# Farm Credit of Western Oklahoma, ACA

# Quarterly Report
# March 31, 2019

The shareholders' investment in Farm Credit of Western Oklahoma, ACA is materially affected by the financial condition and results of operations of CoBank, ACB, (CoBank). The 2018 CoBank Annual Report to Shareholders and the CoBank quarterly shareholders' reports are available free of charge by accessing CoBank's web site, **www.cobank.com**, or may be obtained at no charge by contacting us at Farm Credit of Western Oklahoma, ACA, 3302 Williams Avenue, Woodward, Oklahoma 73801, or by calling 580-256-3465 or toll free 1-800-299-3465.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Unaudited)

The following discussion summarizes the financial position and results of operations of Farm Credit of Western Oklahoma, ACA for the three months ended March 31, 2019, with comparisons to prior periods. You should read these comments along with the accompanying financial statements and footnotes and the 2018 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

Our lending territory has been impacted by substantial moisture over the past few months. The winter weather has provided ample moisture for spring planting and an above average growing environment for the winter wheat crop as well. According to the Mesonet Oklahoma Drought Monitor, none of the counties in our chartered territory are experiencing any level of drought at the present time due to the favorable moisture conditions experienced this winter.

Currently, the USDA rates the majority of topsoil and subsoil moisture conditions across the state of Oklahoma as adequate to surplus. Although moisture conditions are above average, cash grain commodity prices continue to be under pressure, as they have been for several years. Cattle futures have also experienced volatility during 2019 as well, but opportunities for profitability have been present in the cattle industry over the past several months.

The total impact on the real estate market stemming from the volatility in commodity prices, increasing interest rates and the narrowing of profitability margins in the agriculture sector has yet to be seen in totality, but the likelihood of real estate prices softening in the future remains possible. Average real estate values in Oklahoma continue to show signs of strength when compared to real estate values nation-wide, but we will continue to evaluate the sustainability of this market strength over time. USDA National Agriculture Statistics indicate that Oklahoma farm real estate values increased by 5.26% in 2018, but the continuation of Oklahoma real estate appreciation remains in question given the other factors previously mentioned. Pockets of weakness in real estate prices that have been noted in recent months and future land value studies will indicate to what level the current farm economy will impact land values across Western Oklahoma.

Although concern over the rural economic environment persists, given the present-day commodity prices and the volatility therein over the past few years, significant equities remain across our customer base. Off-farm income has been negatively impacted by the downturn in the oil and gas economy and it is evident that the volatility in this market continues, yet it appears that activity and profitability in that subset of the economy is gaining traction. During this period of volatility, solid financial managers will have the upper hand and a higher level of financial management is expected from our customer base in order to maintain profitability by working to control expenses while maintaining liquidity.

### LOAN PORTFOLIO

Loans outstanding at March 31, 2019, totaled $821.0 million, an increase of $12.7 million, or 1.57%, from loans of $808.3 million at December 31, 2018. The increase was primarily due to customer demand and marketing efforts resulting in growth for both the real estate mortgage portfolio, as well as the production and intermediate-term portfolio.

### RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2019, was $3.5 million, an increase of $131 thousand, or 3.91%, from the same period ended one year ago. The increase was caused primarily by an increase in net interest income, further impacted by an increase in credit loss reversals, partially offset by a decline in noninterest income and an increase in noninterest expense.

Net interest income for the three months ended March 31, 2019, was $5.4 million, an increase of $439 thousand, or 8.78%, compared with the three months ended March 31, 2018. Net interest income increased as a result of loan growth offset in part by decreased spreads on accrual loans.

The credit loss reversal for the three months ended March 31, 2019, was $147 thousand, an increase of $115 thousand, or 359.38%, from the credit loss reversal for the same period ended one year ago. The credit loss reversal increased as a result of reduced risk in certain loans, a reduction in the subjective allowance and a reduction in the reserve for unfunded commitment.

Noninterest income decreased $224 thousand during the first three months of 2019 compared with the first three months in 2018 primarily due to a decrease in refunds of $317 thousand from Farm Credit System Insurance Corporation (FCSIC). The refunds are our portion of excess funds above the secure base amount in the FCSIC Allocated Insurance Reserve Accounts. Refer to the 2018 Annual Report to Shareholders for additional information. The decline in noninterest income was partially offset by an increase in mineral income. Mineral income of $164 thousand was recognized during the first three months of 2019. Of this amount, $160 thousand was received from CoBank.

During the first three months of 2019, noninterest expense increased $199 thousand to $3.2 million. The increase was due primarily to increased costs from our service provider, AgVantis, in addition to increased salaries and benefits, occupancy and equipment and other noninterest expenses, consisting primarily of increased travel and purchased services, offset in part by reductions in public and member relations.

**CAPITAL RESOURCES**

Our shareholders' equity at March 31, 2019, was $164.6 million, an increase from $161.1 million at December 31, 2018. This increase is due to net income and the amortization of pension costs included in the net periodic benefit cost, further increased by net stock issuances.

**OTHER MATTERS**

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

| | | |
|---|---|---|
| John Grunewald | Jamey B. Mitchell | Alan Schenk |
| President/CEO | CFO | Chairman of the Board |
| May 3rd, 2019 | May 3rd, 2019 | May 3rd, 2019 |

## Consolidated Statement of Condition

(Dollars in Thousands)

| | March 31 2019 UNAUDITED | December 31 2018 AUDITED |
|---|---|---|
| **ASSETS** | | |
| Loans | $ **820,995** | $ 808,273 |
| Less allowance for loan losses | **1,905** | 1,909 |
| Net loans | **819,090** | 806,364 |
| Cash | **2,678** | 4,751 |
| Accrued interest receivable | **16,987** | 13,334 |
| Investment in CoBank, ACB | **25,595** | 25,595 |
| Premises and equipment, net | **5,139** | 5,144 |
| Prepaid benefit expense | **2,307** | 2,449 |
| Other assets | **2,520** | 4,574 |
| **Total assets** | $ **874,316** | $ 862,211 |
| **LIABILITIES** | | |
| Note payable to CoBank, ACB | $ **692,812** | $ 685,066 |
| Advance conditional payments | **10,603** | 7,374 |
| Accrued interest payable | **1,720** | 1,645 |
| Patronage distributions payable | **-** | 2,750 |
| Accrued benefits liability | **245** | 247 |
| Reserve for unfunded commitments | **347** | 471 |
| Other liabilities | **4,016** | 3,598 |
| **Total liabilities** | **709,743** | 701,151 |
| **Commitments and Contingencies** | | |
| **SHAREHOLDERS' EQUITY** | | |
| Capital stock | **1,993** | 1,966 |
| Additional paid-in capital | **33,619** | 33,619 |
| Unallocated retained earnings | **129,005** | 125,521 |
| Accumulated other comprehensive (loss)/income | **(44)** | (46) |
| **Total shareholders' equity** | **164,573** | 161,060 |
| **Total liabilities and shareholders' equity** | $ **874,316** | $ 862,211 |

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

## Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

| | For the three months ended March 31 | |
|---|---|---|
| UNAUDITED | **2019** | 2018 |
| **INTEREST INCOME** | | |
| Loans | **$ 10,344** | $ 8,671 |
| **Total interest income** | **10,344** | 8,671 |
| **INTEREST EXPENSE** | | |
| Note payable to CoBank, ACB | **4,875** | 3,645 |
| Other | **29** | 25 |
| **Total interest expense** | **4,904** | 3,670 |
| Net interest income | **5,440** | 5,001 |
| Credit loss reversal | **(147)** | (32) |
| Net interest income after credit loss reversal | **5,587** | 5,033 |
| **NONINTEREST INCOME** | | |
| Financially related services income | **4** | 3 |
| Loan fees | **2** | 2 |
| Patronage distribution from Farm Credit institutions | **692** | 697 |
| Farm Credit Insurance Fund distribution | **186** | 503 |
| Mineral income | **164** | 85 |
| Other noninterest income | **56** | 38 |
| **Total noninterest income** | **1,104** | 1,328 |
| **NONINTEREST EXPENSE** | | |
| Salaries and employee benefits | **1,516** | 1,477 |
| Occupancy and equipment | **165** | 138 |
| Purchased services from AgVantis, Inc. | **517** | 458 |
| Farm Credit Insurance Fund premium | **136** | 125 |
| Supervisory and examination costs | **70** | 72 |
| Other noninterest expense | **803** | 738 |
| **Total noninterest expense** | **3,207** | 3,008 |
| **Net income** | **3,484** | 3,353 |
| **COMPREHENSIVE INCOME** | | |
| Amortization of retirement costs | **2** | 4 |
| **Total comprehensive income** | **$ 3,486** | $ 3,357 |

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

## Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

| UNAUDITED | Capital Stock | Additional Paid-In Capital | Unallocated Retained Earnings | Accumulated Other Comprehensive Income/(Loss) | Total Shareholders' Equity |
|---|---|---|---|---|---|
| **Balance at December 31, 2017** | $ 1,971 | $ 33,619 | $ 115,842 | $ (75) | $ 151,357 |
| Comprehensive income | | | 3,353 | 4 | 3,357 |
| Stock issued | 33 | | | | 33 |
| Stock retired | (40) | | | | (40) |
| **Balance at March 31, 2018** | $ 1,964 | $ 33,619 | $ 119,195 | $ (71) | $ 154,707 |
| | | | | | |
| **Balance at December 31, 2018** | $ 1,966 | $ 33,619 | $ 125,521 | $ (46) | $ 161,060 |
| Comprehensive income | | | 3,484 | 2 | 3,486 |
| Stock issued | 57 | | | | 57 |
| Stock retired | (30) | | | | (30) |
| **Balance at March 31, 2019** | **$ 1,993** | **$ 33,619** | **$ 129,005** | **$ (44)** | **$ 164,573** |

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

**NOTES TO FINANCIAL STATEMENTS**
(Dollars in Thousands, Except as Noted)
(Unaudited)

## NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of Farm Credit of Western Oklahoma, ACA (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2018, are contained in the 2018 Annual Report to Shareholders. These unaudited first quarter 2019 financial statements should be read in conjunction with the 2018 Annual Report to Shareholders.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2018, as contained in the 2018 Annual Report to Shareholders.

In the opinion of management, the unaudited financial information is complete and reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2019. Descriptions of the significant accounting policies are included in the 2018 Annual Report to Shareholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In August 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost.” The guidance aligns 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 this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. Early adoption is permitted. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The Association is evaluating the impact of adoption on the Association’s financial condition and its results of operations.

In August 2018, the FASB issued guidance entitled “Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans.” The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the Association’s financial condition or its results of operations, but will impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled “Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement.” The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted and an entity is permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The adoption of this guidance will not impact the Association’s financial condition or its results of operations, but will impact the fair value measurements disclosures. The Association early adopted the removal and modified disclosures during the fourth quarter of 2018.

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

In February 2016, the FASB issued guidance entitled “Leases.” The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. In July 2018, the FASB issued an update entitled “Leases – Targeted Improvements,” which provides entities with 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. An entity that elects this additional transition method must provide the required disclosures of the now current standard for all prior periods presented. The guidance and related amendments in this update became effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The adoption of this guidance resulted in an immaterial impact on the Association’s financial condition and results of operations.

**NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES**

A summary of loans follows.

| | **March 31, 2019** | December 31, 2018 |
|---|---|---|
| Real estate mortgage | **$ 532,076** | $ 522,681 |
| Production and intermediate-term | **277,371** | 272,338 |
| Agribusiness | **9,662** | 11,311 |
| Rural Infrastructure | **1,030** | 1,058 |
| Rural residential real estate | **856** | 885 |
| Total Loans | **$ 820,995** | $ 808,273 |

The Association purchases and sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at March 31, 2019:

| | Other Farm Credit Institutions | | Non-Farm Credit Institutions | | Total | |
|---|---|---|---|---|---|---|
| | Purchased | Sold | Purchased | Sold | Purchased | Sold |
| Real estate mortgage | $ 37,551 | $ 20,650 | $ 797 | $ - | $ 38,348 | $ 20,650 |
| Production and intermediate-term | 28,651 | 7,242 | - | - | 28,651 | 7,242 |
| Agribusiness | 5,566 | - | - | - | 5,566 | - |
| Rural infrastructure | 1,030 | - | - | - | 1,030 | - |
| Total | $ 72,798 | $ 27,892 | $ 797 | $ - | $ 73,595 | $ 27,892 |

One credit quality indicator utilized by the Association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

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

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

| | **March 31, 2019** | December 31, 2018 |
|---|---|---|
| Real estate mortgage | | |
| Acceptable | **95.25%** | 95.19% |
| OAEM | **1.88%** | 1.83% |
| Substandard | **2.87%** | 2.98% |
| Total | **100.00%** | 100.00% |
| Production and intermediate-term | | |
| Acceptable | **91.15%** | 91.30% |
| OAEM | **3.99%** | 3.76% |
| Substandard | **4.86%** | 4.94% |
| Total | **100.00%** | 100.00% |
| Agribusiness | | |
| Acceptable | **100.00%** | 100.00% |
| Total | **100.00%** | 100.00% |
| Rural infrastructure | | |
| Acceptable | **100.00%** | 100.00% |
| Total | **100.00%** | 100.00% |
| Rural residential real estate | | |
| Acceptable | **100.00%** | 100.00% |
| Total | **100.00%** | 100.00% |
| Total Loans | | |
| Acceptable | **93.93%** | 93.96% |
| OAEM | **2.57%** | 2.45% |
| Substandard | **3.50%** | 3.59% |
| Total | **100.00%** | 100.00% |

High risk assets consist of impaired loans and other property owned. These nonperforming assets (including related accrued interest) and related credit quality are as follows:

| *(dollars in thousands)* | **March 31, 2019** | December 31, 2018 |
|---|---|---|
| Nonaccrual loans | | |
| Real estate mortgage | **$ 127** | $ 132 |
| Production and intermediate-term | **845** | 847 |
| Total nonaccrual loans | **$ 972** | $ 979 |
| Accruing restructured loans | | |
| Real estate mortgage | **$ 86** | $ 89 |
| Total accruing restructured loans | **$ 86** | $ 89 |
| Accruing loans 90 days past due | | |
| Real estate mortgage | **$ 4** | $ 4 |
| Total accruing loans 90 days past due | **$ 4** | $ 4 |
| Total impaired loans | **$ 1,062** | $ 1,072 |
| Total high risk assets | **$ 1,062** | $ 1,072 |

The Association had no other property owned for the periods presented.

Additional impaired loan information is as follows:

| | **March 31, 2019** | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Recorded Investment | Unpaid Principal Balance | Related Allowance |
| Impaired loans with a related allowance for credit losses: | | | | | | |
| Production and intermediate-term | **$ 845** | **$ 876** | **$ 118** | $ 786 | $ 812 | $ 106 |
| Total | **$ 845** | **$ 876** | **$ 118** | $ 786 | $ 812 | $ 106 |
| Impaired loans with no related allowance for credit losses: | | | | | | |
| Real estate mortgage | **$ 217** | **$ 253** | | $ 225 | $ 257 | |
| Production and intermediate-term | **-** | **1,349** | | 61 | 1,415 | |
| Total | **$ 217** | **$ 1,602** | | $ 286 | $ 1,672 | |
| Total impaired loans: | | | | | | |
| Real estate mortgage | **$ 217** | **$ 253** | **$ -** | $ 225 | $ 257 | $ - |
| Production and intermediate-term | **845** | **2,225** | **118** | 847 | 2,227 | 106 |
| Total | **$ 1,062** | **$ 2,478** | **$ 118** | $ 1,072 | $ 2,484 | $ 106 |

Note: The recorded investment in the loan 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 loan receivable.

| | **For the Three Months Ended March 31, 2019** | | For the Three Months Ended March 31, 2018 | |
|---|---|---|---|---|
| | Average Impaired Loans | Interest Income Recognized | Average Impaired Loans | Interest Income Recognized |
| Impaired loans with a related allowance for credit losses: | | | | |
| Production and intermediate-term | **$ 846** | **$ -** | $ 1,736 | $ - |
| Total | **$ 846** | **$ -** | $ 1,736 | $ - |
| Impaired loans with no related allowance for credit losses: | | | | |
| Real estate mortgage | **$ 220** | **$ 4** | $ 3,151 | $ 2 |
| Production and intermediate-term | **-** | **-** | 429 | 6 |
| Total | **$ 220** | **$ 4** | $ 3,580 | $ 8 |
| Total impaired loans: | | | | |
| Real estate mortgage | **$ 220** | **$ 4** | $ 3,151 | $ 2 |
| Production and intermediate-term | **846** | **-** | 2,165 | 6 |
| Total | **$ 1,066** | **$ 4** | $ 5,316 | $ 8 |

The following tables provide an age analysis of past due loans (including accrued interest).

| **March 31, 2019** | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or less than 30 Days Past Due | Recorded Investment in Loans | Recorded Investment Accruing Loans 90 Days or More Past Due |
|---|---|---|---|---|---|---|
| Real estate mortgage | $ 466 | $ 4 | $ 470 | $ 542,384 | $ 542,854 | $ 4 |
| Production and intermediate-term | 95 | 783 | 878 | 282,621 | 283,499 | - |
| Agribusiness | - | - | - | 9,730 | 9,730 | - |
| Rural infrastructure | - | - | - | 1,030 | 1,030 | - |
| Rural residential real estate | - | - | - | 869 | 869 | - |
| Total | $ 561 | $ 787 | $ 1,348 | $ 836,634 | $ 837,982 | $ 4 |

| **December 31, 2018** | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or less than 30 Days Past Due | Recorded Investment in Loans | Recorded Investment Accruing Loans 90 Days or More Past Due |
|---|---|---|---|---|---|---|
| Real estate mortgage | $ 743 | $ 4 | $ 747 | $ 530,506 | $ 531,253 | $ 4 |
| Production and intermediate-term | 6 | 786 | 792 | 276,201 | 276,993 | - |
| Agribusiness | - | - | - | 11,408 | 11,408 | - |
| Rural infrastructure | - | - | - | 1,058 | 1,058 | - |
| Rural residential real estate | - | - | - | 895 | 895 | - |
| Total | $ 749 | $ 790 | $ 1,539 | $ 820,068 | $ 821,607 | $ 4 |

A summary of changes in the allowance for loan losses is as follows:

| | Balance at December 31, 2018 | Charge-offs | Recoveries | Provision for Loan Losses/ (Loan Loss Reversals) | Balance at March 31, 2019 |
|---|---|---|---|---|---|
| Real estate mortgage | $ 365 | $ - | $ - | $ (18) | $ 347 |
| Production and intermediate-term | 1,506 | 10 | 29 | 3 | 1,528 |
| Agribusiness | 31 | - | - | (8) | 23 |
| Rural infrastructure | 7 | - | - | - | 7 |
| Total | $ 1,909 | $ 10 | $ 29 | $ (23) | $ 1,905 |

| | Balance at December 31, 2017 | Charge-offs | Recoveries | Provision for Loan Losses/ (Loan Loss Reversals) | Balance at March 31, 2018 |
|---|---|---|---|---|---|
| Real estate mortgage | $ 367 | $ - | $ - | $ (45) | $ 322 |
| Production and intermediate-term | 1,993 | 9 | 3 | (22) | 1,965 |
| Agribusiness | 27 | - | - | - | 27 |
| Rural infrastructure | 7 | - | - | - | 7 |
| Total | $ 2,394 | $ 9 | $ 3 | $ (67) | $ 2,321 |

The Association maintains a separate reserve for unfunded commitments, which is included in Liabilities on the Association's Consolidated Statement of Condition. The related provision for the reserve for unfunded commitments is included as part of the provision for credit losses on the Consolidated Statement of Comprehensive Income, along with the provision for loan losses. A summary of changes in the reserve for unfunded commitments follows:

| | For the Three Months Ended March 31 | |
|---|---|---|
| | **2019** | 2018 |
| Balance at beginning of period | **$ 471** | $ 407 |
| (Reversal of reserve for unfunded commitments)/Provision for unfunded commitments | **(124)** | 35 |
| Total | **$ 347** | $ 442 |

Additional information on the allowance for credit losses follows:

| | Allowance for Credit Losses Ending Balance at March 31, 2019 | | Recorded Investments in Loans Outstanding Ending Balance at March 31, 2019 | |
|---|---|---|---|---|
| | Individually evaluated for impairment | Collectively evaluated for impairment | Individually evaluated for impairment | Collectively evaluated for impairment |
| Real estate mortgage | $ - | $ 347 | $ 217 | $ 542,637 |
| Production and intermediate-term | 118 | 1,410 | 845 | 282,654 |
| Agribusiness | - | 23 | - | 9,730 |
| Rural infrastructure | - | 7 | - | 1,030 |
| Rural residential real estate | - | - | - | 869 |
| Total | $ 118 | $ 1,787 | $ 1,062 | $ 836,920 |

| | Allowance for Credit Losses Ending Balance at December 31, 2018 | | Recorded Investments in Loans Outstanding Ending Balance at December 31, 2018 | |
|---|---|---|---|---|
| | Individually evaluated for impairment | Collectively evaluated for impairment | Individually evaluated for impairment | Collectively evaluated for impairment |
| Real estate mortgage | $ - | $ 365 | $ 224 | $ 531,029 |
| Production and intermediate-term | 106 | 1,400 | 847 | 276,146 |
| Agribusiness | - | 31 | - | 11,408 |
| Rural infrastructure | - | 7 | - | 1,058 |
| Rural residential real estate | - | - | - | 895 |
| Total | $ 106 | $ 1,803 | $ 1,071 | $ 820,536 |

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 Association recorded no TDRs during the three months ended March 31, 2019. The Association had no TDRs within the previous 12 months and for which there were subsequent payment defaults during the first three months of 2019 and 2018. There were no additional commitments to lend to borrowers whose loans have been modified in troubled debt restructuring at March 31, 2019 and December 31, 2018. The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table.

| | Loans modified as TDRs | | TDRs in Nonaccrual Status* | |
|---|---|---|---|---|
| | **March 31, 2019** | December 31, 2018 | **March 31, 2019** | December 31, 2018 |
| Real estate mortgage | **$ 86** | $ 89 | **$ -** | $ - |
| Total | **$ 86** | $ 89 | **$ -** | $ - |

* Represents the portion of loans modified as TDRs (first column) that are in nonaccrual status.

**NOTE 3 - CAPITAL**

A summary of select capital ratios based on a three-month average and minimums set by the Farm Credit Administration follows.

| | As of March 31, 2019 | As of December 31, 2018 | Regulatory Minimums | Capital Conservation Buffer | Total |
|---|---|---|---|---|---|
| Risk Adjusted: | | | | | |
| Common equity tier 1 ratio | 17.23% | 17.38% | 4.5% | 2.5%* | 7.0% |
| Tier 1 capital ratio | 17.23% | 17.38% | 6.0% | 2.5%* | 8.5% |
| Total capital ratio | 17.53% | 17.73% | 8.0% | 2.5%* | 10.5% |
| Permanent capital ratio | 17.27% | 17.43% | 7.0% | - | 7.0% |
| | | | | | |
| Non-risk-adjusted: | | | | | |
| Tier 1 leverage ratio | 16.17% | 16.40% | 4.0% | 1.0% | 5.0% |
| Unallocated retained earnings and equivalents leverage ratio | 17.57% | 17.83% | 1.5% | - | 1.5% |

* The 2.5% capital conservation buffer over risk-adjusted ratio minimums will be phased in over three years under the FCA capital requirements.

If capital ratios fall below the regulatory minimum plus buffer amounts, capital distributions (equity redemptions, cash dividend payments, and cash patronage payments) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. The current regulations establish a three-year phase-in of the capital conservation buffer, which began on January 1, 2017. There will be no phase-in of the leverage buffer.

The following tables present the activity in the accumulated other comprehensive loss, net of tax by component:

| | For the Three Months Ended March 31 | |
|---|---|---|
| | **2019** | 2018 |
| Pension and other benefit plans: | | |
| Beginning balance | **$ (46)** | $ (75) |
| Amounts reclassified from accumulated other comprehensive loss | **2** | 4 |
| Net current period other comprehensive income | **2** | 4 |
| Ending balance | **$ (44)** | $ (71) |

The following table represents reclassifications out of accumulated other comprehensive income/(loss).

| | Amount Reclassified from Accumulated Other Comprehensive Income/(Loss) | | Location of Gain/Loss Recognized in Statement of Income |
|---|---|---|---|
| | For the Three Months Ended March 31 | | |
| | **2019** | 2018 | |
| Pension and other benefit plans: | | | |
| Net actuarial income | **$ 2** | $ 4 | Salaries and employee benefits |
| Total reclassifications | **$ 2** | $ 4 | |

**NOTE 4 - FAIR VALUE MEASUREMENTS**

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 to the 2018 Annual Report to Shareholders for a more complete description.

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

| | Fair Value Measurement Using | | | Total Fair Value |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | |
| Assets held in nonqualified benefits trusts | | | | |
| **March 31, 2019** | **$ 453** | **$ -** | **$ -** | **$ 453** |
| December 31, 2018 | $ 472 | $ - | $ - | $ 472 |

The Association had no liabilities measured at fair value on a recurring basis at March 31, 2019 or December 31, 2018.

Assets measured at fair value on a non-recurring basis for each of the fair value hierarchy values are summarized below:

| | Fair Value Measurement Using | | | Total Fair Value |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | |
| **March 31, 2019** | | | | |
| **Loans** | **$ -** | **$ -** | **$ 726** | **$ 726** |
| December 31, 2018 | | | | |
| Loans | $ - | $ - | $ 680 | $ 680 |

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

The Association had no liabilities measured at fair value on a non-recurring basis at March 31, 2019 or December 31, 2018.

**Valuation Techniques**

As more fully discussed in Note 2 to the 2018 Annual Report to Shareholders, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following presents a brief summary of the valuation techniques used by the Association for assets and liabilities, subject to fair value measurement.

*Assets Held in Non-Qualified Benefits Trusts*

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

*Loans Evaluated for Impairment*

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

**NOTE 5 - SUBSEQUENT EVENTS**

The Association has evaluated subsequent events through May 3, 2019 which is the date the financial statements were issued, and no material subsequent events were identified.