

Farm Credit of Western Oklahoma, ACA



**Quarterly Report
June 30, 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 six months ended June 30, 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 rainfall over the past few months. The spring weather provided ample moisture for planting and an above average environment for growing crops 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 spring.

Currently, the USDA rates the majority of topsoil and subsoil moisture conditions across the state of Oklahoma as adequate to surplus. Even with moisture conditions being above average, cash grain commodity prices have risen moderately over the past several weeks which have provided opportunities for cash grain producers to secure stronger prices than they have seen in the recent past. Cattle futures however have experienced volatility in a negative direction during 2019, although opportunities for profitability in the cattle market have been present intermittently 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 volatility in commodity prices over the past few years, significant equities remain across our customer base. It is evident that off farm income helps to offset uncertainties in the agricultural industry and clearly the oil and gas industry is a strong factor contributing to the level of off farm income in this region. The fossil fuel industry, as with any industry driven by the rise and fall in commodity prices, has its own level of unpredictability, but that source of off farm income has yielded additional risk bearing ability and diversification in income to our customer base for many years. During volatile times, solid financial managers have the upper hand and strong financial management is necessary in order to maintain profitability and preserve liquidity.

LOAN PORTFOLIO

Loans outstanding at June 30, 2019, totaled \$830.1 million, an increase of \$21.8 million, or 2.70%, 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 the real estate mortgage portfolio, production and intermediate-term portfolio and the agribusiness portfolio.

RESULTS OF OPERATIONS

Net income for the six months ended June 30, 2019, was \$6.3 million, an increase of \$153 thousand, or 2.47%, from the same period ended one year ago. The increase was caused primarily by an increase in net interest income, partially offset by an increase in noninterest expense and a decline in noninterest income.

Net interest income for the six months ended June 30, 2019, was \$10.8 million, an increase of \$861 thousand, or 8.62%, compared with the six months ended June 30, 2018. Net interest income increased as a result of loan growth offset in part by decreased spreads on accrual loans.

The provision for credit losses for the six months ended June 30, 2019, was \$4 thousand, compared with the credit loss reversal of \$24 thousand for the same period one year ago. The provision for credit losses increased primarily as a result of loan growth. During the second quarter, we recorded provision for loan losses of \$151 thousand

compared with \$8 thousand the second quarter of 2018. The provision increased as a result of loan growth and increased risk in certain loans, primarily impacted by an increase in the reserve for unfunded commitment.

Noninterest income decreased \$204 thousand during the first six months of 2019 compared with the first six months in 2018 primarily due to a decrease in refund 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 attributed to an increase in production revenue due to higher crude oil commodity prices and an increase in oil and gas drilling activity resulting in additional wells being brought online. Mineral income of \$274 thousand was recognized during the first six months of 2019. Of this amount, \$267 thousand was received from CoBank.

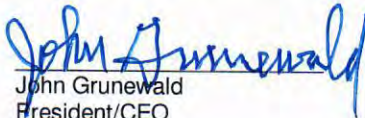
During the first six months of 2019, noninterest expense increased \$476 thousand to \$6.4 million, primarily due to increased salaries and employee benefits resulting from annual merit increases for existing staff as well as additional salary and employee benefit costs associated with new employees hired in the current year. Noninterest expense was also impacted by increased cost from our service provider, AgVantis, and increased occupancy and equipment.

CAPITAL RESOURCES

Our shareholders' equity at June 30, 2019, was \$167.4 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
President/CEO
August 5, 2019



Jarney B. Mitchell
CFO
August 5, 2019



Alan Schenk
Chairman of the Board
August 5, 2019

Consolidated Statement of Condition

(Dollars in Thousands)

	June 30 2019	December 31 2018
	UNAUDITED	AUDITED
ASSETS		
Loans	\$ 830,079	\$ 808,273
Less allowance for loan losses	1,923	1,909
Net loans	828,156	806,364
Cash	3,174	4,751
Accrued interest receivable	18,706	13,334
Investment in CoBank, ACB	25,595	25,595
Premises and equipment, net	5,254	5,144
Prepaid benefit expense	2,716	2,449
Other assets	3,237	4,574
Total assets	\$ 886,838	\$ 862,211
LIABILITIES		
Note payable to CoBank, ACB	\$ 704,374	\$ 685,066
Advance conditional payments	9,693	7,374
Accrued interest payable	1,690	1,645
Patronage distributions payable	-	2,750
Accrued benefits liability	243	247
Reserve for unfunded commitments	481	471
Other liabilities	2,921	3,598
Total liabilities	719,402	701,151
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Capital stock	1,998	1,966
Additional paid-in capital	33,619	33,619
Unallocated retained earnings	131,861	125,521
Accumulated other comprehensive (loss)/income	(42)	(46)
Total shareholders' equity	167,436	161,060
Total liabilities and shareholders' equity	\$ 886,838	\$ 862,211

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

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

UNAUDITED	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
INTEREST INCOME				
Loans	\$ 10,466	\$ 9,000	\$ 20,810	\$ 17,671
Total interest income	10,466	9,000	20,810	17,671
INTEREST EXPENSE				
Note payable to CoBank, ACB	5,029	3,989	9,904	7,634
Other	32	28	61	53
Total interest expense	5,061	4,017	9,965	7,687
Net interest income	5,405	4,983	10,845	9,984
Provision for credit losses/(Credit loss reversal)	151	8	4	(24)
Net interest income after provision for credit losses/credit loss reversal	5,254	4,975	10,841	10,008
NONINTEREST INCOME				
Financially related services income	4	2	8	5
Loan fees	6	(2)	8	-
Patronage distribution from Farm Credit institutions	700	702	1,392	1,399
Farm Credit Insurance Fund distribution	-	-	186	503
Mineral income	110	106	274	191
Other noninterest income	14	6	70	44
Total noninterest income	834	814	1,938	2,142
NONINTEREST EXPENSE				
Salaries and employee benefits	1,600	1,321	3,116	2,798
Occupancy and equipment	173	138	338	276
Purchased services from AgVantis, Inc.	517	457	1,034	915
Farm Credit Insurance Fund premium	140	122	276	247
Supervisory and examination costs	70	72	140	144
Other noninterest expense	732	845	1,535	1,583
Total noninterest expense	3,232	2,955	6,439	5,963
Net income	2,856	2,834	6,340	6,187
COMPREHENSIVE INCOME				
Amortization of retirement costs	2	4	4	8
Total comprehensive income	\$ 2,858	\$ 2,838	\$ 6,344	\$ 6,195

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			6,187	8	6,195
Stock issued	88				88
Stock retired	(88)				(88)
Balance at June 30, 2018	\$ 1,971	\$ 33,619	\$ 122,029	\$ (67)	\$ 157,552
Balance at December 31, 2018	\$ 1,966	\$ 33,619	\$ 125,521	\$ (46)	\$ 161,060
Comprehensive income			6,340	4	6,344
Stock issued	104				104
Stock retired	(72)				(72)
Balance at June 30, 2019	\$ 1,998	\$ 33,619	\$ 131,861	\$ (42)	\$ 167,436

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 second 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.

	June 30, 2019	December 31, 2018
Real estate mortgage	\$ 538,285	\$ 522,681
Production and intermediate-term	275,081	272,338
Agribusiness	15,415	11,311
Rural Infrastructure	451	1,058
Rural residential real estate	847	885
Total Loans	\$ 830,079	\$ 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 June 30, 2019:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	\$ 37,807	\$ 20,547	\$ 783	\$ -	\$ 38,590	\$ 20,547
Production and intermediate-term	28,145	7,375	-	-	28,145	7,375
Agribusiness	10,661	-	-	-	10,661	-
Rural infrastructure	451	-	-	-	451	-
Total	\$ 77,064	\$ 27,922	\$ 783	\$ -	\$ 77,847	\$ 27,922

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 mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness.
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan.
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable.
- 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:

	June 30, 2019	December 31, 2018
Real estate mortgage		
Acceptable	94.87%	95.19%
OAEM	2.33%	1.83%
Substandard	2.80%	2.98%
Total	100.00%	100.00%
Production and intermediate-term		
Acceptable	91.71%	91.30%
OAEM	3.90%	3.76%
Substandard	4.39%	4.94%
Total	100.00%	100.00%
Agribusiness		
Acceptable	99.82%	100.00%
OAEM	0.18%	-
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	93.92%	93.96%
OAEM	2.80%	2.45%
Substandard	3.28%	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:

<i>(dollars in thousands)</i>	June 30, 2019	December 31, 2018
Nonaccrual loans		
Real estate mortgage	\$ 123	\$ 132
Production and intermediate-term	829	847
Total nonaccrual loans	\$ 952	\$ 979
Accruing restructured loans		
Real estate mortgage	\$ 87	\$ 89
Total accruing restructured loans	\$ 87	\$ 89
Accruing loans 90 days past due		
Real estate mortgage	\$ 4	\$ 4
Total accruing loans 90 days past due	\$ 4	\$ 4
Total impaired loans	\$ 1,043	\$ 1,072

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

Additional impaired loan information is as follows:

	June 30, 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	\$ 825	\$ 838	\$ 106	\$ 786	\$ 812	\$ 106
Total	\$ 825	\$ 838	\$ 106	\$ 786	\$ 812	\$ 106
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$ 214	\$ 251		\$ 225	\$ 257	
Production and intermediate-term	4	1,367		61	1,415	
Total	\$ 218	\$ 1,618		\$ 286	\$ 1,672	
Total impaired loans:						
Real estate mortgage	\$ 214	\$ 251	\$ -	\$ 225	\$ 257	\$ -
Production and intermediate-term	829	2,205	106	847	2,227	106
Total	\$ 1,043	\$ 2,456	\$ 106	\$ 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 June 30, 2019		For the Three Months Ended June 30, 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	\$ 830	\$ -	\$ 1,651	\$ -
Total	\$ 830	\$ -	\$ 1,651	\$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	\$ 215	\$ 2	\$ 2,938	\$ 73
Production and intermediate-term	9	1	352	(6)
Total	\$ 224	\$ 3	\$ 3,290	\$ 67
Total impaired loans:				
Real estate mortgage	\$ 215	\$ 2	\$ 2,938	\$ 73
Production and intermediate-term	839	1	2,003	(6)
Total	\$ 1,054	\$ 3	\$ 4,941	\$ 67

	For the Six Months Ended June 30, 2019		For the Six Months Ended June 30, 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	\$ 840	\$ -	\$ 1,693	\$ -
Total	\$ 840	\$ -	\$ 1,693	\$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	\$ 218	\$ 6	\$ 3,043	\$ 75
Production and intermediate-term	2	1	391	-
Total	\$ 220	\$ 7	\$ 3,434	\$ 75
Total impaired loans:				
Real estate mortgage	\$ 218	\$ 6	\$ 3,043	\$ 75
Production and intermediate-term	842	1	2,084	-
Total	\$ 1,060	\$ 7	\$ 5,127	\$ 75

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

	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
June 30, 2019						
Real estate mortgage	\$ 1,112	\$ 4	\$ 1,116	\$ 549,120	\$ 550,236	\$ 4
Production and intermediate-term	1,035	767	1,802	279,976	281,778	-
Agribusiness	-	-	-	15,468	15,468	-
Rural infrastructure	-	-	-	451	451	-
Rural residential real estate	-	-	-	852	852	-
Total	\$ 2,147	\$ 771	\$ 2,918	\$ 845,867	\$ 848,785	\$ 4

	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
December 31, 2018						
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 March 31, 2019	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2019
Real estate mortgage	\$ 347	\$ -	\$ -	\$ 17	\$ 364
Production and intermediate-term	1,528	-	1	2	1,531
Agribusiness	23	-	-	1	24
Rural infrastructure	7	-	-	(3)	4
Total	\$ 1,905	\$ -	\$ 1	\$ 17	\$ 1,923

	Balance at December 31, 2018	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2019
Real estate mortgage	\$ 365	\$ -	\$ -	\$ (1)	\$ 364
Production and intermediate-term	1,506	10	30	5	1,531
Agribusiness	31	-	-	(7)	24
Rural infrastructure	7	-	-	(3)	4
Total	\$ 1,909	\$ 10	\$ 30	\$ (6)	\$ 1,923

	Balance at March 31, 2018	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2018
Real estate mortgage	\$ 322	\$ -	\$ -	\$ 9	\$ 331
Production and intermediate-term	1,965	-	3	(86)	1,882
Agribusiness	27	-	-	(5)	22
Rural infrastructure	7	-	-	4	11
Total	\$ 2,321	\$ -	\$ 3	\$ (78)	\$ 2,246

	Balance at December 31, 2017	Charge-offs	Recoveries	Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2018
Real estate mortgage	\$ 367	\$ -	\$ -	\$ (36)	\$ 331
Production and intermediate-term	1,993	9	6	(108)	1,882
Agribusiness	27	-	-	(5)	22
Rural infrastructure	7	-	-	4	11
Total	\$ 2,394	\$ 9	\$ 6	\$ (145)	\$ 2,246

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 June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Balance at beginning of period	\$ 347	\$ 442	\$ 471	\$ 407
Provision for unfunded commitments	134	86	10	121
Total	\$ 481	\$ 528	\$ 481	\$ 528

Additional information on the allowance for loan losses follows:

	Allowance for Loan Losses Ending Balance at June 30, 2019		Recorded Investments in Loans Outstanding Ending Balance at June 30, 2019	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	\$ -	\$ 364	\$ 214	\$ 550,022
Production and intermediate-term	106	1,425	829	280,949
Agribusiness	-	24	-	15,468
Rural infrastructure	-	4	-	451
Rural residential real estate	-	-	-	852
Total	\$ 106	\$ 1,817	\$ 1,043	\$ 847,742

	Allowance for Loan 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 six months ended June 30, 2019. The Association had no TDR's within the previous 12 months and for which there were subsequent payment defaults during the first six months of 2019 and 2018. There were no additional commitments to lend to borrowers whose loans have been modified in troubled debt restructuring at June 30, 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*	
	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
Real estate mortgage	\$ 87	\$ 89	\$ -	\$ -
Total	\$ 87	\$ 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 June 30, 2019	As of December 31, 2018	Regulatory Minimums	Capital Conservation Buffer	Total
Risk Adjusted:					
Common equity tier 1 ratio	17.26%	17.38%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	17.26%	17.38%	6.0%	2.5%*	8.5%
Total capital ratio	17.54%	17.73%	8.0%	2.5%*	10.5%
Permanent capital ratio	17.30%	17.43%	7.0%	-	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	16.29%	16.40%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	17.66%	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 June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Pension and other benefit plans:				
Beginning balance	\$ (44)	\$ (71)	\$ (46)	\$ (75)
Amounts reclassified from accumulated other comprehensive loss	2	4	4	8
Net current period other comprehensive income	2	4	4	8
Ending balance	\$ (42)	\$ (67)	\$ (42)	\$ (67)

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 June 30		
	2019	2018	
Pension and other benefit plans:			
Net actuarial income	\$ 2	\$ 4	Salaries and employee benefits
Total reclassifications	\$ 2	\$ 4	

	Amount Reclassified from Accumulated Other Comprehensive Income/(Loss)		Location of Gain/Loss Recognized in Statement of Income
	For the Six Months Ended June 30		
	2019	2018	
Pension and other benefit plans:			
Net actuarial income	\$ 4	\$ 8	Salaries and employee benefits
Total reclassifications	\$ 4	\$ 8	

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 of 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				
June 30, 2019	\$ 518	\$ -	\$ -	\$ 518
December 31, 2018	\$ 472	\$ -	\$ -	\$ 472

The Association had no liabilities measured at fair value on a recurring basis at June 30, 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	
June 30, 2019				
Loans	\$ -	\$ -	\$ 719	\$ 719
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 June 30, 2019 or December 31, 2018.

Valuation Techniques

As more fully discussed in Note 2 of 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 August 5, 2019 which is the date the financial statements were issued, and no material subsequent events were identified.