
MidAtlantic Farm Credit, ACA
SECOND QUARTER 2019

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CERTIFICATION

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

Thomas H. Truitt, Jr.
Chief Executive Officer

Brian E. Rosati
Chief Financial Officer

Jennifer L. Rhodes
Chair of the Board

August 8, 2019

MidAtlantic Farm Credit, ACA

Report on Internal Control Over Financial Reporting

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

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

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

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

Thomas H. Truitt, Jr.
Chief Executive Officer

Brian E. Rosati
Chief Financial Officer

August 8, 2019

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

(dollars in thousands)

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

LOAN PORTFOLIO

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

Comparison of June 30, 2019 to December 31, 2018

Loans at June 30, 2019 totaled \$2,836,031 compared to \$2,803,479 at December 31, 2018, an increase of \$32,552 (1.16 percent) during the first six months. The Association's allowance for loan losses of \$31,943 increased \$1,853 (6.16 percent) during the first six months of 2019 resulting in net loans (loans less allowance for loan losses) of \$2,804,088 and \$2,773,389 at June 30, 2019 and December 31, 2018, respectively. Nonaccrual loans increased \$6,024 (13.84 percent) from \$43,540 at December 31, 2018 to \$49,564 at June 30, 2019 resulting in an increase in the ratio of nonaccrual loans to total loans from 1.55 percent to 1.75 percent. The increase in nonaccrual loans was not specific to any particular commodity group in the Association's portfolio. In addition, Other property owned increased from \$622 at December 31, 2018 (three properties) to \$1,941 at June 30, 2019 (seven properties).

There is an inherent risk in the extension of any type of credit and, accordingly, the Association maintains an allowance for

loan losses consistent with the risk measured in the portfolio. Credit administration remains satisfactory and the overall credit quality of the Association's loan portfolio has remained acceptable. The allowance for loan losses represented 1.13 percent and 1.07 percent of loans, and 64.45 percent and 69.11 percent of nonaccrual loans, at June 30, 2019 and December 31, 2018, respectively. See also Note 2, *Loans and Allowance for Loan Losses*, in the Notes to the Consolidated Financial Statements.

RESULTS OF OPERATIONS

For the three months ended June 30, 2019

Net income for the three months ended June 30, 2019 totaled \$12,358, an increase of \$332 (2.76 percent) compared to the three months ended June 30, 2018. Major changes in the components of net income are identified as follows:

- Net interest income increased \$480 (2.71 percent) for the three months ended June 30, 2019 compared to the same period in 2018. The increase in net interest income is primarily attributable to (a) an increase in the Association's equity and a 10.78 percent increase in the interest credit rate aggregately increasing net interest income \$645 and (b) a \$554 increase due to a \$67 million increase in the average daily balance of accruing portfolio volume, partially offset by (c) a \$431 decrease in the Association's portfolio margin primarily resulting from a decrease in the net interest margin and (d) a \$288 decrease in net interest recognized attributable to nonaccruing loans.
- The risks identified in the Association's Loan portfolio required a provision for loan losses of \$1,000 to be recorded in both the second quarter of 2019 and 2018. The Association's nonaccrual loans to total loans increased from 1.55 percent at December 31, 2018 to 1.75 percent of the portfolio at June 30, 2019 and increased from 0.91 percent at June 30, 2018. See also Note 2, *Loans and Allowance for Loan Losses*, in the Notes to the Consolidated Financial Statements.
- "Patronage refunds from other Farm Credit institutions" on the Consolidated Statements of Income of \$4,141 and \$4,062, respectively, includes accruals for the quarter ended June 30, 2019 and

2018 based on second quarter operations only; management anticipates additional income for the remaining quarters in 2019. Since this income from AgFirst Farm Credit Bank (the Bank) is reasonably estimable and because there is a history of these earnings, management is of the opinion that including this income in quarterly operations provides shareholders with a more accurate forecast of annualized net income. The increase in the accrual in 2019 is due to an increase in loan volume.

- Noninterest income increase in the second quarter of \$220 (4.05 percent) included (a) an increase of \$154 from Loan fees, (b) a \$79 increase in Patronage related income, (c) an increase of \$8 in gains on disposal of properties, partially offset by, (d) a decrease of \$21 from Fees for financially related services.
- Noninterest expense for the three months of 2019 was \$10,390 as compared to \$10,020 for the same period of 2018 or an increase of \$370 (3.69 percent).

The three month decrease of \$37 (0.53 percent) for Salaries and employee benefits includes favorable deferred personnel costs of \$66. Salaries increased \$247 (4.71 percent) due to an increase in staff, this increase was partially offset by a decrease of \$218 (8.14 percent) in employee benefit plans. See also Note 7, *Employee Benefit Plans*, in the Notes to the Consolidated Financial Statements.

Insurance Fund Premium expense increased \$20 (4.26 percent) due to the increase in volume during the second quarter of 2019 as compared to the second quarter of 2018. The Farm Credit System Insurance Corporation (FCSIC) premium was .09 percent for the second quarters of 2019 and 2018.

Occupancy and equipment and Other operating expenses increased \$418 (16.70 percent) from \$2,503 to \$2,921, which includes expense increases in building improvements, operating expenses, training and advertising expenses, partially offset by a decrease in communication expenses.

Losses on other property owned, net decreased \$31. The decrease is primarily related to less expenses in the second quarter of 2019 as compared to the second quarter of 2018.

- The Association recorded a Provision for income taxes of \$60 and \$62 respectively, for the second quarters of 2019 and 2018.

For the six months ended June 30, 2019

Net income for the six months ended June 30, 2019 totaled \$25,081 or \$560 (2.18 percent) less than the six months ended

June 30, 2018. Major changes in the components of net income are identified as follows:

- Net interest income for the six months was up \$1,189 (3.37 percent); there are several key factors impacting the results. The increase in net interest income is primarily attributable to (a) an increase of \$1,366 attributable to an increase in equity and (b) a \$1,102 increase due to the increase in accruing loan volume. These increases were partially offset by (a) an \$857 decrease in the Association's portfolio margin and (b) a decrease of \$422 in the income recognized from nonaccruing volume.
- Charge-offs and risk identified in the Association's loan portfolio required a provision for loan losses of \$2,000 to be recorded in the first six months of 2019 and 2018.
- "Patronage refunds from other Farm Credit institutions" on the Consolidated Statements of Income is \$8,247 as compared to \$8,100 for the six months ended June 30, 2019 and 2018. The increase of \$147 (1.81 percent) is due to the increase in outstanding loan volume. Since this income from the Bank is reasonably estimable and because there is a history of these earnings, management is of the opinion that including this income in quarterly operations provides shareholders with a more accurate forecast of annualized net income.
- Noninterest income included (a) an Insurance Fund refund decrease of \$1,740 which is discussed below, (b) a \$103 decrease in Other noninterest income, (c) a decrease of \$38 from Fees for financially related services, partially offset by (d) an increase of \$201 from Loan fees, (e) an increase of \$147 in Patronage related income, (f) an increase of \$102 in Lease income, and (g) an increase of \$13 in gains on disposal of properties.
- The Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligation, had assets exceeding the secure base amount as defined by the Farm Credit Act. As a result of the excess, FCSIC made certain distributions to the Farm Credit System Banks and certain Associations; MidAtlantic's share for the first quarter of 2019 was \$589 as compared to \$1,452 for the first quarter of 2018, and is recorded as Insurance Fund refund within the Noninterest Income section of the Consolidated Statements of Income. The Farm Credit System Insurance Corporation (FCSIC) also retired the remaining Financial Assistance Corporation (FAC) outstanding shares during the first quarter of 2018; MidAtlantic received \$877 and is recorded as Insurance Fund refund within the Noninterest Income section of the Consolidated Statements of Income.
- The Association implemented the Leases guidance in first quarter 2019, which requires organizations that

lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The Association leases excess space at two of its owned Branch Operations to third parties and the income generated is recorded as Lease income within the Noninterest section of the Consolidated Statements of Income. This income was previously recorded as Other noninterest income.

- Noninterest expense increased \$356 (1.76 percent) for the first six months of 2019 as compared to 2018.

The year-to-date decrease for Salaries and employee benefits of \$245 (1.71 percent) includes a decrease of \$714 (19.79 percent) for retirement related expenses and favorable deferred personnel costs of \$142. This was partially offset by a \$512 increase (4.93 percent) for annual salary and incentive compensation increases, and an increase in staff positions.

Insurance fund premium expense increased \$39 (4.19 percent) resulting from the increase in loan volume in 2019 compared to the same period in 2018. The FCSIC premium rates remained at .09 percent for both 2019 and 2018.

Occupancy and equipment and Other operating expenses increased \$592 (12.01 percent) from \$4,928 to \$5,520, which includes expense increases in operating expenses, building improvements, and purchased services expenses, which were partially offset by a decrease in communication expenses.

- Losses on other property owned, net decreased \$30. The decrease is primarily related to write-downs offset by increased gains for the first six months of 2019 as compared to 2018.
- The Association recorded a Provision for income taxes of \$115 and \$140, respectively, for the six months ended June 30, 2019 and 2018.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sectors. The Association utilizes the variable rate note to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Notes payable to the Bank at June 30, 2019 was \$2,204,413 compared to \$2,181,496 at December 31, 2018.

This increase during the period of \$22,917 (1.05 percent) corresponds to the receipt of prior year Bank patronage, current year net cash generated from operating activities, offset by patronage payments to stockholders and an increase in the Association's loan volume.

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 2019 that would affect minimum stock purchases or have an effect on the Association's ability to retire stock and distribute earnings.

Members' equity at June 30, 2019 totaled \$652,594, an increase of \$17,644 (2.78 percent) compared to total members' equity of \$634,950 at December 31, 2018. Total Comprehensive income of \$25,082 for the six months ended June 30, 2019 and net member capital stock/participation certificates issued of \$155, an estimated cash patronage distribution accrual for the first six months of 2019 totaled \$7,530, net patronage distribution adjustment and retained earnings retired of \$52, and the cumulative effect adjustment of \$11 as a result of the change in the lease accounting standard account for the change.

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

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

- Inclusion of off-balance-sheet commitments less than 14 months

- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

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

The ratios are calculated using 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, 2018:

Ratio	2018 Minimum Requirement with Capital Conservation Buffer	2019 Capital Conservation Buffer*	2019 Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of June 30, 2019	Capital Ratios as of June 30, 2018
Risk-adjusted ratios:					
CET1 Capital	5.750%	0.625%	6.375%	19.78%	19.50%
Tier 1 Capital	7.250%	0.625%	7.875%	19.78%	19.50%
Total Capital	9.250%	0.625%	9.875%	21.71%	21.43%
Permanent Capital Ratio	7.0%	0.0%	7.0%	20.84%	20.63%
Non-risk-adjusted:					
Tier 1 Leverage Ratio	5.0%	0.0%	5.0%	20.86%	20.54%
UREE Leverage Ratio	1.5%	0.0%	1.5%	20.47%	19.38%

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

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

REGULATORY MATTERS

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
<i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i>	
<ul style="list-style-type: none"> • Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management’s estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to an expected loss model. • The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. 	<ul style="list-style-type: none"> • Implementation efforts have begun by establishing a cross-discipline governance structure. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. • The new guidance is expected to result in an increase in allowance for credit losses due to several factors, including: <ol style="list-style-type: none"> 1. The allowance related to loans and commitments will most likely increase to cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on any debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of the increase is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts at the adoption date. • The guidance is expected to be adopted in first quarter 2021.

Shareholder Investment

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

Whistleblower

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

MidAtlantic Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2019 <i>(unaudited)</i>	December 31, 2018 <i>(audited)</i>
Assets		
Cash	\$ 1,856	\$ 4,376
Loans	2,836,031	2,803,479
Allowance for loan losses	(31,943)	(30,090)
Net loans	2,804,088	2,773,389
Loans held for sale	1,304	593
Accrued interest receivable	20,316	17,069
Equity investments in other Farm Credit institutions	32,050	32,074
Premises and equipment, net	16,043	16,438
Other property owned	1,941	622
Accounts receivable	8,828	34,519
Other assets	3,538	2,800
Total assets	\$ 2,889,964	\$ 2,881,880
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 2,204,413	\$ 2,181,496
Accrued interest payable	6,173	5,900
Patronage refunds payable	7,679	30,836
Accounts payable	2,654	2,420
Other liabilities	16,451	26,278
Total liabilities	2,237,370	2,246,930
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	10,899	10,744
Retained earnings		
Allocated	388,094	388,255
Unallocated	253,798	236,149
Accumulated other comprehensive income (loss)	(197)	(198)
Total members' equity	652,594	634,950
Total liabilities and members' equity	\$ 2,889,964	\$ 2,881,880

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

MidAtlantic Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
Interest Income				
Loans	\$ 36,580	\$ 33,817	\$ 72,625	\$ 66,537
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	18,418	16,120	36,193	31,258
Other	—	15	—	36
Total interest expense	18,418	16,135	36,193	31,294
Net interest income	18,162	17,682	36,432	35,243
Provision for loan losses	1,000	1,000	2,000	2,000
Net interest income after provision for loan losses	17,162	16,682	34,432	33,243
Noninterest Income				
Loan fees	383	229	680	479
Fees for financially related services	756	777	1,158	1,196
Lease income	51	—	102	—
Patronage refunds from other Farm Credit institutions	4,141	4,062	8,247	8,100
Gains (losses) on sales of rural home loans, net	295	239	485	487
Gains (losses) on sales of premises and equipment, net	15	57	25	72
Gains (losses) on other transactions	(6)	—	72	10
Insurance Fund refunds	—	—	589	2,329
Other noninterest income	11	62	17	120
Total noninterest income	5,646	5,426	11,375	12,793
Noninterest Expense				
Salaries and employee benefits	6,974	7,011	14,109	14,354
Occupancy and equipment	660	535	1,258	1,056
Insurance Fund premiums	490	470	970	931
(Gains) losses on other property owned, net	5	36	12	42
Other operating expenses	2,261	1,968	4,262	3,872
Total noninterest expense	10,390	10,020	20,611	20,255
Income before income taxes	12,418	12,088	25,196	25,781
Provision for income taxes	60	62	115	140
Net income	\$ 12,358	\$ 12,026	\$ 25,081	\$ 25,641

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

MidAtlantic Farm Credit, ACA
Consolidated Statements of
Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2019	2018	2019	2018
Net income	\$ 12,358	\$ 12,026	\$ 25,081	\$ 25,641
Other comprehensive income net of tax				
Employee benefit plans adjustments	1	1	1	3
Comprehensive income	\$ 12,359	\$ 12,027	\$ 25,082	\$ 25,644

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

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

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2017	\$ 10,550	\$ 365,603	\$ 231,530	\$ (322)	\$ 607,361
Comprehensive income			25,641	3	25,644
Capital stock/participation certificates issued/(retired), net	144				144
Patronage distribution					
Cash			(7,812)		(7,812)
Retained earnings retired		(29)			(29)
Patronage distribution adjustment		(234)	318		84
Balance at June 30, 2018	\$ 10,694	\$ 365,340	\$ 249,677	\$ (319)	\$ 625,392
Balance at December 31, 2018	\$ 10,744	\$ 388,255	\$ 236,149	\$ (198)	\$ 634,950
Cumulative effect of change in accounting principle			(11)		(11)
Comprehensive income			25,081	1	25,082
Capital stock/participation certificates issued/(retired), net	155				155
Patronage distribution					
Cash			(7,530)		(7,530)
Retained earnings retired		(52)			(52)
Patronage distribution adjustment		(109)	109		—
Balance at June 30, 2019	\$ 10,899	\$ 388,094	\$ 253,798	\$ (197)	\$ 652,594

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

MidAtlantic Farm Credit, ACA

Notes to the Consolidated Financial Statements

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

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

Organization

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

Basis of Presentation

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

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

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

Significant Accounting Policies

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

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and

financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

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

Accounting Standards Updates (ASUs) Issued During the Period

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

- In May 2019, the FASB issued ASU 2019-05 Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief. The amendments in this Update provide entities with an option to irrevocably elect the fair value option applied on an instrument-by-instrument basis for certain financial assets upon the adoption of Topic 326. The fair value option election does not apply to held-to-maturity debt securities. For entities that have not yet adopted the amendments in ASU 2016-13, the effective date and transition methodology for the amendments in this Update are the same as in that Update. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.
- In April 2019, the FASB issued ASU 2019-04 Codification Improvements to Topic 326 Financial Instruments—Credit Losses, Topic 815 Derivatives and Hedging, and Topic 825 Financial Instruments. The amendments in this Update clarify, correct, and improve various aspects of the guidance in the following Updates related to financial instruments: ASU 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities, ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and ASU 2017-12 Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The items addressed generally are not expected to have a significant effect on current accounting practice or to create a significant administrative cost for most entities. For entities that have not yet adopted the amendments in ASU 2016-13, the effective dates and transition requirements for the amendments related to this Update are the same as the effective dates and transition requirements in ASU 2016-13. The transition adjustment includes adjustments made as a result of an entity developing or amending its accounting policy upon adoption of the amendments in this Update for determining when accrued interest receivables are deemed

uncollectible and written off. For entities that have adopted the amendments in ASU 2017-12 as of the issuance date of this Update, the effective date is as of the beginning of the first annual period beginning after the issuance date of this Update. For those entities, early adoption is permitted, including adoption on any date on or after the issuance of this Update. The amendments in this Update related to ASU 2016-01 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim period following the issuance of this Update as long as the entity has adopted all of the amendments in ASU 2016-01. The amendments in this Update should be applied on a modified-retrospective transition basis by means of a cumulative-effect adjustment to the opening retained earnings balance in the statement of financial position as of the date an entity adopted all of the amendments in ASU 2016-01. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

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

ASUs Pending Effective Date

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

Potential effects of ASUs issued in previous periods:

- In August 2018, the FASB issued ASU 2018-15 Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this Update. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019,

and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period, for all entities. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

- In August 2018, the FASB issued ASU 2018-13 Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments are part of the FASB's disclosure framework project. The project's objective and primary focus are to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by GAAP that is most important to users of each entity's financial statements. The amendments remove, modify or add certain disclosures contained in the financial statement footnotes related to fair value. Additionally, the guidance is intended to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Certain amendments should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance. Entities are permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. The removed disclosures were adopted effective with the 2018 Annual Report. Evaluation of any possible effects the additional and modified disclosures guidance may have on the statements of financial condition and results of operations is in progress.
- In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update, and subsequent clarifying guidance issued, is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application

will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 31, 2018. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

Accounting Standards Effective During the Period

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

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

- In February 2018, the FASB issued ASU 2018-02 Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and are intended to improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The Update also requires certain disclosures about stranded tax effects. The guidance was effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Adoption of this guidance had no impact on the statements of financial condition and results of operations.
- In March 2017, the FASB issued ASU 2017-08 Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The guidance relates to certain callable debt securities and shortens the amortization period for any premium to the earliest call date. The Update was effective for interim and annual periods beginning after December 15, 2018 for public business entities. Adoption of this guidance had no impact on the statements of financial condition and results of operations.
- In February 2016, the FASB issued ASU 2016-02 Leases (Topic 842). This Update, and subsequent clarifying guidance issued, requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. Lessor accounting activities are largely unchanged from existing

lease accounting. The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification. The amendments were effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for public business entities.

Transition Information

- The guidance was adopted using the optional modified retrospective method and practical expedients for transition. Under this transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.
- The package of practical expedients was elected, which allowed existing leases to be largely accounted for consistent with current guidance, except for the incremental balance sheet recognition for lessees.
- There will not be a material change to the timing of future expense recognition.
- Upon adoption on January 1, 2019, a cumulative-effect adjustment to equity of approximately \$(11) was recorded. In addition, a Right of Use Asset in the amount of \$596 and Lease Liability in the amount of \$607 were recognized.
- Given the limited changes to lessor accounting, there were no material changes to recognition or measurement.

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

	June 30, 2019	December 31, 2018
Real estate mortgage	\$ 1,764,072	\$ 1,740,841
Production and intermediate-term	791,061	805,435
Loans to cooperatives	23,635	20,502
Processing and marketing	76,580	66,795
Farm-related business	69,722	69,057
Communication	65,560	52,853
Power and water/waste disposal	3,405	3,657
Rural residential real estate	41,996	44,339
Total loans	<u>\$ 2,836,031</u>	<u>\$ 2,803,479</u>

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

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

	June 30, 2019							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 41,094	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 41,094	\$ -
Production and intermediate-term	34,837	40,364	10,593	4,634	-	-	45,430	44,998
Loans to cooperatives	9,115	-	14,559	-	-	-	23,674	-
Processing and marketing	27,396	21,853	7,763	-	-	-	35,159	21,853
Farm-related business	1,579	-	23,013	-	-	-	24,592	-
Communication	18,668	-	47,041	-	-	-	65,709	-
Power and water/waste disposal	-	-	3,412	-	-	-	3,412	-
Total	<u>\$ 132,689</u>	<u>\$ 62,217</u>	<u>\$ 106,381</u>	<u>\$ 4,634</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 239,070</u>	<u>\$ 66,851</u>

	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	\$ 27,347	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,347	\$ -
Production and intermediate-term	52,526	41,906	10,719	4,410	-	-	63,245	46,316
Loans to cooperatives	8,016	-	12,510	-	-	-	20,526	-
Processing and marketing	18,185	21,610	7,821	-	-	-	26,006	21,610
Farm-related business	1,533	-	23,027	-	-	-	24,560	-
Communication	15,968	-	37,013	-	-	-	52,981	-
Power and water/waste disposal	-	-	3,666	-	-	-	3,666	-
Total	<u>\$ 123,575</u>	<u>\$ 63,516</u>	<u>\$ 94,756</u>	<u>\$ 4,410</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 218,331</u>	<u>\$ 67,926</u>

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

	June 30, 2019			
	Due Less Than 1 Year	Due 1 Through 5 Years	Due After 5 Years	Total
Real estate mortgage	\$ 72,823	\$ 537,815	\$ 1,153,434	\$ 1,764,072
Production and intermediate-term	182,883	384,258	223,920	791,061
Loans to cooperatives	10,288	10,349	2,998	23,635
Processing and marketing	873	47,364	28,343	76,580
Farm-related business	7,625	43,328	18,769	69,722
Communication	-	35,593	29,967	65,560
Power and water/waste disposal	-	2,076	1,329	3,405
Rural residential real estate	977	4,334	36,685	41,996
Total loans	<u>\$ 275,469</u>	<u>\$ 1,065,117</u>	<u>\$ 1,495,445</u>	<u>\$ 2,836,031</u>
Percentage	<u>9.71%</u>	<u>37.56%</u>	<u>52.73%</u>	<u>100.00%</u>

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

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

	June 30, 2019	December 31, 2018		June 30, 2019	December 31, 2018
Real estate mortgage:			Communication:		
Acceptable	92.12%	92.92%	Acceptable	100.00%	100.00%
OAEM	4.65	4.01	OAEM	–	–
Substandard/doubtful/loss	3.23	3.07	Substandard/doubtful/loss	–	–
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Production and intermediate-term:			Power and water/waste disposal:		
Acceptable	88.93%	91.77%	Acceptable	100.00%	100.00%
OAEM	6.38	4.30	OAEM	–	–
Substandard/doubtful/loss	4.69	3.93	Substandard/doubtful/loss	–	–
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Loans to cooperatives:			Rural residential real estate:		
Acceptable	100.00%	100.00%	Acceptable	94.16%	94.80%
OAEM	–	–	OAEM	2.81	2.58
Substandard/doubtful/loss	–	–	Substandard/doubtful/loss	3.03	2.62
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Processing and marketing:			Total loans:		
Acceptable	92.95%	100.00%	Acceptable	91.70%	93.13%
OAEM	7.05	–	OAEM	4.93	3.77
Substandard/doubtful/loss	–	–	Substandard/doubtful/loss	3.37	3.10
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Farm-related business:					
Acceptable	98.65%	99.11%			
OAEM	0.90	0.10			
Substandard/doubtful/loss	0.45	0.79			
	<u>100.00%</u>	<u>100.00%</u>			

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

	June 30, 2019				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	\$ 16,841	\$ 15,490	\$ 32,331	\$ 1,744,619	\$ 1,776,950
Production and intermediate-term	7,289	7,094	14,383	783,131	797,514
Loans to cooperatives	–	–	–	23,768	23,768
Processing and marketing	–	–	–	76,852	76,852
Farm-related business	597	131	728	69,332	70,060
Communication	–	–	–	65,587	65,587
Power and water/waste disposal	–	–	–	3,431	3,431
Rural residential real estate	411	418	829	41,356	42,185
Total	<u>\$ 25,138</u>	<u>\$ 23,133</u>	<u>\$ 48,271</u>	<u>\$ 2,808,076</u>	<u>\$ 2,856,347</u>

	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	\$ 14,382	\$ 13,367	\$ 27,749	\$ 1,723,731	\$ 1,751,480
Production and intermediate-term	6,516	5,687	12,203	798,856	811,059
Loans to cooperatives	–	–	–	20,615	20,615
Processing and marketing	–	–	–	67,040	67,040
Farm-related business	118	80	198	69,126	69,324
Communication	–	–	–	52,865	52,865
Power and water/waste disposal	–	–	–	3,686	3,686
Rural residential real estate	507	144	651	43,828	44,479
Total	<u>\$ 21,523</u>	<u>\$ 19,278</u>	<u>\$ 40,801</u>	<u>\$ 2,779,747</u>	<u>\$ 2,820,548</u>

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

	June 30, 2019	December 31, 2018
Nonaccrual loans:		
Real estate mortgage	\$ 27,603	\$ 26,695
Production and intermediate-term	20,908	15,963
Farm-related business	131	77
Rural residential real estate	922	805
Total	<u>\$ 49,564</u>	<u>\$ 43,540</u>
Accruing restructured loans:		
Real estate mortgage	\$ 13,473	\$ 13,866
Production and intermediate-term	10,404	8,058
Rural residential real estate	155	185
Total	<u>\$ 24,032</u>	<u>\$ 22,109</u>
Accruing loans 90 days or more past due:		
Real estate mortgage	\$ 127	-
Total	<u>\$ 127</u>	<u>-</u>
Total nonperforming loans	\$ 73,723	\$ 65,649
Other property owned	1,941	622
Total nonperforming assets	<u>\$ 75,664</u>	<u>\$ 66,271</u>
Nonaccrual loans as a percentage of total loans	1.75%	1.55%
Nonperforming assets as a percentage of total loans and other property owned	2.67%	2.36%
Nonperforming assets as a percentage of capital	<u>11.59%</u>	<u>10.44%</u>

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

	June 30, 2019	December 31, 2018
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 22,246	\$ 21,032
Past due	27,318	22,508
Total	<u>\$ 49,564</u>	<u>\$ 43,540</u>
Impaired accrual loans:		
Restructured	\$ 24,032	\$ 22,109
90 days or more past due	127	-
Total	<u>\$ 24,159</u>	<u>\$ 22,109</u>
Total impaired loans	<u>\$ 73,723</u>	<u>\$ 65,649</u>
Additional commitments to lend	\$ 450	\$ 153

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

Impaired loans:	June 30, 2019			Three Months Ended June 30, 2019		Six Months Ended June 30, 2019	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:							
Real estate mortgage	\$ 9,116	\$ 10,520	\$ 2,620	\$ 8,511	\$ 8	\$ 8,352	\$ 26
Production and intermediate-term	10,644	11,539	5,512	9,939	9	9,753	30
Farm-related business	131	145	27	122	-	120	-
Rural residential real estate	670	809	171	625	1	614	2
Total	<u>\$ 20,561</u>	<u>\$ 23,013</u>	<u>\$ 8,330</u>	<u>\$ 19,197</u>	<u>\$ 18</u>	<u>\$ 18,839</u>	<u>\$ 58</u>
With no related allowance for credit losses:							
Real estate mortgage	\$ 32,087	\$ 35,292	\$ -	\$ 29,959	\$ 27	\$ 29,401	\$ 91
Production and intermediate-term	20,668	23,604	-	19,296	18	18,937	59
Farm-related business	-	-	-	-	-	-	-
Rural residential real estate	407	434	-	381	-	373	1
Total	<u>\$ 53,162</u>	<u>\$ 59,330</u>	<u>\$ -</u>	<u>\$ 49,636</u>	<u>\$ 45</u>	<u>\$ 48,711</u>	<u>\$ 151</u>
Total impaired loans:							
Real estate mortgage	\$ 41,203	\$ 45,812	\$ 2,620	\$ 38,470	\$ 35	\$ 37,753	\$ 117
Production and intermediate-term	31,312	35,143	5,512	29,235	27	28,690	89
Farm-related business	131	145	27	122	-	120	-
Rural residential real estate	1,077	1,243	171	1,006	1	987	3
Total	<u>\$ 73,723</u>	<u>\$ 82,343</u>	<u>\$ 8,330</u>	<u>\$ 68,833</u>	<u>\$ 63</u>	<u>\$ 67,550</u>	<u>\$ 209</u>

	December 31, 2018			Year Ended December 31, 2018	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans:					
With a related allowance for credit losses:					
Real estate mortgage	\$ 9,241	\$ 10,635	\$ 2,861	\$ 7,396	\$ 67
Production and intermediate-term	9,010	9,871	6,355	7,212	65
Farm-related business	77	92	16	62	1
Rural residential real estate	684	803	184	548	5
Total	\$ 19,012	\$ 21,401	\$ 9,416	\$ 15,218	\$ 138
With no related allowance for credit losses:					
Real estate mortgage	\$ 31,320	\$ 35,289	\$ —	\$ 25,072	\$ 228
Production and intermediate-term	15,011	17,520	—	12,016	109
Farm-related business	—	—	—	—	—
Rural residential real estate	306	446	—	244	2
Total	\$ 46,637	\$ 53,255	\$ —	\$ 37,332	\$ 339
Total impaired loans:					
Real estate mortgage	\$ 40,561	\$ 45,924	\$ 2,861	\$ 32,468	\$ 295
Production and intermediate-term	24,021	27,391	6,355	19,228	174
Farm-related business	77	92	16	62	1
Rural residential real estate	990	1,249	184	792	7
Total	\$ 65,649	\$ 74,656	\$ 9,416	\$ 52,550	\$ 477

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	Total
Activity related to the allowance for credit losses:							
Balance at March 31, 2019	\$ 11,289	\$ 18,241	\$ 884	\$ 147	\$ 2	\$ 407	\$ 30,970
Charge-offs	—	(40)	—	—	—	—	(40)
Recoveries	3	10	—	—	—	—	13
Provision for loan losses	343	654	19	10	—	(26)	1,000
Balance at June 30, 2019	\$ 11,635	\$ 18,865	\$ 903	\$ 157	\$ 2	\$ 381	\$ 31,943
Balance at December 31, 2018	\$ 11,205	\$ 17,541	\$ 792	\$ 150	\$ 2	\$ 400	\$ 30,090
Charge-offs	(141)	(42)	—	—	—	—	(183)
Recoveries	3	17	—	—	—	16	36
Provision for loan losses	568	1,349	111	7	—	(35)	2,000
Balance at June 30, 2019	\$ 11,635	\$ 18,865	\$ 903	\$ 157	\$ 2	\$ 381	\$ 31,943
Balance at March 31, 2018	\$ 10,390	\$ 15,110	\$ 784	\$ 191	\$ 5	\$ 457	\$ 26,937
Charge-offs	—	(32)	—	—	—	—	(32)
Recoveries	9	73	—	—	—	1	83
Provision for loan losses	(1,305)	2,524	(156)	(49)	(2)	(12)	1,000
Balance at June 30, 2018	\$ 9,094	\$ 17,675	\$ 628	\$ 142	\$ 3	\$ 446	\$ 27,988
Balance at December 31, 2017	\$ 10,216	\$ 14,379	\$ 711	\$ 168	\$ 5	\$ 470	\$ 25,949
Charge-offs	—	(52)	—	—	—	—	(52)
Recoveries	7	81	—	—	—	3	91
Provision for loan losses	(1,129)	3,267	(83)	(26)	(2)	(27)	2,000
Balance at June 30, 2018	\$ 9,094	\$ 17,675	\$ 628	\$ 142	\$ 3	\$ 446	\$ 27,988
Allowance on loans evaluated for impairment:							
Individually	\$ 2,620	\$ 5,512	\$ 27	\$ —	\$ —	\$ 171	\$ 8,330
Collectively	9,015	13,353	876	157	2	210	23,613
Balance at June 30, 2019	\$ 11,635	\$ 18,865	\$ 903	\$ 157	\$ 2	\$ 381	\$ 31,943
Individually	\$ 2,861	\$ 6,355	\$ 16	\$ —	\$ —	\$ 184	\$ 9,416
Collectively	8,344	11,186	776	150	2	216	20,674
Balance at December 31, 2018	\$ 11,205	\$ 17,541	\$ 792	\$ 150	\$ 2	\$ 400	\$ 30,090
Recorded investment in loans evaluated for impairment:							
Individually	\$ 27,603	\$ 20,908	\$ 131	\$ —	\$ —	\$ 922	\$ 49,564
Collectively	1,749,347	776,606	170,549	65,587	3,431	41,263	2,806,783
Balance at June 30, 2019	\$ 1,776,950	\$ 797,514	\$ 170,680	\$ 65,587	\$ 3,431	\$ 42,185	\$ 2,856,347
Individually	\$ 26,695	\$ 15,963	\$ 77	\$ —	\$ —	\$ 805	\$ 43,540
Collectively	1,724,785	795,096	156,902	52,865	3,686	43,674	2,777,008
Balance at December 31, 2018	\$ 1,751,480	\$ 811,059	\$ 156,979	\$ 52,865	\$ 3,686	\$ 44,479	\$ 2,820,548

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

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

Three Months Ended June 30, 2019					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 809	\$ 2,146	\$ –	\$ 2,955	
Production and intermediate-term	1,372	8,296	–	9,668	
Total	\$ 2,181	\$ 10,442	\$ –	\$ 12,623	
Post-modification:					
Real estate mortgage	\$ 808	\$ 2,151	\$ –	\$ 2,959	\$ –
Production and intermediate-term	1,372	8,296	–	9,668	–
Total	\$ 2,180	\$ 10,447	\$ –	\$ 12,627	\$ –

Six Months Ended June 30, 2019					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 809	\$ 2,164	\$ –	\$ 2,973	
Production and intermediate-term	2,255	18,727	–	20,982	
Total	\$ 3,064	\$ 20,891	\$ –	\$ 23,955	
Post-modification:					
Real estate mortgage	\$ 808	\$ 2,170	\$ –	\$ 2,978	\$ –
Production and intermediate-term	2,261	18,687	–	20,948	–
Total	\$ 3,069	\$ 20,857	\$ –	\$ 23,926	\$ –

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Defaulted troubled debt restructurings:				
Real estate mortgage	\$ 164	\$ 1,573	\$ 331	\$ 3,105
Production and intermediate-term	143	324	775	550
Rural residential real estate	—	104	—	104
Total	\$ 307	\$ 2,001	\$ 1,106	\$ 3,759

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

	Total TDRs		Nonaccrual TDRs	
	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
Real estate mortgage	\$ 17,330	\$ 18,907	\$ 3,857	\$ 5,041
Production and intermediate-term	20,524	15,769	10,120	7,711
Farm-related business	21	25	21	25
Rural residential real estate	613	749	458	564
Total loans	\$ 38,488	\$ 35,450	\$ 14,456	\$ 13,341
Additional commitments to lend	\$ 66	\$ 152		

The following table presents information as of period end:

	June 30, 2019
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ 1,941
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ —

Note 3 — Investments

Equity Investments in Other Farm Credit System Institutions

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

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 10.91 percent of the issued stock of the Bank as of June 30, 2019 net of any reciprocal investment. As of that date, the Bank's assets totaled \$33.8 billion and shareholders' equity totaled \$2.5 billion. The Bank's earnings were \$131 million for the first six months of 2019. In addition, the Association held investments of \$2,438 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

	Changes in Accumulated Other Comprehensive Income by Component (a)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Employee Benefit Plans:				
Balance at beginning of period	\$ (198)	\$ (320)	\$ (198)	\$ (322)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	1	1	1	3
Net current period other comprehensive income	1	1	1	3
Balance at end of period	\$ (197)	\$ (319)	\$ (197)	\$ (319)

	Reclassifications Out of Accumulated Other Comprehensive Income (b)				
	Three Months Ended June 30,		Six Months Ended June 30,		Income Statement Line Item
	2019	2018	2019	2018	
Defined Benefit Pension Plans:					
Periodic pension costs	\$ (1)	\$ (1)	\$ (1)	\$ (3)	See Note 7.
Net amounts reclassified	\$ (1)	\$ (1)	\$ (1)	\$ (3)	

(a) Amounts in parentheses indicate debits to AOCI.

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

Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

that is different than the third-party valuation or internal model pricing.

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

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

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

		June 30, 2019				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements						
Assets:						
Assets held in trust funds	\$	2,462	\$ 2,462	\$ –	\$ –	\$ 2,462
Recurring Assets	\$	2,462	\$ 2,462	\$ –	\$ –	\$ 2,462
Liabilities:						
Recurring Liabilities	\$	–	\$ –	\$ –	\$ –	\$ –
Nonrecurring Measurements						
Assets:						
Impaired loans	\$	12,231	\$ –	\$ –	\$ 12,231	\$ 12,231
Other property owned		1,941	–	–	2,165	2,165
Nonrecurring Assets	\$	14,172	\$ –	\$ –	\$ 14,396	\$ 14,396
Other Financial Instruments						
Assets:						
Cash	\$	1,856	\$ 1,856	\$ –	\$ –	\$ 1,856
Loans		2,793,161	–	–	2,781,286	2,781,286
Other Financial Assets	\$	2,795,017	\$ 1,856	\$ –	\$ 2,781,286	\$ 2,783,142
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	2,204,413	\$ –	\$ –	\$ 2,209,787	\$ 2,209,787
Other Financial Liabilities	\$	2,204,413	\$ –	\$ –	\$ 2,209,787	\$ 2,209,787

		December 31, 2018				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements						
Assets:						
Assets held in trust funds	\$	2,495	\$ 2,495	\$ –	\$ –	\$ 2,495
Recurring Assets	\$	2,495	\$ 2,495	\$ –	\$ –	\$ 2,495
Liabilities:						
Recurring Liabilities	\$	–	\$ –	\$ –	\$ –	\$ –
Nonrecurring Measurements						
Assets:						
Impaired loans	\$	9,596	\$ –	\$ –	\$ 9,596	\$ 9,596
Other property owned		622	–	–	714	714
Nonrecurring Assets	\$	10,218	\$ –	\$ –	\$ 10,310	\$ 10,310
Other Financial Instruments						
Assets:						
Cash	\$	4,376	\$ 4,376	\$ –	\$ –	\$ 4,376
Loans		2,764,386	–	–	2,708,265	2,708,265
Other Financial Assets	\$	2,768,762	\$ 4,376	\$ –	\$ 2,708,265	\$ 2,712,641
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	2,181,496	\$ –	\$ –	\$ 2,153,868	\$ 2,153,868
Other Financial Liabilities	\$	2,181,496	\$ –	\$ –	\$ 2,153,868	\$ 2,153,868

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements at June 30, 2019

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 14,396	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

Note 7 — Employee Benefit Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Pension	\$ 1,046	\$ 1,313	\$ 2,034	\$ 2,760
401(k)	321	293	592	567
Other postretirement benefits	152	157	304	318
Total	\$ 1,519	\$ 1,763	\$ 2,930	\$ 3,645

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

	Actual YTD Through 6/30/19	Projected Contributions For Remainder of 2019	Projected Total Contributions 2019
Pension	\$ 59	\$ 4,052	\$ 4,111
Other postretirement benefits	304	287	591
Total	\$ 363	\$ 4,339	\$ 4,702

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

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

Note 8 — Commitments and Contingent Liabilities

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

Note 9 — Subsequent Events

The Association evaluated subsequent events and determined there were none requiring disclosure through August 8, 2019, which was the date the financial statements were issued.