additional 1 percent of base pay incentive for eligible employees, exclusive of senior officers, due to Association performance. Also, all employees are eligible to receive awards based upon 1) years of service or 2) exceptional performance as defined in the plan. Bonuses and incentives are shown in the year earned and are paid in the first quarter of the subsequent year.

All employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

The compensation plan for the CEO and other senior officers is approved annually by the Compensation Committee, guided by the following policy objective:

To provide a comprehensive compensation plan that assists management in attracting and retaining professional, motivated, customer-oriented employees, and which appropriately rewards employees taking into consideration competition, local-market compensation levels, expertise, experience and contributions (individual and team) to the association's success. These objectives will be accomplished by:

- Utilizing the AgFirst District salary and grade schedules, as well as other market data and studies, for grade placement, merit increases and salary level.
- Participating in AgFirst District benefit plans, as well as offering other benefits as deemed appropriate by the board.
- Utilizing a combination of salary, variable pay, benefits and special awards.
- Tying compensation to the achievement of business plan objectives and individual goals, and emphasizing balance among the four primary critical performance areas: business development, asset quality, earnings and human resources.
- Providing an honest and objective performance appraisal review to each employee at least annually.

The CEO and other senior officers participate in the identical compensation, retirement, incentive and benefit plans, with the exception of the recently retired CEO's supplemental non-qualified retirement plan, as described below.

Senior officers are paid a competitive, market-based salary commensurate with their tenure, expertise and education. Salary ranges for each position are adjusted periodically based on compensation studies. Senior officers are eligible for an annual salary increase based on merit, as determined by an annual performance appraisal review documenting individual performance relative to individual goals and business plan objectives for the calendar year. The CEO's performance evaluation and any merit increase are approved by the Board of Directors in December, upon recommendation from the Compensation Committee. The CEO prepares and approves the annual performance appraisal review and determines merit increases for other senior officers in February. Merit increases for all senior officers are effective February 1, and generally fall within ranges approved annually by the Compensation Committee. These ranges are differentiated by individual performance rating and current salary relative to the salary range midpoint. Merit increases are typically not granted once an employee reaches the mid-point of the salary range, which is considered the "market value" of the job. Salary ranges are adjusted annually based on market studies.

The Association's salary plan for senior officers (including annual merit increases) provides a base compensation plan that is market-driven, allowing for the attraction and retention of professional managers to implement the Association's strategic and annual business plans. Attracting and retaining high quality employees is critical to the Association's long-term success, including the goal of filling mid-level management and senior officer positions from within. A low rate of senior officer turnover is critical in achieving our mission and providing stable leadership and strong financial performance. Overall senior officer salaries are controlled by the Compensation Committee's approval of salary ranges and merit increase ranges.

Senior officers participate in an incentive compensation plan. The objectives of this plan are to:

- Ensure compensation structure is consistent with the Association's core purpose, core values and strategic business plan,
- Focus decisions and actions on key operating objectives that will provide long-term financial growth and stability to the Association,
- Provide competitive compensation packages in order to attract, motivate, reward and retain superior employees,
- Provide flexibility to management in assigning workload to maximize allocation of resources and expertise,
- Reinforce a sales culture,
- Emphasize teamwork, and
- Respond to an increasingly significant practice of goal oriented cash incentives among financial institutions.

This incentive plan contains several Association-level performance measures which must be met before a payout under either of the two components described below is possible, including: payment of a patronage refund, compliance with funding bank loan agreement covenants, not being under a regulatory enforcement action, and minimum credit management, credit quality and customer service measures. Payments under either component are based upon performance for the previous calendar year and are made during the first quarter, after the annual external audit is finalized.

The incentive plan contains a profit sharing component. In order to receive payment under this component, the senior officer must receive an "effective" overall annual performance rating, and the Association's core earnings must be equal to or greater than budget. Payout is in increments from 3 percent up to a maximum of 7 percent of year-end salary, depending upon the level of core earnings relative to budget.

The incentive plan also contains an individual performance incentive component, whereby the senior officer can earn up to an additional 15 percent of year-end salary if his/her annual performance rating falls into the highest quadrant ("highly effective"). The level of incentive paid to the CEO, if any, is approved by the board of directors upon recommendation from the Compensation Committee. Payments to other senior officers are determined by the CEO.

Incentive-based compensation for senior officers is reasonable and proportionate to the services performed and results achieved, and it is structured to prevent undue risk to the Association, by virtue of:

- The plan's structure which prevents payout if the Association is experiencing financial or credit problems, doesn't pay a patronage to customers, is not adequately serving its customers or is under a regulatory enforcement action,
- Senior officers having to achieve at least "effective" overall performance ratings to receive payment, and
- The total maximum payment for senior officers being a modest 22 percent of salary, with actual payout level determined by both individual and overall Association performance.

Senior officers participate in plans, depending upon their original date of employment.

A defined benefit plan is provided those officers employed prior to January 1, 2003. Benefits are determined based on years of service times highest consecutive thirty-six month average salary times 2 percent. Full benefit payments are payable upon retirement at age 65, or at age 62 with 10 years of service. Additionally, unreduced benefits are payable based on the "rule of 85", provided the officer is at least 55 years of age and his/her age plus years of service total at least 85.

Senior officers employed on or after January 1, 2003 receive a nonelective employer contribution of 3 percent of total compensation into the 401(k) savings plan. Additionally, any balances accrued under the defined contribution plan (Cash Balance Plan) were disbursed to plan participants in March 2017 according to his/her individual distribution election. See *Note 9- Employee Benefit Plans*. These distributions are represented as payments in 2017 in the pension benefits table.

The Association sponsors a non-qualified, defined-benefit, supplemental executive retirement plan for the former CEO, who recently retired. The purpose of the non-qualified plan is to provide benefits that supplement the IRS limitations imposed on the qualified defined-benefit plan in which the Association's employees participate. For eligible key employees, compensation in excess of the 401(a) (17) limit and benefits in excess of the 415(b) limit in the qualified defined-benefit plan will be made up through the non-qualified plan. As a non-qualified plan, assets have been allocated and separately invested for this plan, but are not isolated from the general creditors of the Association.

This plan does not expand total compensation or the Association's expenses, but serves only to make the employee "whole" considering IRS payment limitations on the qualified retirement plan.

The total accumulated pension benefits for the CEO and all senior officers as a group as of December 31, 2018, are as follows:

Pension Benefits Table
As of December 31, 2018

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2018
CEO:					
Paul B. Franklin, Sr.	2018	AgFirst Retirement Plan	28	$ 1,827,338	$ –
				–	–
				–	–
				$ 1,827,338	$ –
Senior Officers and Highly Compensated Employees:					
6 employees, excluding the CEO	2018	AgFirst Retirement Plan	21*	$ 4,284,293	$ –
				$ 4,284,293	$ –

**Represents the average years of credited service for the group*

Senior officers may also participate in a 401(k) savings plan, with the level of Association matching contributions determined by date of employment. For officers employed before January 1, 2003, the Association matches employee contributions 50 percent up to 6 percent of salary. For those hired after December 31, 2002, the Association matches employee contributions 100 percent up to 6 percent of salary. Various investment options are available for these funds, and vesting is immediate.

Market-based retirement and tax advantaged savings plans for senior officers are critical components to a competitive overall compensation plan. Such a plan is necessary for the attraction and retention of professionals capable of effectively implementing the Association's strategic and annual business plans. Association financial risk is mitigated by adjusting provisions when necessary to control costs and remain competitive, such as was done for employees hired after December 31, 2002, and subsequent changes to the defined contribution retirement plan and 401(k) savings plan.

Senior officers participate in various other benefits which are also offered to all employees, such as: medical insurance; annual, holiday and sick leave; life and disability insurance; and, milestone service awards. Additionally, senior officers are reimbursed for out-of-pocket business travel, lodging and subsistence costs. A copy of the reimbursement policy is available upon request.

The Association's strong performance during 2018 in the areas of earnings, credit quality, capital, liquidity and audit results supported payouts from both components of the incentive plan described at the maximum levels. Virtually all business plan objectives and goals were met or exceeded with the exception of secondary mortgage volume and net income. Further, the individual and team performance of the CEO and other senior officers were consistent with the level of these incentive payments and with their overall compensation.

Directors

The following chart details the year the director began serving on the board, the current term of expiration, and total cash compensation paid:

DIRECTOR	ORIGINAL YEAR OF ELECTION OR APPOINTMENT	CURRENT TERM EXPIRATION	TOTAL COMP. PAID DURING 2018
John E. Bickford*	2014	2022	$10,700
Chairman			
Appointed Stockholder Director			
A. Kevin Monahan	2011	2019	$10,100
Vice Chairman			
R. Bertsch Cox	2017	2021	$10,400
Appointed Director			
Jennifer U. Cuthbertson	2007	2021	$9,600
Appointed Director			
John F. Davis	2005	2020	$11,300
Stanley O. Forbes, Sr.**	1996	2018	$9,600
Appointed Director			
Clarke E. Fox	1997	2021	$10,700
Jeffrey W. Griffith	2014	2020	$6,600
Susan D. Hance-Wells***	2004	2018	$4,200
Hugh S. Jones	2003	2021	$9,200
Robert M. Jones	2013	2021	$7,200
L. Wayne Kirby	2005	2020	$7,400
Frankie R. Large	2017	2019	$9,400
John N. Mills, Jr.	1996	2019	$9,200
Paul W. Rogers, Jr.	1988	2022	$11,800
Robert H. Spiers, Jr.**	1988	2018	$5,800
Steven H. Walter	2018	2022	$2,000
Robert R. Womack	2014	2022	$4,800
			$150,000

** John E. Bickford also previously served from 2005-2013.*
*** Stanley O. Forbes, Sr. and Robert H. Spiers, Jr. retired in December 2018 and August 2018, respectively.*
****Susan D. Hance-Wells' term concluded in September 2018.*

The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years. Unless specifically listed, the principal occupation of the board member for the past five years has been as a self-employed farmer.

Mr. John E. Bickford, Chairman of the Board, Compensation Committee, and Executive Committee, is a consulting forester involved in timber management, timber sales, and timber evaluations for non-industrial landowners. He owns Bickford Timber and Land Management, Inc., a timber consulting and management business. He also serves as a licensed real estate agent for Cox & Company Real Estate and Insurance and as a member of Buckingham County Planning Commission.

Mr. A. Kevin Monahan, Vice Chairman of the Board and Chairman of the Governance Committee, is a row crop, beef cattle, and timber farmer and owner of Monahan Farms, LLC and Bowling Green Farms, LLC. Mr. Monahan also serves on the board of the Surry County, Virginia, Planning Commission (county planning), and the Colonial Agricultural Educational

Foundation (provides funding for college scholarships and other youth education).

Mr. R. Bertsch Cox is the Chief Financial Officer/CPA for James River Equipment (equipment dealer). He also serves as vice-chairman of the board and chairman of the finance committee for Virginia Foundation for Agriculture in the Classroom (provides youth agriculture education).

Mrs. Jennifer U. Cuthbertson is a watermelon, pumpkin, goat, cattle, wheat, corn, soybean, grain sorghum, timber, and hay farmer, and a tax advisor for H&R Block. Mrs. Cuthbertson was a business analyst for Southern States Cooperative (agricultural supply cooperative) until May 2009 and served as a seasonal customer service representative for FERIDIES (retail sales and promotion of Virginia peanuts).

Mr. John F. Davis, Audit Committee Chairman, is a retired farmer and self-employed farm consultant for Mill Creek Farms, LLC.

Mr. Stanley O. Forbes, Sr. retired from Federal Agricultural Mortgage Association in April 1994 (vice president in charge of agricultural finance) and was employed from March 1998 to March 1999 by Statesman Financial Corporation (senior credit officer, financial services). Mr. Forbes served as a director of Colonial Farm Credit until December 31, 2018 (retirement).

Mr. Clarke E. Fox, Legislative Committee Chairman, serves as President of Foxhill Farms, Inc., a peanut, cotton, corn, soybean, watermelon, and timber farm. Mr. Fox also serves as a director of the Virginia/Carolinas Peanut Promotions (promotes peanut industry).

Mr. Jeffrey W. Griffith is a grain, hay, and vegetable farmer. He serves as vice president of the Anne Arundel County Farm Bureau (agriculture, insurance, service, and lobbying organization) and is a member of Future Farmers of America Alumni (promoting FFA) and the Maryland Soybean Board (administering checkoff).

Mrs. Susan D. Hance-Wells is a hay, grain, and beef cattle farmer, owner of Battle Creek Beef, LLC. She serves as Chairman of the Calvert County Board of Appeals (zoning and critical area of regulation appeals), as honorary director of the Calvert County Farm Bureau (agriculture, insurance, service, and lobbying organization), as honorary director of the Calvert Farmland Trust (promotes agricultural land preservation, and as a director of Colonial Agricultural Educational Foundation (provides funding for college scholarships and other youth education). She served as a director of Colonial Farm Credit until September 2018 (term expiration).

Mr. Hugh S. Jones is president, majority owner, and operator of Richlands Dairy Farm, Inc. and a shareholder in Richlands Creamery, LLC. Mr. Jones also serves as a director and member of the steering committee of the Virginia Tech Southern Virginia Research Station (agricultural research) and as a director of the Nottoway Planning Commission (county planning).

Mr. Robert M. Jones is the owner of Poor House Dairy Farm. Mr. Jones also serves as a director of Farmers' Cooperative (Ag production products), a director of Cooperative Milk Producers (milk marketing), a board member of Prince Edward County Board of Supervisors, and a board member of Prince Edward County Planning Commission.

Mr. L. Wayne Kirby is a row crop farmer and owner of Creamfield Farm LLC and a commissioned agent for Helena Chemical Company (agricultural chemical sales and consultation). Mr. Kirby serves as a director of the Colonial Agricultural Educational Foundation (provides funding for college scholarships and other youth education), the Virginia Grain Producers Association, Inc. (promotion and marketing of grain), and the Virginia Agribusiness Council (industry lobbying organization); and serves on the Virginia Board of Agriculture and Consumer Services (promotes Virginia agriculture interests).

Mr. Frankie R. Large is an owner/operator of Cherry Hill Farm (cow/calf operation) and a contract hog grower for Smithfield Foods. He serves as vice-president of Buckingham Farm Bureau (agriculture insurance, service, and lobbying organization) and as a member of USDA Farm Service Agency County committee (liaison between the farm community and the U.S. Department of Agriculture).

Mr. John N. Mills, Jr., is a partner in John N. Mills & Sons family farm business (growing and marketing corn, wheat, barley, soybean, and beef cattle). He serves as a director of the Virginia Identity Preserved Grains (small grain promotion and marketing) and the King William County Farm Bureau (agriculture insurance, service, and lobbying organization). He is also a partner in H&F LLC, which is a partner in York River Mitigation Bank (wetlands mitigation development).

Mr. Paul W. Rogers, Jr., is a partner of Rogers Farms Partnership, a cotton, grain, timber, and peanut farm and owner of Paul W. Rogers, Jr., LLC. Mr. Rogers serves as a director for the Peanut Standards Board (promotes peanuts) and served on the Farm Credit Benefits Alliance Plan Sponsor Committee (governs AgFirst and Texas Farm Credit Districts employee benefits programs).

Mr. Robert H. Spiers, Jr. is a flue tobacco, corn, wheat, milo, and soybean farmer, owning and managing Spiers Farm LLC. He serves on the board of Dinwiddie County Farm Bureau (agriculture insurance, service, and lobbying organization), the Virginia Flue-Cured Tobacco Board (governs use of Virginia tobacco check off funds), the Virginia Tobacco Region Revitalization Commission (promotes economic development in Virginia's tobacco region), the Tobacco Associates Inc. Board (promotes export of tobacco), and Dinwiddie County IDA (promotes industry in Dinwiddie County). He served on the Farm Credit Benefits Alliance Plan Sponsor Committee (governs AgFirst and Texas Farm Credit Districts employee benefits programs) during 2018. He served as a director of Colonial Farm Credit until August 2018 (retirement).

Mr. Steven H. Walter is an owner/operator of H&S Farms LLC, a soybean, wheat, and, barley farm and president of Walter Greenhouses, Inc. (vegetables and greenhouse plants). He serves as president of Charles County Farm Bureau (agriculture insurance, service, and lobbying organization), director of Maryland Farm Bureau Political Action Committee, Maryland Farm Bureau representative on Southern Maryland Ag Development Commission, and member of the Calvert County Extension Advisory Committee.

Mr. Robert R. Womack is owner and operator of Woodville Farm, Inc., a poultry, beef cattle, and row crop farm. He is vice president of Buckingham Cattleman Association (breed promotion and marketing) and a director of Farmers' Cooperative (agricultural products).

In accordance with board policy, the Association pays directors honoraria ranging from $200 to $600, for attendance at meetings, committee meetings, conference call meetings, or special assignments. Directors are paid a monthly retainer fee of $200, except for the chairman of the board who receives $375 and the chairmen of the Audit, Legislative, and Governance committees who receive $225. Total compensation paid to directors as a group was $150,000 for 2018. No director received more than $5,000 in non-cash compensation during the year.

The following chart details the number of meetings, other activities and additional compensation paid for other activities (if applicable) for each director:

	Days Served			
Name of Director	**Regular Board Meetings**	**Committee Meetings**	**Committees***	**Committee Compensation ($)**
John E Bickford	4	1	Compensation	$600
Chairman		2	Governance	$1,200
Appointed Stockholder Director		4	Other Activities	$2,000
A. Kevin Monahan	4	1	Compensation	$600
Vice-Chairman		2	Governance	$1,200
		6	Other Activities	$3,200
R. Bertsch Cox	4	4	Audit	$2,400
Appointed Director		1	Compensation	$600
		7	Other Activities	$2,600
Jennifer U. Cuthbertson,	5	4	Audit	$2,400
Appointed Director		1	Compensation	$600
		1	Governance	$600
		3	Other Activities	$600
John F. Davis	5	4	Audit	$2,400
		1	Compensation	$600
		7	Other Activities	$2,600
Stanley O. Forbes, Sr.,	5	4	Audit	$2,400
Appointed Director		1	Compensation	$600
		1	Governance	$600
		3	Other Activities	$600
Clarke E. Fox	5	4	Audit	$2,400
		1	Compensation	$600
		4	Other Activities	$2,000
Jeffery W. Griffith	5	1	Governance	$600
		3	Other Activities	$600
Susan D. Hance-Wells	3	1	Governance	$600
Hugh S. Jones	5	1	Compensation	$600
		1	Governance	$600
		7	Other Activities	$2,600
Robert M. Jones	4	4	Audit	$2,400
L. Wayne Kirby	5	2	Governance	$1,200
		4	Other Activities	$800
Frankie R. Large	5	2	Governance	$1,200
		8	Other Activities	$2,800
John N. Mills, Jr.	5	1	Compensation	$600
		2	Governance	$1,200
		4	Other Activities	$2,000
Paul W. Rogers, Jr.	5	4	Audit	$2,400
		2	Governance	$1,200
		8	Other Activities	$2,800
Robert H. Spiers, Jr.	3	2	Audit	$1,200
		1	Governance	$600
		3	Other Activities	$600
Steven H. Walter	2	1	Other Activities	$200
Robert R. Womack	4		–	

**Some committee meetings may be scheduled on the same day as other meetings, resulting in no additional compensation*

Directors are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking, laundry, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to shareholders of the Association upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $44,722 for 2018, $63,936 for 2017, and $49,800 for 2016.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 10, *Related Party Transactions*, of the Consolidated Financial Statements included in this Annual Report.

Transactions Other Than Loans

There have been no transactions that occurred at any time during the year ended December 31, 2018 or in aggregate, between the Association and senior officers or directors, their immediate family members or any organizations with which they are affiliated, which exceed $5,000. There were no transactions with any senior officer or director related to the purchase or retirement of preferred stock of the Association for the year ended December 31, 2018.

Involvement in Certain Legal Proceedings

There were no other matters which came to the attention of management or the board of directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

Relationship with Independent Auditors

There were no changes in or material disagreements with our independent auditors on any matter of accounting principles or financial statement disclosure during this period.

Aggregate fees paid by the Association for services rendered by its independent auditors for the year ended December 31, 2018 were as follows:

	2018
Independent Auditors	
PricewaterhouseCoopers LLP	
Audit services	$ 48,651
Total	$ 48,651

Audit fees were for the annual audit of the consolidated financial statements.

Consolidated Financial Statements

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 13, 2019 and the report of management, which appear in this Annual Report are incorporated herein by reference. Copies of the Association's Annual and unaudited Quarterly reports are available upon request free of charge by calling (804) 746-1252, writing Diane Fowlkes, Chief Financial Officer, Colonial Farm Credit, ACA, 7104 Mechanicsville Turnpike, Mechanicsville, VA 23111, or accessing the website, ***www.colonialfarmcredit.com.*** The Association prepares an electronic version of the Annual Report which is available on the Association's website within 75 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

Since 1972, Farm Credit Administration (FCA) regulations have required that borrower information be held in strict confidence by Farm Credit System (FCS) institutions, their directors, officers and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA Board adopted a policy that requires FCS institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the Annual Report. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

Credit and Services to Young, Beginning, and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products

Information to be disclosed in this section is incorporated herein by reference to the similarly named section in the Management's Discussion and Analysis of Financial Condition and Results of Operations section included in this annual report to the shareholders.

Shareholder Investment

Shareholder investment in the Association could 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 website 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 and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report, which is available on the Bank's website, 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.

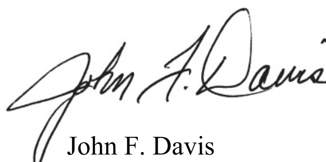
Report of the Audit Committee

The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of Colonial Farm Credit, ACA (Association) and in the opinion of the Board of Directors; each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

The Committee has adopted a written charter that has been approved by the Board of Directors. The Committee has reviewed and discussed the Association's audited financial statements with management, which has primary responsibility for the financial statements.

PricewaterhouseCoopers LLP (PwC), the Association's independent auditors for 2018, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance)*. The Committee discussed with PwC its independence from Colonial Farm Credit, ACA. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Association's Annual Report for 2018. The foregoing report is provided by the following independent directors, who constitute the Committee:



John F. Davis
Chairman of the Audit Committee

Members of Audit Committee

R. Bertsch Cox
Jennifer U. Cuthbertson
Clarke E. Fox
Hugh S. Jones
Robert M. Jones
Frankie R. Large
Paul W. Rogers, Jr.

March 13, 2019

Report of Independent Auditors

To the Board of Directors and Management of
Colonial Farm Credit, ACA

We have audited the accompanying consolidated financial statements of Colonial Farm Credit, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2018, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Association's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Colonial Farm Credit, ACA and its subsidiaries as of December 31, 2018, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP
Miami, Florida

March 13, 2019

PricewaterhouseCoopers LLP, 333 SE 2nd Avenue, Suite 3000, Miami, FL 33131
T: (305) 375 7400, F: (305) 375 6221, www.pwc.com/us

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2018	2017	2016
Assets			
Cash	**$ 66**	$ 66	$ 63
Loans	**670,269**	636,119	641,762
Allowance for loan losses	**(2,245)**	(2,427)	(3,006)
Net loans	**668,024**	633,692	638,756
Loans held for sale	**1,316**	1,135	3,567
Accrued interest receivable	**5,985**	4,866	4,798
Equity investments in other Farm Credit institutions	**6,809**	6,890	6,949
Premises and equipment, net	**1,881**	1,708	1,708
Other property owned	**37**	—	78
Accounts receivable	**7,445**	7,874	6,553
Other assets	**958**	1,136	1,051
Total assets	**$ 692,521**	$ 657,367	$ 663,523
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 484,103**	$ 456,390	$ 467,883
Accrued interest payable	**1,399**	1,156	1,073
Patronage refunds payable	**16,207**	11,113	10,721
Accounts payable	**2,036**	1,620	1,575
Other liabilities	**2,053**	2,923	6,608
Total liabilities	**505,798**	473,202	487,860
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**5,047**	4,795	4,699
Unallocated retained earnings	**181,684**	179,414	170,978
Accumulated other comprehensive income (loss)	**(8)**	(44)	(14)
Total members' equity	**186,723**	184,165	175,663
Total liabilities and members' equity	**$ 692,521**	$ 657,367	$ 663,523

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

Consolidated Statements of Income

(dollars in thousands)	For the year ended December 31, 2018	2017	2016
Interest Income			
Loans	**$ 36,598**	$ 32,366	$ 31,672
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**15,195**	13,296	12,526
Net interest income	**21,403**	19,070	19,146
Provision for (reversal of allowance for) loan losses	**(78)**	(337)	(775)
Net interest income after provision for (reversal of allowance for) loan losses	**21,481**	19,407	19,921
Noninterest Income			
Loan fees	**483**	456	464
Fees for financially related services	**69**	51	49
Lease income	**81**	73	90
Patronage refunds from other Farm Credit institutions	**7,337**	7,843	6,487
Gains (losses) on sales of rural home loans, net	**564**	702	820
Gains (losses) on sales of premises and equipment, net	**51**	38	67
Gains (losses) on other transactions	**(18)**	80	(164)
Insurance Fund refunds	**835**	—	—
Other noninterest income	**101**	120	171
Total noninterest income	**9,503**	9,363	7,984
Noninterest Expense			
Salaries and employee benefits	**9,237**	8,573	9,142
Occupancy and equipment	**532**	595	496
Insurance Fund premiums	**415**	678	791
(Gains) losses on other property owned, net	**3**	22	23
Other operating expenses	**2,426**	(555)	2,362
Total noninterest expense	**12,613**	9,313	12,814
Income before income taxes	**18,371**	19,457	15,091
Provision for income taxes	**12**	10	7
Net income	**$ 18,359**	$ 19,447	$ 15,084

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2018	2017	2016
Net income	**$ 18,359**	$ 19,447	$ 15,084
Other comprehensive income net of tax			
Employee benefit plans adjustments	**36**	(30)	(46)
Comprehensive income	**$ 18,395**	$ 19,417	$ 15,038

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2015	$ 4,659	$ 166,447	$ 32	$ 171,138
Comprehensive income		15,084	(46)	15,038
Capital stock/participation certificates issued/(retired), net	40			40
Patronage distribution				
Cash		(10,602)		(10,602)
Patronage distribution adjustment		49		49
Balance at December 31, 2016	$ 4,699	$ 170,978	$ (14)	$ 175,663
Comprehensive income		19,447	(30)	19,417
Capital stock/participation certificates issued/(retired), net	96			96
Patronage distribution				
Cash		(11,046)		(11,046)
Patronage distribution adjustment		35		35
Balance at December 31, 2017	$ 4,795	$ 179,414	$ (44)	$ 184,165
Comprehensive income		**18,359**	**36**	**18,395**
Capital stock/participation certificates issued/(retired), net	**252**			**252**
Patronage distribution				
Cash		**(16,117)**		**(16,117)**
Patronage distribution adjustment		**28**		**28**
Balance at December 31, 2018	**$ 5,047**	**$ 181,684**	**$ (8)**	**$ 186,723**

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2018	2017	2016
Cash flows from operating activities:			
Net income	**$ 18,359**	$ 19,447	$ 15,084
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**176**	$ 314	$ 226
Amortization (accretion) of net deferred loan costs (fees)	**382**	280	190
Provision for (reversal of allowance for) loan losses	**(78)**	(337)	(775)
(Gains) losses on other property owned	**—**	21	23
(Gains) losses on sales of premises and equipment, net	**(51)**	(38)	(67)
(Gains) losses on sales of rural home loans, net	**(564)**	(702)	(820)
(Gains) losses on other transactions	**18**	(80)	164
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(38,515)**	(44,775)	(49,946)
Proceeds from sales of loans held for sale, net	**38,898**	47,909	48,507
(Increase) decrease in accrued interest receivable	**(1,119)**	(68)	(196)
(Increase) decrease in accounts receivable	**429**	(1,321)	(116)
(Increase) decrease in other assets	**178**	(85)	1,024
Increase (decrease) in accrued interest payable	**243**	83	60
Increase (decrease) in accounts payable	**416**	45	126
Increase (decrease) in other liabilities	**(852)**	(3,632)	30
Total adjustments	**(439)**	(2,386)	(1,570)
Net cash provided by (used in) operating activities	**17,920**	17,061	13,514
Cash flows from investing activities:			
Net (increase) decrease in loans	**(34,673)**	5,039	(3,690)
(Increase) decrease in equity investments in other Farm Credit institutions	**81**	59	(220)
Purchases of premises and equipment	**(350)**	(315)	(385)
Proceeds from sales of premises and equipment	**52**	39	76
Proceeds from sales of other property owned	**—**	136	—
Net cash provided by (used in) investing activities	**(34,890)**	4,958	(4,219)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**27,713**	(11,493)	(2,150)
Capital stock and participation certificates issued/(retired), net	**252**	96	40
Patronage refunds and dividends paid	**(10,995)**	(10,619)	(7,184)
Net cash provided by (used in) financing activities	**16,970**	(22,016)	(9,294)
Net increase (decrease) in cash	**—**	3	1
Cash, beginning of period	**66**	63	62
Cash, end of period	**$ 66**	$ 66	$ 63
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	**$ 37**	$ 82	$ 35
Estimated cash dividends or patronage distributions declared or payable	**16,117**	11,046	10,602
Employee benefit plans adjustments (Note 9)	**(36)**	30	46
Supplemental information:			
Interest paid	**14,952**	13,213	12,466
Taxes (refunded) paid, net	**12**	2	4

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Colonial Farm Credit, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Amelia, Amherst, Appomattox, Brunswick, Buckingham, Campbell, Caroline, Charles City, Charlotte, Chesterfield, Cumberland, Dinwiddie, Essex, Fluvanna, Gloucester, Goochland, Greensville, Hanover, Henrico, Isle of Wight, King and Queen, King George, King William, James City, Lancaster, Louisa, Lunenburg, Mathews, Mecklenburg, Middlesex, New Kent, Northumberland, Nottoway, Powhatan, Prince Edward, Prince George, Richmond, Southampton, Surry, Sussex, Westmoreland, York, and the cities of Chesapeake, Newport News, Suffolk and Virginia Beach in the state of Virginia and the counties of Anne Arundel, Calvert, Charles, Prince George's and Saint Mary's in the state of Maryland.

   The Association is a lending institution in the Farm Credit System (System), a nationwide network of cooperatively owned banks and associations. It was established by Acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The System specializes in providing financing and related services to qualified borrowers for agricultural and rural purposes.

   The nation is served by three Farm Credit Banks (FCBs) and one Agricultural Credit Bank (ACB), (collectively, the System Banks) each of which has specific lending authorities within its chartered territory. The ACB also has additional specific nationwide lending authorities.

   Each System Bank serves one or more Agricultural Credit Associations (ACAs) that originate long-term, short-term and intermediate-term loans, Production Credit Associations (PCAs) that originate and service short- and intermediate-term loans, and/or Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans. These associations borrow a majority of the funds for their lending activities from their related bank. System Banks are also responsible for supervising the activities of associations within their districts. AgFirst (Bank) and its related associations (Associations or District Associations) are collectively referred to as the AgFirst District. The District Associations jointly own substantially all of AgFirst's voting stock. As of year end, the District consisted of the Bank and nineteen District Associations. All nineteen were structured as ACA holding companies, with PCA and FLCA subsidiaries. FLCAs are tax-exempt while ACAs and PCAs are taxable.

   The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of the associations and certain actions by the associations are subject to the prior approval of the FCA and the supervising bank.

   The Farm Credit Act also established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured Debt), (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary uses by the Insurance Corporation to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank has been required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its average adjusted outstanding Insured Debt until the assets in the Insurance Fund reach the "secure base amount." The secure base amount is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of the aggregate obligations as the Insurance Corporation at its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums and may return excess funds above the secure base amount to System institutions. However, it must still ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

B. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity and financial services that can be offered by the Association, and the persons eligible to borrow.

   The Associations borrow from the Bank and in turn may originate and service short- and intermediate-term loans to their members, as well as long-term real estate mortgage loans.

   The Bank primarily lends to the District Associations in the form of a line of credit to fund the Associations' earning assets. These lines of credit (or Direct Notes) are collateralized by a pledge of substantially all of each Association's assets. The terms of the Direct Notes are governed by a General Financing Agreement (GFA) between the Bank and Association. Each advance is structured such that the principal cash flow, repricing characteristics, and underlying index (if any) of the advance match those of the assets being funded. By match-funding the Association loans, the Associations' exposure to interest rate risk is minimized.

   In addition to providing funding for earning assets, the Bank provides District Associations with banking and

support services such as accounting, human resources, information systems, and marketing. The costs of these support services are included in the cost of the Direct Note, or in some cases billed directly to certain Associations that use a specific service.

The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments, and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses.

The Association may sell to any System borrowing member, on an optional basis, credit or term life insurance appropriate to protect the loan commitment in the event of death of the debtor(s). The sale of other insurance necessary to protect a member's farm or aquatic unit is permitted, but limited to hail and multi-peril crop insurance, and insurance necessary to protect the facilities and equipment of aquatic borrowers.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Association conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results may differ from these estimates.

The accompanying consolidated financial statements include the accounts of the ACA, PCA and FLCA.

Certain amounts in the prior year financial statements have been reclassified to conform to the current period presentation. Such reclassifications had no effect on net income or total members' equity of prior years.

A. **Cash:** Cash represents cash on hand and on deposit at banks.

B. **Loans and Allowance for Loan Losses:** The Association is authorized to make long-term real estate loans with maturities of 5 to 40 years and certain short- and intermediate-term loans for agricultural production or operating purposes with maturities of not more than 10 years.

   Loans are carried at their principal amount outstanding adjusted for charge-offs, premiums, discounts, deferred loan fees or costs, and derivative instruments and hedging valuation adjustments, if any. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. The difference in the total investment in a loan and its principal amount may be deferred as part of the carrying amount of the loan and the net difference amortized over the life of the related loan as an adjustment to interest income using the effective interest method.

   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 and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan remains contractually past due until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full. A formal restructuring may also cure a past due status.

   Loans are generally classified as nonaccrual when principal or interest is delinquent for 90 days (unless adequately collateralized and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in the prior year).

   When loans are in nonaccrual status, payments are applied against the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments received in cash may be recognized as interest income. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, and the loan is not classified "doubtful" or "loss." Loans are charged off at the time they are determined to be uncollectible.

   In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. A restructured loan constitutes a troubled debt restructuring (TDR) if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

   The allowance for loan losses is maintained 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. The

allowance for loan losses is a valuation account used to reasonably estimate loan losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss.

The Association considers the following factors, among others, when determining the allowance for loan losses:

- Changes in credit risk classifications
- Changes in collateral values
- Changes in risk concentrations
- Changes in weather-related conditions
- Changes in economic conditions

A specific allowance may be established for impaired loans under Financial Accounting Standards Board (FASB) guidance on accounting by creditors for impairment of a loan. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

A general allowance may also be established under FASB guidance on accounting for contingencies, to reflect estimated probable credit losses inherent in the remainder of the loan portfolio which excludes impaired loans considered under the specific allowance discussed above. A general allowance can be evaluated on a pool basis for those loans with similar characteristics. The level of the general allowance may be based on management's best estimate of the likelihood of default adjusted for other relevant factors reflecting the current environment.

The credit risk rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The Association uses a two-dimensional loan rating model based on internally generated combined system risk rating guidance that incorporates a 14-point risk rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the 14 categories carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

C. **Loans Held for Sale:** Loans are classified as held for sale when there is intent to sell the loans within a reasonable period of time. Loans intended for sale are carried at the lower of cost or fair value.

D. **Other Property Owned (OPO):** Other property owned, consisting of real estate, personal property, and other assets acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income, expenses, and carrying value adjustments related to other property owned are included in Gains (Losses) from Other Property Owned, Net in the Consolidated Statements of Income.

E. **Premises and Equipment:** Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized. Premises and equipment are evaluated for impairment whenever events or circumstances indicate that the carrying value of the asset may not be recoverable.

   From time to time, assets classified as premises and equipment are transferred to held for sale for various reasons. These assets are carried in Other Assets at the lower of the recorded investment in the asset or fair value less estimated cost to sell based upon the property's appraised value at the date of transfer. Any write-down of property held for sale is recorded as a loss in the period identified.

F. **Investments:** The Association may hold investments as described below.

   Equity Investments in Other Farm Credit System Institutions
   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.

   Investment Income
   Dividends from Investments in Other Farm Credit Institutions are generally recorded as patronage income and included in Noninterest Income.

Other Investments
As discussed in Note 8, certain investments, consisting primarily of mutual funds, are held in trust and investment accounts and are reported at fair value. Holding period gains and losses are included within Noninterest Income on the Consolidated Statements of Income and the balance of these investments, totaling $933, is included in Other Assets on the accompanying Consolidated Balance Sheets as of December 31, 2018.

G. **Voluntary Advance Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted; the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as other liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.

H. **Employee Benefit Plans:** The Association participates in District and multi-District sponsored benefit plans. These plans may include defined benefit final average pay retirement, defined benefit cash balance retirement, defined benefit other postretirement benefits, and defined contribution plans.

Defined Contribution Plans
Substantially all employees are eligible to participate in the defined contribution Farm Credit Benefit Alliance (FCBA) 401(k) Plan, subsequently referred to as the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. Company contributions to the 401(k) Plan are expensed as funded.

Additional information may be found in Note 9.

Multi-Employer Defined Benefit Plans
Substantially all employees hired before January 1, 2003 may participate in the AgFirst Farm Credit Retirement Plan (Plan), which is a defined benefit plan and considered multi-employer under FASB accounting guidance. The Plan is noncontributory and includes eligible Association and District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes.

In addition to pension benefits, the Association provides certain health care and life insurance benefits for retired employees (other postretirement benefits) through a multi-District sponsored retiree healthcare plan. Substantially all employees are eligible for those benefits when they reach early retirement age while working for the Association. Authoritative accounting guidance requires the accrual of the expected cost of providing these benefits to an employee, their beneficiaries and covered dependents during the years the employee renders service necessary to become eligible for benefits.

Since the foregoing plans are multiemployer, the Association does not apply the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements. Rather, the effects of this guidance are reflected in the Annual Information Statement of the Farm Credit System.

Additional information may be found in Note 9 and in the Notes to the Annual Information Statement of the Farm Credit System.

Single Employer Defined Benefit Plans
The Association also sponsors a single employer defined benefit supplemental retirement plan and offers a FCBA supplemental 401(k) plan for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the Association's Consolidated Balance Sheets in Other Liabilities.

The foregoing defined benefit plan is considered single employer, therefore the Association applies the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements. See Note 9 for additional information.

I. **Income Taxes:** The Association evaluates tax positions taken in previous and current years according to FASB guidance. A tax position can result in a permanent reduction of income taxes payable, a deferral of income taxes otherwise currently payable to future years, or a change in the expected realizability of deferred tax assets. The term tax position also encompasses, but is not limited to, an entity's status, including its status as a pass-through entity or tax-exempt entity.

The Association is generally subject to Federal and certain other income taxes. As previously described, the ACA holding company has two wholly-owned subsidiaries, a PCA and a FLCA. The FLCA subsidiary is exempt from federal and state income taxes as provided in the Farm Credit Act. The ACA holding company and the PCA subsidiary are subject to federal, state and certain other income taxes.

The Association is eligible to operate 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 refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income.

The Association accounts for income taxes under the asset and liability method, recognizing deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those

temporary differences are expected to be realized or settled.

The Association records a valuation allowance at the balance sheet dates against that portion of the Association's deferred tax assets that based on management's best estimates of future events and circumstances, more likely than not (a likelihood of more than 50 percent) will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the expected patronage program, which reduces taxable earnings.

J. **Due from AgFirst Farm Credit Bank:** The Association records patronage refunds from the Bank and certain District Associations on an accrual basis.

K. **Valuation Methodologies:** FASB guidance defines fair value 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. This guidance also 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. It prescribes three levels of inputs that may be used to measure fair value.

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

Level 2 inputs to the valuation methodology 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 to the valuation methodology 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 a third-party valuation or internal model pricing.

The Association may use the Bank, internal resources or third parties to obtain fair value prices. Quoted market prices are generally used when estimating fair values of any assets or liabilities for which observable, active markets exist.

A number of methodologies may be employed to value items for which an observable active market does not exist. Examples of these items include: impaired loans, other property owned, and certain derivatives, investment securities and other financial instruments. Inputs to these valuations can involve estimates and assumptions that require a substantial degree of judgment. Some of the assumptions used include, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing, and liquidation values. The use of different assumptions could produce significantly different asset or liability values, which could have material positive or negative effects on results of operations.

Additional information may be found in Note 8.

L. **Off-Balance-Sheet Credit Exposures:** The credit risk associated with commitments to extend credit and letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee.

Letters of credit are commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party.

M. **Revenue Recognition:** The Association generates income from multiple sources.

Financial Instruments
The largest source of revenue for the Association is Interest Income. Interest income is recognized on an accrual basis driven by nondiscretionary formulas based on written contracts, such as loan agreements or securities contracts. Credit-related fees, including letter of credit fees, finance charges and other fees are recognized in Noninterest Income when earned. Other types of noninterest revenues, such as service charges, professional services and broker fees, are accrued and recognized into income as services are provided and the amount of fees earned is reasonably determinable.

Contracts with Customers
In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers (Topic 606). This guidance, which became effective January 1, 2018, 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.

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.

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.

Gains and Losses from Nonfinancial Assets
Any gains or losses on sales of Premises and Equipment and OPO are included as part of Noninterest Income. These gains and losses are recognized, and the nonfinancial asset is derecognized, when the Association has entered into a valid contract with a noncustomer and transferred control of the asset. If the criteria to meet the definition of a contract have not been met, the Association does not derecognize the nonfinancial asset and any consideration received is recognized as a liability. If the criteria for a contract are subsequently met, or if the consideration received is or becomes nonrefundable, a gain or loss may be recognized at that time.

N. **Accounting Standards Updates (ASUs):** In August 2018, the FASB issued ASU 2018-15 Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this Update. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period, for all entities. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Adoption of the guidance will have no impact on the statements of financial condition and results of operations.

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

In July 2018, the FASB issued ASU 2018-09 Codification Improvements. The amendments affect a wide variety of Topics in the Codification. They apply to all reporting entities within the scope of the affected accounting guidance. The Board has an ongoing project on its agenda about improvements to clarify the Codification or to correct unintended application of guidance. Those items generally are not expected to have a significant effect on current accounting practice. The transition and effective date guidance is based on the facts and circumstances of each amendment.

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. 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 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. 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 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 certain periodic pension costs to Other Operating Expenses.

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 of the Association.

In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update, and subsequent clarifying guidance issued, is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to 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. The Association will implement the guidance in first quarter 2019 using the practical expedients and does not expect a material impact to the financial statements.

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, and subsequent clarifying guidance issued, 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.

Note 3 — Loans and Allowance for Loan Losses

For a description of the Association's accounting for loans, including impaired loans, and the allowance for loan losses, see Note 2 subsection B above.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation which exists in outstanding loans. 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.

The credit risk management process begins with an analysis of the obligor's credit history, repayment capacity and financial position. Repayment capacity focuses on the obligor's ability to repay the obligation based on cash flows from operations or other sources of income, including non-farm income. Real estate mortgage loans must be secured by first liens on the real estate collateral. As required by FCA regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures.

The credit risk rating process for loans uses a two-dimensional structure, incorporating a 14-point probability of default scale (see further discussion in Note 2 subsection B above) and a

separate scale addressing estimated percentage loss in the event of default. The loan rating structure incorporates borrower risk and transaction risk. Borrower risk is the risk of loss driven by factors intrinsic to the borrower. The transaction risk or facility risk is related to the structure of a credit (tenor, terms, and collateral).

The Association's loan portfolio, which includes purchased interests in loans, has been segmented by the following loan types as defined by the FCA:

- Real estate mortgage loans — loans made to full-time or part-time farmers secured by first lien real estate mortgages with maturities from five to thirty years. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.
- Production and intermediate-term loans — loans to full-time or part-time farmers that are not real estate mortgage loans. These loans fund eligible financing needs including operating inputs (such as labor, feed, fertilizer, and repairs), livestock, living expenses, income taxes, machinery or equipment, farm buildings, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically one year or less. Intermediate-term loans are made for a specific term, generally greater than one year and less than or equal to ten years.
- Loans to cooperatives — loans for any cooperative purpose other than for communication, power, and water and waste disposal.
- Processing and marketing loans — loans for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.
- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.
- Rural residential real estate loans — loans made to individuals, who are not farmers, to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans are generally secured by a first lien on the property.
- Communication loans — loans primarily to finance rural communication providers.
- Power loans — loans primarily to finance electric generation, transmission and distribution systems serving rural areas.
- Water and waste disposal loans — loans primarily to finance water and waste disposal systems serving rural areas.
- International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.
- Lease receivables — the net investment for all finance leases such as direct financing leases, leveraged leases, and sales-type leases.

A summary of loans outstanding at period end follows:

	December 31,		
	2018	2017	2016
Real estate mortgage	$ 422,749	$ 397,457	$ 382,056
Production and intermediate-term	172,996	168,323	176,051
Loans to cooperatives	4,803	6,797	7,213
Processing and marketing	22,008	16,466	23,441
Farm-related business	5,483	5,868	7,414
Communication	513	602	520
Power and water/waste disposal	2,433	3,039	2,183
Rural residential real estate	36,287	34,572	39,891
International	2,997	2,995	2,993
Total loans	$ 670,269	$ 636,119	$ 641,762

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

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are collateralized by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in loan to value ratios in excess of the regulatory maximum.

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

	December 31, 2018							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 7,973	$ –	$ –	$ –	$ –	$ –	$ 7,973	$ –
Production and intermediate-term	13,075	–	2,217	–	–	–	15,292	–
Loans to cooperatives	3,847	–	968	–	–	–	4,815	–
Processing and marketing	13,719	–	2,693	–	–	–	16,412	–
Communication	515	–	–	–	–	–	515	–
Power and water/waste disposal	2,452	–	–	–	–	–	2,452	–
International	3,000	–	–	–	–	–	3,000	–
Total	$ 44,581	$ –	$ 5,878	$ –	$ –	$ –	$ 50,459	$ –

	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	$ 7,290	$ –	$ –	$ –	$ –	$ –	$ 7,290	$ –
Production and intermediate-term	15,607	–	5,148	–	–	–	20,755	–
Loans to cooperatives	6,813	–	–	–	–	–	6,813	–
Processing and marketing	12,778	–	–	–	–	–	12,778	–
Farm-related business	541	–	–	–	–	–	541	–
Communication	603	–	–	–	–	–	603	–
Power and water/waste disposal	3,057	–	–	–	–	–	3,057	–
International	3,000	–	–	–	–	–	3,000	–
Total	$ 49,689	$ –	$ 5,148	$ –	$ –	$ –	$ 54,837	$ –

	December 31, 2016							
	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	$ 4,541	$ –	$ –	$ –	$ –	$ –	$ 4,541	$ –
Production and intermediate-term	21,053	–	911	–	–	–	21,964	–
Loans to cooperatives	7,229	–	–	–	–	–	7,229	–
Processing and marketing	18,345	–	–	–	–	–	18,345	–
Farm-related business	570	–	–	–	–	–	570	–
Communication	522	–	–	–	–	–	522	–
Power and water/waste disposal	2,195	–	–	–	–	–	2,195	–
International	3,000	–	–	–	–	–	3,000	–
Total	$ 57,455	$ –	$ 911	$ –	$ –	$ –	$ 58,366	$ –

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:

	December 31, 2018			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 2,364	$ 36,427	$ 383,958	$ 422,749
Production and intermediate-term	87,035	64,386	21,575	172,996
Loans to cooperatives	–	4,803	–	4,803
Processing and marketing	6,593	10,116	5,299	22,008
Farm-related business	1,255	2,932	1,296	5,483
Communication	–	513	–	513
Power and water/waste disposal	–	153	2,280	2,433
Rural residential real estate	8,012	3,331	24,944	36,287
International	2,997	–	–	2,997
Total loans	$ 108,256	$ 122,661	$ 439,352	$ 670,269
Percentage	16.15%	18.30%	65.55%	100.00%

The recorded investment in a 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 the investment.

The following table shows loans and related accrued interest classified under the FCA Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of:

	December 31,		
	2018	2017	2016
Real estate mortgage:			
Acceptable	96.52%	95.41%	95.68%
OAEM	2.15	2.93	2.34
Substandard/doubtful/loss	1.33	1.66	1.98
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	95.95%	93.54%	92.85%
OAEM	3.40	4.54	4.61
Substandard/doubtful/loss	0.65	1.92	2.54
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	100.00%	99.52%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	0.48
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	99.72%	99.58%	99.67%
OAEM	–	–	–
Substandard/doubtful/loss	0.28	0.42	0.33
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	96.18%	95.88%	97.85%
OAEM	2.45	2.37	0.76
Substandard/doubtful/loss	1.37	1.75	1.39
	100.00%	100.00%	100.00%

	December 31,		
	2018	2017	2016
Communication:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Power and water/waste disposal:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	97.56%	97.32%	96.95%
OAEM	0.52	0.46	0.36
Substandard/doubtful/loss	1.92	2.22	2.69
	100.00%	100.00%	100.00%
International:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Total loans:			
Acceptable	96.59%	95.23%	95.23%
OAEM	2.28	3.08	2.69
Substandard/doubtful/loss	1.13	1.69	2.08
	100.00%	100.00%	100.00%

The following tables provide an aging analysis of past due loans and related accrued interest as of:

	December 31, 2018				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 3,271	$ 251	$ 3,522	$ 422,805	$ 426,327
Production and intermediate-term	1,612	198	1,810	173,299	175,109
Loans to cooperatives	68	–	68	4,741	4,809
Processing and marketing	–	–	–	22,064	22,064
Farm-related business	20	–	20	5,495	5,515
Communication	–	–	–	513	513
Power and water/waste disposal	–	–	–	2,435	2,435
Rural residential real estate	19	37	56	36,411	36,467
International	–	–	–	3,015	3,015
Total	$ 4,990	$ 486	$ 5,476	$ 670,778	$ 676,254

	December 31, 2017				
	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	$ 2,715	$ 337	$ 3,052	$ 397,366	$ 400,418
Production and intermediate-term	1,515	270	1,785	168,222	170,007
Loans to cooperatives	–	–	–	6,802	6,802
Processing and marketing	–	–	–	16,496	16,496
Farm-related business	–	–	–	5,887	5,887
Communication	–	–	–	602	602
Power and water/waste disposal	–	–	–	3,041	3,041
Rural residential real estate	88	–	88	34,636	34,724
International	–	–	–	3,008	3,008
Total	$ 4,318	$ 607	$ 4,925	$ 636,060	$ 640,985

	December 31, 2016				
	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	$ 3,862	$ 346	$ 4,208	$ 380,705	$ 384,913
Production and intermediate-term	2,064	2,905	4,969	172,729	177,698
Loans to cooperatives	–	–	–	7,221	7,221
Processing and marketing	–	77	77	23,419	23,496
Farm-related business	57	–	57	7,387	7,444
Communication	–	–	–	520	520
Power and water/waste disposal	–	–	–	2,184	2,184
Rural residential real estate	115	–	115	39,932	40,047
International	–	–	–	3,037	3,037
Total	$ 6,098	$ 3,328	$ 9,426	$ 637,134	$ 646,560

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

	December 31,		
	2018	2017	2016
Nonaccrual loans:			
Real estate mortgage	$ 1,808	$ 2,573	$ 2,704
Production and intermediate-term	783	2,387	3,245
Processing and marketing	61	69	77
Rural residential real estate	152	94	238
Total	$ 2,804	$ 5,123	$ 6,264
Accruing restructured loans:			
Real estate mortgage	$ 424	$ 446	$ 120
Production and intermediate-term	9	14	196
Rural residential real estate	42	46	60
Total	$ 475	$ 506	$ 376
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 3,279	$ 5,629	$ 6,640
Other property owned	37	–	78
Total nonperforming assets	$ 3,316	$ 5,629	$ 6,718
Nonaccrual loans as a percentage of total loans	0.42%	0.81%	0.98%
Nonperforming assets as a percentage of total loans and other property owned	0.49%	0.88%	1.05%
Nonperforming assets as a percentage of capital	1.78%	3.06%	3.82%

The following table presents information relating to impaired loans (including accrued interest) as defined in Note 2:

	December 31,		
	2018	2017	2016
Impaired nonaccrual loans:			
Current as to principal and interest	$ 1,618	$ 3,815	$ 1,725
Past due	1,186	1,308	4,539
Total	$ 2,804	$ 5,123	$ 6,264
Impaired accrual loans:			
Restructured	$ 475	$ 506	$ 376
90 days or more past due	–	–	–
Total	$ 475	$ 506	$ 376
Total impaired loans	$ 3,279	$ 5,629	$ 6,640
Additional commitments to lend	$ –	$ –	$ –

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

	December 31, 2018			Year Ended December 31, 2018	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	486	625	70	710	201
Processing and marketing	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 486	$ 625	$ 70	$ 710	$ 201
With no related allowance for credit losses:					
Real estate mortgage	$ 2,232	$ 3,110	$ –	$ 3,258	$ 925
Production and intermediate-term	306	986	–	446	127
Processing and marketing	61	71	–	90	26
Rural residential real estate	194	345	–	283	80
Total	$ 2,793	$ 4,512	$ –	$ 4,077	$ 1,158
Total impaired loans:					
Real estate mortgage	$ 2,232	$ 3,110	$ –	$ 3,258	$ 925
Production and intermediate-term	792	1,611	70	1,156	328
Processing and marketing	61	71	–	90	26
Rural residential real estate	194	345	–	283	80
Total	$ 3,279	$ 5,137	$ 70	$ 4,787	$ 1,359

	December 31, 2017			Year Ended December 31, 2017	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	2,098	3,239	367	3,556	139
Processing and marketing	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 2,098	$ 3,239	$ 367	$ 3,556	$ 139
With no related allowance for credit losses:					
Real estate mortgage	$ 3,019	$ 3,941	$ –	$ 5,116	$ 201
Production and intermediate-term	303	955	–	513	20
Processing and marketing	69	75	–	117	5
Rural residential real estate	140	327	–	238	9
Total	$ 3,531	$ 5,298	$ –	$ 5,984	$ 235
Total impaired loans:					
Real estate mortgage	$ 3,019	$ 3,941	$ –	$ 5,116	$ 201
Production and intermediate-term	2,401	4,194	367	4,069	159
Processing and marketing	69	75	–	117	5
Rural residential real estate	140	327	–	238	9
Total	$ 5,629	$ 8,537	$ 367	$ 9,540	$ 374

Impaired loans:	December 31, 2016 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2016 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 47	$ 74	$ 35	$ 53	$ 3
Production and intermediate-term	2,750	3,672	959	3,067	150
Processing and marketing	–	–	–	–	–
Rural residential real estate	126	167	26	140	7
Total	$ 2,923	$ 3,913	$ 1,020	$ 3,260	$ 160
With no related allowance for credit losses:					
Real estate mortgage	$ 2,777	$ 3,638	$ –	$ 3,095	151
Production and intermediate-term	691	1,072	–	770	38
Processing and marketing	77	78	–	86	4
Rural residential real estate	172	305	–	192	9
Total	$ 3,717	$ 5,093	$ –	$ 4,143	$ 202
Total impaired loans:					
Real estate mortgage	$ 2,824	$ 3,712	$ 35	$ 3,148	$ 154
Production and intermediate-term	3,441	4,744	959	3,837	188
Processing and marketing	77	78	–	86	4
Rural residential real estate	298	472	26	332	16
Total	$ 6,640	$ 9,006	$ 1,020	$ 7,403	$ 362

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:								
Balance at December 31, 2017	$ 1,287	$ 912	$ 94	$ 2	$ 10	$ 112	$ 10	$ 2,427
Charge-offs	(19)	(177)	–	–	–	–	–	(196)
Recoveries	27	51	–	–	–	14	–	92
Provision for loan losses	76	(153)	10	–	(2)	(9)	–	(78)
Balance at December 31, 2018	$ 1,371	$ 633	$ 104	$ 2	$ 8	$ 117	$ 10	$ 2,245
Balance at December 31, 2016	$ 1,219	$ 1,503	$ 117	$ 2	$ 7	$ 149	$ 9	$ 3,006
Charge-offs	(8)	(306)	–	–	–	(1)	–	(315)
Recoveries	–	69	–	–	–	4	–	73
Provision for loan losses	76	(354)	(23)	–	3	(40)	1	(337)
Balance at December 31, 2017	$ 1,287	$ 912	$ 94	$ 2	$ 10	$ 112	$ 10	$ 2,427
Balance at December 31, 2015	$ 1,477	$ 1,983	$ 154	$ 9	$ 5	$ 134	$ –	$ 3,762
Charge-offs	(212)	(98)	–	–	–	(60)	–	(370)
Recoveries	233	89	–	–	–	67	–	389
Provision for loan losses	(279)	(471)	(37)	(7)	2	8	9	(775)
Balance at December 31, 2016	$ 1,219	$ 1,503	$ 117	$ 2	$ 7	$ 149	$ 9	$ 3,006
Allowance on loans evaluated for impairment:								
Individually	$ –	$ 70	$ –	$ –	$ –	$ –	$ –	$ 70
Collectively	1,371	563	104	2	8	117	10	2,175
Balance at December 31, 2018	$ 1,371	$ 633	$ 104	$ 2	$ 8	$ 117	$ 10	$ 2,245
Individually	$ –	$ 367	$ –	$ –	$ –	$ –	$ –	$ 367
Collectively	1,287	545	94	2	10	112	10	2,060
Balance at December 31, 2017	$ 1,287	$ 912	$ 94	$ 2	$ 10	$ 112	$ 10	$ 2,427
Individually	$ 35	$ 959	$ –	$ –	$ –	$ 26	$ –	$ 1,020
Collectively	1,184	544	117	2	7	123	9	1,986
Balance at December 31, 2016	$ 1,219	$ 1,503	$ 117	$ 2	$ 7	$ 149	$ 9	$ 3,006
Recorded investment in loans evaluated for impairment:								
Individually	$ 2,232	$ 792	$ 61	$ –	$ –	$ 194	$ –	$ 3,279
Collectively	424,095	174,317	32,327	513	2,435	36,273	3,015	672,975
Balance at December 31, 2018	$ 426,327	$ 175,109	$ 32,388	$ 513	$ 2,435	$ 36,467	$ 3,015	$ 676,254
Individually	$ 3,019	$ 2,401	$ 69	$ –	$ –	$ 140	$ –	$ 5,629
Collectively	397,399	167,606	29,116	602	3,041	34,584	3,008	635,356
Balance at December 31, 2017	$ 400,418	$ 170,007	$ 29,185	$ 602	$ 3,041	$ 34,724	$ 3,008	$ 640,985
Individually	$ 2,824	$ 3,441	$ 77	$ –	$ –	$ 298	$ –	$ 6,640
Collectively	382,089	174,257	38,084	520	2,184	39,749	3,037	639,920
Balance at December 31, 2016	$ 384,913	$ 177,698	$ 38,161	$ 520	$ 2,184	$ 40,047	$ 3,037	$ 646,560

**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.

	Year Ended December 31, 2018				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 105	$ –	$ 105	
Processing and marketing	–	63	–	63	
Total	$ –	$ 168	$ –	$ 168	
Post-modification:					
Real estate mortgage	$ –	$ 107	$ –	$ 107	$ –
Processing and marketing	–	64	–	64	–
Total	$ –	$ 171	$ –	$ 171	$ –

	Year Ended December 31, 2017				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 266	$ –	$ 266	
Production and intermediate-term	–	248	–	248	
Processing and marketing	–	72	–	72	
Total	$ –	$ 586	$ –	$ 586	
Post-modification:					
Real estate mortgage	$ –	$ 265	$ –	$ 265	$ –
Production and intermediate-term	–	182	–	182	(66)
Processing and marketing	–	71	–	71	–
Total	$ –	$ 518	$ –	$ 518	$ (66)

	Year Ended December 31, 2016				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 344	$ –	$ 344	
Production and intermediate-term	–	501	–	501	
Total	$ –	$ 845	$ –	$ 845	
Post-modification:					
Real estate mortgage	$ –	$ 343	$ –	$ 343	$ –
Production and intermediate-term	–	463	–	463	–
Total	$ –	$ 806	$ –	$ 806	$ –

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

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

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

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2018	**2017**	**2016**	**2018**	**2017**	**2016**
Real estate mortgage	$ 755	$ 753	$ 799	$ 331	$ 307	$ 679
Production and intermediate-term	187	1,924	2,634	178	1,910	2,438
Processing and marketing	62	69	–	62	69	–
Rural residential real estate	122	135	158	80	89	98
Total loans	$ 1,126	$ 2,881	$ 3,591	$ 651	$ 2,375	$ 3,215
Additional commitments to lend	$ –	$ –	$ –			

The Association had no foreclosed residential real estate properties held as a result of obtaining physical possession and no consumer mortgage loans secured by residential real estate for which formal foreclosure proceeding were in process at December 31, 2018.

Note 4 — Investments

Equity Investments in Other Farm Credit 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.

The Association is required to maintain ownership in 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's investment in the Bank totaled $6,382 for 2018, $6,448 for 2017 and $6,523 for 2016. The Association owns 2.33 percent of the issued stock of the Bank as of December 31, 2018, net of any reciprocal investment. As of that date, the Bank's assets totaled $33.1 billion and shareholders' equity totaled $2.2 billion. The Bank's earnings were $306 million for 2018. In addition, the Association had investments of $427 related to other Farm Credit institutions at December 31, 2018.

Note 5 — Real Estate and Other Property

Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2018	2017	2016
Land	$ 481	$ 481	$ 463
Buildings and improvements	2,323	2,305	2,206
Furniture and equipment	2,291	2,147	2,164
	5,095	4,933	4,833
Less: accumulated depreciation	3,214	3,225	3,125
Total	$ 1,881	$ 1,708	$ 1,708

The Association is obligated under noncancelable operating leases. At December 31, 2018, future minimum lease payments are as follows.

2019	$ 41
2020	28
2021	17
2022	18
2023	–
Subsequent years	–
Total minimum lease payments	$ 104

Other Property Owned

Net (gains) losses on other property owned consist of the following:

	December 31,		
	2018	2017	2016
(Gains) losses on sale, net	$ –	$ (1)	$ (4)
Carrying value unrealized (gains) losses	–	22	27
Operating (income) expense, net	3	1	–
(Gains) losses on other property owned, net	$ 3	$ 22	$ 23

Gains on sales of other property owned were deferred if the sales involved financing from the Association and did not meet the criteria for immediate recognition. Deferred gains totaled $0, $0, and $3 at December 31, 2018, 2017, and 2016, respectively.

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank

Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The borrowing relationship is 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 GFA has a one year term which expires on December 31 and is renewable each year. The Association has no reason to believe the GFA will not be renewed upon expiration. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2018, the Association's notes payable were within the specified limitations.

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 and the terms of the revolving lines of credit are governed by the GFA. Interest rates on both variable and fixed rate advances are generally established loan-by-loan, based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. In the event of prepayment of any portion of a fixed rate advance, the Association may incur a prepayment penalty in accordance with the terms of the GFA, which will be included in interest expense. The interest rate is periodically adjusted by the Bank based upon an agreement between the Bank and the Association.

The weighted average interest rates on the variable rate advances were 3.42 percent for LIBOR-based loans and 3.46 percent for Prime-based loans, and the weighted average remaining maturities were 2.0 years and 0.8 years, respectively, at December 31, 2018. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 3.48 percent, and the weighted average remaining maturity was 12.2 years at December 31, 2018. The weighted-average interest rate on all interest-bearing notes payable was 3.47 percent and

the weighted-average remaining maturity was 10.0 years at December 31, 2018. Gross notes payable consists of approximately 20.99 percent variable rate and 79.01 percent fixed rate portions, representing a match-funding of the Association's loan volume at December 31, 2018. Notes payable to AgFirst Farm Credit Bank, as reflected on the Consolidated Balance Sheets, also includes a credit which reduces the notes payable balance and corresponding interest expense. The weighted average maturities described above are related to matched-funded loans. The direct note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below:

A. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class B stock for agricultural loans, or participation certificates in the case of rural home and farm-related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to $1 thousand or two percent of the loan amount, whichever is less. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

B. **Regulatory Capitalization Requirements and Restrictions:** An FCA regulation empowers it to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

There are currently no prohibitions in place that would prevent the Association from retiring stock, distributing earnings, or paying dividends per the statutory and regulatory restrictions, and the Association has no reason to believe any such restrictions may apply in the future.

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 ratios. The new regulations also include a tier 1 leverage ratio and an unallocated retained earnings (URE) and URE equivalents (UREE) leverage ratio. The permanent capital ratio (PCR) remains in effect.

The ratios are calculated using three-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 URE and 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, 2017:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2018	2017
Risk-adjusted ratios:					
CET1 Capital	4.5%	1.25%	5.75%	26.17%	25.94%
Tier 1 Capital	6.0%	1.25%	7.25%	26.17%	25.94%
Total Capital	8.0%	1.25%	9.25%	26.52%	26.38%
Permanent Capital	7.0%	0.0%	7.0%	26.26%	26.05%
Non-risk-adjusted ratios:					
Tier 1 Leverage	4.0%	1.0%	5.0%	27.85%	27.72%
URE and UREE Leverage	1.5%	0.0%	1.5%	27.93%	27.85%

** 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.

C. **Description of Equities:** The Association is authorized to issue or have outstanding Class C Preferred Stock, Classes A, B, and D Common Stock, Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association's business. All stock and participation certificates have a par or face value of five dollars ($5.00) per share.

The Association had the following shares outstanding at December 31, 2018:

Class	Protected	Shares Outstanding Number	Aggregate Par Value
C Common/Voting	No	898,215	$ 4,491
Participation Certificates/Nonvoting	No	111,159	556
Total Capital Stock and Participation Certificates		1,009,374	$ 5,047

Protected common stock and participation certificates are retired at par or face value in the normal course of business. At-risk common stock and participation certificates are retired at the sole discretion of the Board at book value not to exceed par or face amounts, provided the minimum capital adequacy standards established by the Board are met.

Retained Earnings

The Association maintains an unallocated retained earnings account and an allocated retained earnings account. The minimum aggregate amount of these two accounts is determined by the Board. At the end of any fiscal year, if the retained earnings accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board. Unallocated retained earnings are maintained for each borrower to permit liquidation on a patronage basis.

The Association maintains an allocated retained earnings account consisting of earnings held and allocated to borrowers on a patronage basis. In the event of a net loss for any fiscal year, such allocated retained earnings account will be subject to full impairment in the order specified in the bylaws beginning with the most recent allocation.

The Association has a first lien and security interest on all retained earnings account allocations owned by any borrowers, and all distributions thereof, as additional collateral for their indebtedness to the Association. When the debt of a borrower is in default or is in the process of final liquidation by payment or otherwise, the Association, upon approval of the Board, may order any and all retained earnings account allocations owned by such borrower to be applied on the indebtedness.

Allocated equities shall be retired solely at the discretion of the Board; provided, however, that minimum capital standards established by the FCA and the Board are met.

Dividends

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 20 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Class C Preferred Stock or on all classes of stock and participation certificates.

The rate of dividends paid on Class C Preferred Stock for any fiscal year may not be less than the rate of dividend paid on Classes A, B, and D Common Stock or participation certificates for such year. The rate of dividends on Classes A, B, and D Common Stock and participation certificates shall be at the same rate per share.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. No dividends were declared by the Association for any of the periods included in these Consolidated Financial Statements.

Patronage Distributions

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patronage distributions are based on the proportion of the borrower's interest to the amount of interest earned by the Association on its total loans unless another proportionate patronage basis is approved by the Board.

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members' equity account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash.

Transfer

Class C Preferred, Classes A, B, and D Common Stocks, and Participation Certificates may be transferred to persons or entities eligible to purchase or hold such equities.

Impairment

Any net losses recorded by the Association shall first be applied against unallocated members' equity. To the extent that such losses would exceed unallocated members' equity, such losses would be applied consistent with the Association's bylaws and distributed pro rata to each share and/or unit outstanding in the class, in the following order:

1. Classes A, B, and D Common Stock and Participation Certificates
2. Class C Preferred Stock

Liquidation

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities should be distributed to the holders of the outstanding stock and participation certificates in the following order:

1. Class C Preferred Stock
2. Classes A, B, and D Common Stock and Participation Certificates
3. Holders of allocated retained earnings pro rata, until an amount equal to the total account has been distributed.

D. **Accumulated Other Comprehensive Income (AOCI):**

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

	For the Years Ended December 31,		
	2018	**2017**	**2016**
Employee Benefit Plans:			
Balance at beginning of period	$ (44)	$ (14)	$ 32
Other comprehensive income before reclassifications	36	(30)	(46)
Amounts reclassified from AOCI	–	–	–
Net current period OCI	36	(30)	(46)
Balance at end of period	$ (8)	$ (44)	$ (14)

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

	2018	**2017**	**2016**	**Income Statement Line Item**
Defined Benefit Pension Plans:				
Periodic pension costs	$ –	$ –	$ –	See Note 9.
Amounts reclassified	$ –	$ –	$ –	

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

Note 8 — 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.

Estimating the fair value of the Association's equity investments in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost.

The classifications within the fair value hierarchy (See Note 2) are as follows:

Level 1
Assets held in trust funds, related to deferred compensation plans, and assets held in mutual funds, related to the Association's Corporate Giving Fund, are classified as Level 1. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2
The Association had no Level 2 assets and liabilities measured at fair value on a recurring basis.

Level 3
Because no active market exists for the Association's accruing loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans currently would be made to borrowers with similar credit risk. The loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves. Certain loans evaluated for impairment under FASB guidance have fair values based upon the underlying collateral, as the loans were collateral-dependent. Specific reserves were established for these loans when the value of the collateral, less estimated cost to sell, was less than the principal balance of the loan. 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.

Notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

Other property owned is classified as a Level 3 asset. The fair value is generally determined using formal appraisals of each individual property. These assets are held for sale. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Other property owned consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure and is carried as an asset held for sale, which is generally not its highest and best use. These properties are part of the Association's credit risk mitigation efforts, not its ongoing business. In addition, FCA regulations require that these types of property be disposed of within a reasonable period of time.

For commitments to extend credit, the estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics; therefore, the related credit risk is not significant.

There were no Level 3 assets and 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.

	December 31, 2018				
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 933	$ 933	$ –	$ –	$ 933
Recurring Assets	$ 933	$ 933	$ –	$ –	$ 933
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 416	$ –	$ –	$ 416	$ 416
Other property owned	37	–	–	45	45
Nonrecurring Assets	$ 453	$ –	$ –	$ 461	$ 461
Other Financial Instruments					
Assets:					
Cash	$ 66	$ 66	$ –	$ –	$ 66
Loans	668,924	–	–	656,761	656,761
Other Financial Assets	$ 668,990	$ 66	$ –	$ 656,761	$ 656,827
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 484,103	$ –	$ –	$ 476,749	$ 476,749
Other Financial Liabilities	$ 484,103	$ –	$ –	$ 476,749	$ 476,749

	December 31, 2017				
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 1,044	$ 1,044	$ –	$ –	$ 1,044
Recurring Assets	$ 1,044	$ 1,044	$ –	$ –	$ 1,044
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 1,731	$ –	$ –	$ 1,731	$ 1,731
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 1,731	$ –	$ –	$ 1,731	$ 1,731
Other Financial Instruments					
Assets:					
Cash	$ 66	$ 66	$ –	$ –	$ 66
Loans	633,096	–	–	625,427	625,427
Other Financial Assets	$ 633,162	$ 66	$ –	$ 625,427	$ 625,493
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 456,390	$ –	$ –	$ 452,761	$ 452,761
Other Financial Liabilities	$ 456,390	$ –	$ –	$ 452,761	$ 452,761

	December 31, 2016				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 957	$ 957	$ –	$ –	$ 957
Recurring Assets	$ 957	$ 957	$ –	$ –	$ 957
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 1,903	$ –	$ –	$ 1,903	$ 1,903
Other property owned	78	–	–	90	90
Nonrecurring Assets	$ 1,981	$ –	$ –	$ 1,993	$ 1,993
Other Financial Instruments					
Assets:					
Cash	$ 63	$ 63	$ –	$ –	$ 63
Loans	640,420	–	–	631,036	631,036
Other Financial Assets	$ 640,483	$ 63	$ –	$ 631,036	$ 631,099
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 467,883	$ –	$ –	$ 462,272	$ 462,272
Other Financial Liabilities	$ 467,883	$ –	$ –	$ 462,272	$ 462,272

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 estimate.

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 461	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			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 9 — Employee Benefit Plans

The Association participates in three District sponsored benefit plans. These plans include a multi-employer defined benefit pension plan, the AgFirst Farm Credit Retirement Plan, which is a final average pay plan (FAP Plan). In addition, the Association participates in a multi-employer defined benefit other postretirement benefits plan (OPEB Plan), the Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plan, and a defined contribution 401(k) plan. The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

1. Assets contributed to multi-employer plans by one employer may be used to provide benefits to employees of other participating employers.
2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
3. If the Association chooses to stop participating in some of its multi-employer plans, the Association may be required to contribute to eliminate the underfunded status of the plan.

The District's multi-employer plans are not subject to ERISA and no Form 5500 is required. As such, the following information is neither available for nor applicable to the plans:

1. The Employee Identification Number (EIN) and three-digit Pension Plan Number
2. The most recent Pension Protection Act (PPA) zone status. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.
3. The "FIP/RP Status" indicating whether a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.
4. The expiration date(s) of collective-bargaining agreement(s).

The FAP Plan covers employees hired prior to January 1, 2003 and includes other District employees that are not employees of the Association. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. FAP Plan expenses included in employee benefit costs on the Association's Statements of Income were $1,944 for 2018, $1,572 for 2017, and $2,079 for 2016. At December 31, 2018, 2017, and 2016, the total liability balance for the FAP Plan presented in the District Combined Balance Sheets is $94,491, $139,104, and $119,000, respectively. The FAP Plan is 89.56 percent, 86.41 percent, and 86.96 percent funded to the projected benefit obligation as of December 31, 2018, 2017, and 2016, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Association or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs on the Association's Statements of Income were $252 for 2018, $258 for 2017, and $476 for 2016. At December 31, 2018, the total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition is $181,820.

During 2017, the method of recording expenses at participating District entities for the FAP and OPEB Plans was modified. Prior to 2017, expense was recorded based on allocations of actuarially-determined costs and any differences between recorded expense and actual contributions were recorded in Other Assets or Other Liabilities on the Consolidated Balance Sheets. For 2017 and future years, participating entities will record employee benefit costs based on the actual contributions to the Plans. This change caused the Association to modify its accounting estimates recorded in Other Assets and Other Liabilities since the assets and liabilities do not impact future contributions to the Plans. The change in estimate resulted in the reduction of Other Liabilities by $4,102 on the Association's Balance Sheets, and a total reduction of noninterest expenses on the Association's Statements of Income of $4,102 during 2017.

The Association also participates in a defined contribution Farm Credit Benefits Alliance (FCBA) 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $380, $356, and $328 for the years ended December 31, 2018, 2017, and 2016, respectively. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2002.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2018, 2017, and 2016, $36, $(30), and $(46), respectively, have been recognized as a net credit and net debits to AOCI to reflect these elements.

The supplemental retirement plan is unfunded and had a projected benefit obligation of $475 and a net under-funded status of $475 at

December 31, 2018. Expenses included in noninterest expenses were $19, $21, and $31 for 2018, 2017, and 2016, respectively. Assumptions used to determine the projected benefit obligation as of December 31, 2018 included a discount rate of 4.40 percent.

Additional information for the above may be found in the Notes to the Annual Information Statement of the Farm Credit System.

Note 10 — Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedule, and collateral, as those prevailing at the time for comparable transactions with unaffiliated borrowers.

Total loans to such persons at December 31, 2018 amounted to $14,853. During 2018, $9,001 of new loans were made and repayments totaled $7,709. Additionally, $444 was added and $663 was removed due to changes in directors throughout the year. In the opinion of management, none of these loans outstanding at December 31, 2018 involved more than a normal risk of collectability.

Note 11 — Commitments and Contingencies

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.

In the normal course of business, the Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers. These financial instruments may include commitments to extend credit or letters of credit.

The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2018, $132,058 of commitments to extend credit and commercial letters of credit of $569 were outstanding. A related reserve for unfunded commitments of $197 is included in Other Liabilities in the Consolidated Balance Sheets.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2018, standby letters of credit outstanding totaled $16 with expiration dates ranging from January 1, 2019 to May 1, 2023. The maximum potential amount of future payments that may be required under these guarantees was $16.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2018	2017	2016
Current:			
Federal	$ 9	$ 7	$ 5
State	3	3	2
	12	10	7
Deferred:			
Federal	–	–	–
State	–	–	–
Total provision (benefit) for income taxes	$ 12	$ 10	$ 7

The provision (benefit) for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

	December 31,		
	2018	2017	2016
Federal tax at statutory rate	$ 3,858	$ 6,810	$ 5,282
State tax, net	2	1	2
Patronage distributions	(3,384)	(3,866)	(3,711)
Tax-exempt FLCA earnings	(479)	(2,875)	(1,504)
Changes in tax law/rates		139	(8)
Change in deferred tax asset valuation allowance	19	(201)	(58)
Other	(4)	2	4
Provision (benefit) for income taxes	$ 12	$ 10	$ 7

In late December 2017, federal tax legislation was enacted which, among other things, lowered the federal corporate tax rate from 35% to 21% beginning on January 1, 2018. The change to the lower corporate tax rate led to an insignificant remeasurement of the deferred tax liabilities and deferred tax

assets in 2017, the period of enactment. Deferred tax assets and liabilities are comprised of the following at:

	December 31,		
	2018	2017	2016
Deferred income tax assets:			
Allowance for loan losses	$ 330	$ 311	$ 561
Other property owned writedown	–	–	–
Nonaccrual loan interest	92	76	90
Fixed assets (asset)	6	11	–
Gross deferred tax assets	428	398	651
Less: valuation allowance	(291)	(272)	(472)
Gross deferred tax assets, net of valuation allowance	137	126	179
Deferred income tax liabilities:			
Depreciation	–	–	(13)
Loan origination fees	(137)	(126)	(166)
Gross deferred tax liability	(137)	(126)	(179)
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2018, deferred income taxes have not been provided by the Association on approximately $0.9 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of $291, $272, and $472 as of December 31, 2018, 2017 and 2016, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2018 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2015 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2018				
	First	Second	Third	Fourth	Total
Net interest income	$ 4,762	$ 4,942	$ 5,216	$ 6,483	$ 21,403
Provision for (reversal of allowance for) loan losses	(148)	(198)	310	(42)	(78)
Noninterest income (expense), net	(1,037)	(1,684)	(1,628)	1,227	(3,122)
Net income	$ 3,873	$ 3,456	$ 3,278	$ 7,752	$ 18,359

	2017				
	First	Second	Third	Fourth	Total
Net interest income	$ 4,620	$ 4,737	$ 4,889	$ 4,824	$ 19,070
Provision for (reversal of allowance for) loan losses	(97)	22	161	(423)	(337)
Noninterest income (expense), net	(1,920)	(1,601)	(1,616)	5,177	40
Net income	$ 2,797	$ 3,114	$ 3,112	$ 10,424	$ 19,447

	2016				
	First	Second	Third	Fourth	Total
Net interest income	$ 4,623	$ 4,892	$ 4,865	$ 4,766	$ 19,146
Provision for (reversal of allowance for) loan losses	(432)	(257)	80	(166)	(775)
Noninterest income (expense), net	(2,120)	(1,642)	(1,847)	772	(4,837)
Net income	$ 2,935	$ 3,507	$ 2,938	$ 5,704	$ 15,084

Note 14 — Subsequent Events

The Association evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through March 13, 2019, which was the date the financial statements were issued.

Subsequent to December 31, 2018, the Board of Directors at the February 2019 board meeting approved a cash patronage refund to customers in the amount of $16,539. This was an increase of $422 from the estimated cash patronage refund of $16,117 accrued at December 31, 2018.