# Farm Credit Services of Western Arkansas, ACA

**Quarterly Report**
**June 30, 2019**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Services of Western Arkansas, ACA and its subsidiaries Farm Credit Services of Western Arkansas, FLCA and Farm Credit Services of Western Arkansas, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2018 (2018 Annual Report).

Due to the nature of our financial relationship with AgriBank, FCB (AgriBank), the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of AgriBank financial reports or additional copies of our report, contact us at:


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## FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2018 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

## AGRICULTURAL AND ECONOMIC CONDITIONS

At the end of the second quarter of 2019, none of the state was experiencing any type of drought condition with ample rainfall in most all areas. In fact, the only time any counties had drought conditions in 2019 was during the first week of January.

April average temperatures were in line with yearly averages. However, precipitation was double the average in April with 11.56 inches total compared to the average of 5.14 inches. May average temperatures were at the normal 71.7 degrees but precipitation was 8.58 inches, which exceeds the average by 3.71 inches. June average temperatures were 2 degrees lower than the normal average of 79 degrees. March precipitation was 4.49 inches, which is above the normal 3.65 average. Total rainfall for the quarter was 24.63 inches while a normal second quarter receives 13.67 inches.

**Row crops:** As of June 9, only 82% of the 2019/2020 crop was planted and projected acreage and yield have both been reduced. The corn crop yield had the largest month-to-month projected volume change since 2012 with a reduction of 1,350 million bushels and planted acreage reduced 3.0 million acres to 89.8 million. If projections are realized, the corn crop would be the lowest since 2015. In the first week of June, only 67% of the corn crop was planted while a typical year shows 100% by that point. The projected average corn price is projected sharply higher, up $0.50 to $3.80 per bushel due to lower stocks relative to use and favorable forward pricing opportunities for producers.

Soybean prices ranged from $8.36 to $8.71 per bushel on a cash crop basis with prices $8.54 to $8.96 per bushel for new crop basis. Corn prices were around $3.98 per bushel on a cash crop basis. Wheat ranged from $5.11 to $5.44 per bushel for new crop wheat.

**Poultry:** April broiler meat production was 3.585 billion pounds, which is a 4% increase year over year mainly due to an increase in bird weights. The expectation is that the industry will continue to increase the share of large bird slaughter for the remainder of 2019. Production growth for the near term is expected to dampen due to projected increases in the feed price forecast and a reduction in the broiler price forecast. Whole bird broiler prices averaged 100.89 cents per pound in May which is a 14% decrease year over year and is 7% lower than the 5-year average. Expectations are that supply growth will continue to outpace demand. April broiler export volumes were down nearly 7% year over year.

Table egg production showed strong year over year gains in April with a 5% increase. This was in large part due to a 3% increase in the table egg layer flock and a nearly 2% increase in the average lay rate. Wholesale table egg prices (New York Grade A Large) were down 41% to 57.68 cents per dozen in May compared to 2018. Early indications in June show an expected upward trend in price.

Late June boneless skinless breast meat with tenders was $116.14 per hundred weight while breast meat line run was $92.50 per hundred weight. Leg quarters were 0.35 - 0.38 cents per pound on average depending on quantity.

**Cattle:** The cost of feeding cattle is expected to increase this year thus slowing the pace of placements and reducing anticipated marketing. Weekly average fed steer prices in the 5-area marketing region have dropped 11% since the spring peak. Historically prices drop 15% from the seasonal peak which suggest a continued decline in prices is in store for the fall. Higher imports from Mexico, Australia, New Zealand, Uruguay, and Nicaragua have increased April imports by 16% from prior year. Imports from Canada and Brazil were lower than prior year levels. U.S. beef exports for the month of April were down 4% from prior year levels, which maintained an almost 5% year-to-date decline from prior year levels. Most declines in exports were seen in the Hong Kong, Canada, and Japan markets. Decreases in exports for Canada are likely caused by domestic production in Canada while the decrease in Japan exports are due to increased competition with other suppliers including Australia, Canada, and New Zealand. All three were granted tariff concessions under the 11-member Pacific trade deal known as the Comprehensive and Progressive Trans-Pacific Partnership.

## LOAN PORTFOLIO

### Loan Portfolio

Total loans were $1.4 billion at June 30, 2019, an increase of $50.6 million from December 31, 2018. The increase was primarily due to normal growth in our loan portfolio.

### Portfolio Credit Quality

The credit quality of our portfolio declined slightly from December 31, 2018. Adversely classified loans increased to 1.3% of the portfolio at June 30, 2019, from 1.1% of the portfolio at December 31, 2018. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. At June 30, 2019, $61.9 million of our loans were, to some level, guaranteed under these government programs.

### Risk Assets

**Components of Risk Assets**

| (dollars in thousands) As of: | **June 30 2019** | December 31 2018 |
|---|---|---|
| Loans: | | |
| Nonaccrual | **$ 8,586** | $ 7,917 |
| Accruing restructured | **3,674** | 3,882 |
| Accruing loans 90 days or more past due | **--** | -- |
| Total risk loans | **12,260** | 11,799 |
| Other property owned | **--** | -- |
| Total risk assets | **$ 12,260** | $ 11,799 |
| Total risk loans as a percentage of total loans | **0.9%** | 0.9% |
| Nonaccrual loans as a percentage of total loans | **0.6%** | 0.6% |
| Current nonaccrual loans as a percentage of total nonaccrual loans | **58.2%** | 66.1% |
| Total delinquencies as a percentage of total loans | **0.6%** | 0.3% |

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2018, but have remained at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans were well within our established risk management guidelines.

Nonaccrual loans remained at an acceptable level at June 30, 2019, and December 31, 2018.

## Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans inherent in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

**Allowance Coverage Ratios**

| As of: | **June 30 2019** | December 31 2018 |
|---|---|---|
| Allowance as a percentage of: | | |
| Loans | **0.2%** | 0.2% |
| Nonaccrual loans | **29.8%** | 30.9% |
| Total risk loans | **20.9%** | 20.7% |

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2019.

## RESULTS OF OPERATIONS

**Profitability Information**

| (dollars in thousands)<br>For the six months ended June 30 | **2019** | 2018 |
|---|---|---|
| Net income | **$ 13,491** | $ 12,231 |
| Return on average assets | **1.9%** | 1.9% |
| Return on average members' equity | **9.2%** | 8.9% |

Changes in the chart above relate directly to:

- Changes in income discussed below
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Funding, Liquidity, and Capital section

**Changes in Significant Components of Net Income**

| (in thousands)<br>For the six months ended June 30 | **2019** | 2018 | **Increase (decrease) in net income** |
|---|---|---|---|
| Net interest income | **$ 20,624** | $ 19,236 | **$ 1,388** |
| Provision for credit losses | **180** | 179 | **(1)** |
| Patronage income | **3,154** | 2,299 | **855** |
| Other income, net | **1,437** | 2,100 | **(663)** |
| Operating expenses | **11,544** | 11,225 | **(319)** |
| Net income | **$ 13,491** | $ 12,231 | **$ 1,260** |

**Changes in Net Interest Income**

| (in thousands)<br>For the six months ended June 30 | **2019 vs 2018** |
|---|---|
| Changes in volume | **$ 1,303** |
| Changes in interest rates | **104** |
| Changes in nonaccrual income and other | **(19)** |
| Net change | **$ 1,388** |

**Patronage Income**

| (in thousands)<br>For the six months ended June 30 | **2019** | 2018 |
|---|---|---|
| Wholesale patronage: | | |
| Cash | **$ 1,019** | $ 1,754 |
| Stock | **1,699** | -- |
| Pool program patronage | **260** | 358 |
| AgDirect partnership distribution | **176** | 187 |
| Total patronage income | **$ 3,154** | $ 2,299 |

The increase in patronage income was primarily due to an increase in wholesale patronage. In total wholesale patronage increased primarily as a result of a higher patronage rate for the first six months of 2019 compared to the same period of 2018. Wholesale patronage may be paid in cash or AgriBank stock. All pool program patronage and AgDirect partnership distributions are paid in cash.

The change in other income, net was primarily due to our share of the Allocated Insurance Reserve Accounts (AIRA) distribution received from the Farm Credit System Insurance Corporation (FCSIC) of $288 thousand in 2019, compared to $682 thousand in 2018. The AIRA was established by FCSIC when premiums collected increased the level of the Insurance Fund beyond the required 2% of insured debt. Refer to the 2018 Annual Report for additional information about the FCSIC. In addition, origination and undisbursed loan fees for the six months ended June 30, 2019, have declined compared to the same period last year.

The change in operating expenses was primarily related to increases in salaries and employee benefits and director expenses.

## FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable was scheduled to mature on May 31, 2020. However, it was renewed early for $1.4 billion with a new maturity date of May 31, 2021. The note payable will be renegotiated no later than the maturity date. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from unallocated surplus.

The components of cost of funds associated with our note payable include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity, and bank profit
- A risk premium component, if applicable

We were not subject to a risk premium at June 30, 2019, or December 31, 2018.

Total members' equity increased $9.0 million from December 31, 2018, primarily due to net income for the period partially offset by patronage distribution accruals**.** Accumulated other comprehensive loss is the impact of prior service cost and unamortized actuarial gain/loss related to the Pension Restoration Plan. Refer to Note 9 in our 2018 Annual Report for more information on the Pension Restoration Plan.

The Farm Credit Administration (FCA) Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 7 in our 2018 Annual Report for a more complete description of these ratios.

**Regulatory Capital Requirements and Ratios**

| As of: | **June 30 2019** | December 31 2018 | Regulatory Minimums | Capital Conservation Buffer | Total |
|---|---|---|---|---|---|
| Risk-adjusted: | | | | | |
| Common equity tier 1 ratio | **19.8%** | 20.4% | 4.5% | 2.5%* | 7.0% |
| Tier 1 capital ratio | **19.8%** | 20.4% | 6.0% | 2.5%* | 8.5% |
| Total capital ratio | **20.0%** | 20.6% | 8.0% | 2.5%* | 10.5% |
| Permanent capital ratio | **19.9%** | 20.4% | 7.0% | N/A | 7.0% |
| Non-risk-adjusted: | | | | | |
| Tier 1 leverage ratio | **19.3%** | 19.8% | 4.0% | 1.0% | 5.0% |
| Unallocated retained earnings and equivalents leverage ratio | **19.4%** | 19.8% | 1.5% | N/A | 1.5% |

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums is being phased in over three years under the FCA capital requirements. The phase in period ends on December 31, 2019.

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section.

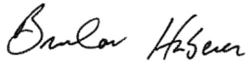
## BOARD OF DIRECTORS

Outside director, Duane Wilson retired from the Board in April 2019 after 15 years of service. Following a search process, the Board appointed Pam Faulkner-Moore to fill the open outside director position. Pam has over thirty years' of mortgage banking experience working as an employee and now as a consultant for banks and other Farm Credit system institutions. Her professional focus in recent years has been on development and implementation of banking software and computer systems and related employee training. The oldest of four siblings, Pam was raised on a cattle, hog, and soybean farm. She and her husband, Paul currently raise cattle on their farm in Casa, Arkansas.

## CERTIFICATION

The undersigned have reviewed the June 30, 2019, Quarterly Report of Farm Credit Services of Western Arkansas, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Kenny Brixey
Chairperson of the Board
Farm Credit Services of Western Arkansas, ACA



Brandon Haberer
President and Chief Executive Officer
Farm Credit Services of Western Arkansas, ACA

Lori Schumacher
Senior Vice President of Finance and Chief Financial Officer
Farm Credit Services of Western Arkansas, ACA

August 8, 2019

# CONSOLIDATED STATEMENTS OF CONDITION

*Farm Credit Services of Western Arkansas, ACA*

*(in thousands)*

*(Unaudited)*

| As of: | | June 30 2019 | | December 31 2018 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Loans | **$** | **1,365,801** | $ | 1,315,233 |
| Allowance for loan losses | | **2,559** | | 2,444 |
| Net loans | | **1,363,242** | | 1,312,789 |
| Investment in AgriBank, FCB | | **30,233** | | 27,503 |
| Accrued interest receivable | | **11,714** | | 10,455 |
| Other assets | | **18,199** | | 20,721 |
| Total assets | **$** | **1,423,388** | $ | 1,371,468 |
| **LIABILITIES** | | | | |
| Note payable to AgriBank, FCB | **$** | **1,088,070** | $ | 1,060,829 |
| Accrued interest payable | | **8,233** | | 7,536 |
| Deferred tax liabilities, net | | **211** | | 197 |
| Patronage distribution payable | | **4,529** | | 9,100 |
| Other liabilities | | **25,908** | | 6,405 |
| Total liabilities | | **1,126,951** | | 1,084,067 |
| Contingencies and commitments (Note 4) | | | | |
| **MEMBERS' EQUITY** | | | | |
| Capital stock and participation certificates | | **5,448** | | 5,390 |
| Unallocated surplus | | **291,254** | | 282,289 |
| Accumulated other comprehensive loss | | **(265)** | | (278) |
| Total members' equity | | **296,437** | | 287,401 |
| Total liabilities and members' equity | **$** | **1,423,388** | $ | 1,371,468 |

*The accompanying notes are an integral part of these Consolidated Financial Statements.*

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

*Farm Credit Services of Western Arkansas, ACA*
*(in thousands)*
*(Unaudited)*

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| *For the period ended June 30* | **2019** | 2018 | **2019** | 2018 |
| **Interest income** | **$ 18,619** | $ 16,708 | **$ 36,809** | $ 32,530 |
| **Interest expense** | **8,233** | 6,972 | **16,185** | 13,294 |
| Net interest income | **10,386** | 9,736 | **20,624** | 19,236 |
| **Provision for credit losses** | **12** | 71 | **180** | 179 |
| Net interest income after provision for credit losses | **10,374** | 9,665 | **20,444** | 19,057 |
| **Other income** | | | | |
| Patronage income | **2,015** | 1,174 | **3,154** | 2,299 |
| Financially related services income | **7** | 10 | **12** | 19 |
| Fee income | **607** | 529 | **984** | 1,050 |
| Allocated Insurance Reserve Accounts distribution | **--** | -- | **288** | 682 |
| Miscellaneous income, net | **63** | 251 | **153** | 349 |
| Total other income | **2,692** | 1,964 | **4,591** | 4,399 |
| **Operating expenses** | | | | |
| Salaries and employee benefits | **3,453** | 3,475 | **7,064** | 6,998 |
| Other operating expenses | **2,189** | 2,067 | **4,480** | 4,227 |
| Total operating expenses | **5,642** | 5,542 | **11,544** | 11,225 |
| Income before income taxes | **7,424** | 6,087 | **13,491** | 12,231 |
| **Provision for income taxes** | **--** | -- | **--** | -- |
| Net income | **$ 7,424** | $ 6,087 | **$ 13,491** | $ 12,231 |
| **Other comprehensive income** | | | | |
| Employee benefit plans activity | **$ 6** | $ 62 | **$ 13** | $ 124 |
| Total other comprehensive income | **6** | 62 | **13** | 124 |
| Comprehensive income | **$ 7,430** | $ 6,149 | **$ 13,504** | $ 12,355 |

*The accompanying notes are an integral part of these Consolidated Financial Statements.*

# CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

*Farm Credit Services of Western Arkansas, ACA*
*(in thousands)*
*(Unaudited)*

| | Capital Stock and Participation Certificates | Unallocated Surplus | Accumulated Other Comprehensive (Loss) Income | Total Members' Equity |
|---|---|---|---|---|
| Balance at December 31, 2017 | $ 5,175 | $ 266,232 | $ (382) | $ 271,025 |
| Net income | -- | 12,231 | -- | 12,231 |
| Other comprehensive income | -- | -- | 124 | 124 |
| Unallocated surplus designated for patronage distributions | -- | (4,008) | -- | (4,008) |
| Capital stock and participation certificates issued | 349 | -- | -- | 349 |
| Capital stock and participation certificates retired | (229) | -- | -- | (229) |
| Balance at June 30, 2018 | $ 5,295 | $ 274,455 | $ (258) | $ 279,492 |
| Balance at December 31, 2018 | $ 5,390 | $ 282,289 | $ (278) | $ 287,401 |
| Net income | **--** | **13,491** | **--** | **13,491** |
| Other comprehensive income | **--** | **--** | **13** | **13** |
| Unallocated surplus designated for patronage distributions | **--** | **(4,526)** | **--** | **(4,526)** |
| Capital stock and participation certificates issued | **284** | **--** | **--** | **284** |
| Capital stock and participation certificates retired | **(226)** | **--** | **--** | **(226)** |
| **Balance at June 30, 2019** | **$ 5,448** | **$ 291,254** | **$ (265)** | **$ 296,437** |

*The accompanying notes are an integral part of these Consolidated Financial Statements.*

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim Consolidated Statements of Condition and Consolidated Statements of Comprehensive Income. Our accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the six months ended June 30, 2019, are not necessarily indicative of the results to be expected for the year ending December 31, 2019. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2018 (2018 Annual Report).

The Consolidated Financial Statements present the consolidated financial results of Farm Credit Services of Western Arkansas, ACA (the Association) and its subsidiaries Farm Credit Services of Western Arkansas, FLCA and Farm Credit Services of Western Arkansas, PCA. All material intercompany transactions and balances have been eliminated in consolidation.

#### Significant Accounting Policies

**Leases:** We are the lessee in operating leases. We evaluate arrangements at inception to determine if it is a lease. Leases with an initial term of 12 months or less are not recorded on the balance sheet with lease expense recognized on a straight-line basis over the lease term. For operating leases with terms greater than 12 months the right-of-use (ROU) assets are included in “Other assets” in the Consolidated Statements of Condition and the lease liabilities are included in “Other liabilities” in the Consolidated Statements of Condition.

The ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. Our lease terms may include options to extend or terminate the lease. The length of the lease term is modified to include the option when it is reasonably certain that we will exercise that option. Operating lease expense for lease payments is recognized on a straight-line basis over the lease term.

#### Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business. While we are a nonpublic entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements on the public business entities effective date or aligned with other System institutions, whichever is earlier.

| Standard and effective date | Description | Adoption status and financial statement impact |
| --- | --- | --- |
| In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02 “Leases.” In July 2018, the FASB issued ASU 2018-11 “Leases (Topic 842): Targeted Improvements.” The guidance is effective for public business entities in its first quarter of 2019 and early adoption is permitted. | The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases. Upon adoption, a liability for lease obligations and a corresponding right-of-use asset is recognized on the Consolidated Statements of Condition for all lease arrangements spanning more than 12 months. The guidance includes an optional transition method where an entity is permitted to apply the guidance as of the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings. | We adopted this guidance on January 1, 2019, using the transition guidance allowing for the application of the transition requirements on the effective date with the effects initially recognized as a cumulative effect adjustment to the opening balance of retained earnings. In addition, we elected the package of practical expedients permitted under the transition guidance, which among other things, allowed us to carry forward the historical lease classification. We also elected the hindsight practical expedient to determine the lease term for existing leases. The adoption of this guidance did not have a material impact on our financial condition, results of operations, and financial statement disclosures, and had no impact on cash flows. |
| In June 2016, the FASB issued ASU 2016-13 “Financial Instruments – Credit Losses.” This guidance is effective for public business entities for non-U.S. Securities Exchange Commission filers for the first quarter of 2021 and early adoption is permitted. | 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. | We have no plans to early adopt this guidance. We have reviewed the accounting standard, selected our system, and are in the process of drafting disclosures. Significant implementation matters yet to be addressed include system development and testing, drafting of accounting policies, and designing processes and controls. We are currently unable to estimate the impact on the financial statements. |

## NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

**Loans by Type**

(dollars in thousands)

| As of: | **June 30, 2019** | | December 31, 2018 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Real estate mortgage | **$ 897,418** | **65.7%** | $ 872,440 | 66.3% |
| Production and intermediate-term | **192,976** | **14.1%** | 188,741 | 14.4% |
| Agribusiness | **167,624** | **12.3%** | 155,099 | 11.8% |
| Other | **107,783** | **7.9%** | 98,953 | 7.5% |
| Total | **$ 1,365,801** | **100.0%** | $ 1,315,233 | 100.0% |

The other category is primarily composed of rural infrastructure, rural residential real estate, and agricultural export finance related loans.

### Delinquency

**Aging Analysis of Loans**

| (in thousands)<br>**As of June 30, 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 | Total |
|---|---|---|---|---|---|
| Real estate mortgage | **$ 4,525** | **$ 1,580** | **$ 6,105** | **$ 898,905** | **$ 905,010** |
| Production and intermediate-term | **1,492** | **1,018** | **2,510** | **193,797** | **196,307** |
| Agribusiness | **--** | **--** | **--** | **168,211** | **168,211** |
| Other | **12** | **--** | **12** | **107,975** | **107,987** |
| Total | **$ 6,029** | **$ 2,598** | **$ 8,627** | **$ 1,368,888** | **$ 1,377,515** |

| As of 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 | Total |
|---|---|---|---|---|---|
| Real estate mortgage | $ 1,503 | $ 1,971 | $ 3,474 | $ 875,602 | $ 879,076 |
| Production and intermediate-term | 513 | 465 | 978 | 190,901 | 191,879 |
| Agribusiness | -- | -- | -- | 155,581 | 155,581 |
| Other | 42 | -- | 42 | 99,110 | 99,152 |
| Total | $ 2,058 | $ 2,436 | $ 4,494 | $ 1,321,194 | $ 1,325,688 |

Note: Accruing loans include accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest at June 30, 2019, or December 31, 2018.

### Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

**Risk Loan Information**

| (in thousands)<br>As of: | **June 30 2019** | December 31 2018 |
|---|---|---|
| Volume with specific allowance | **$ 3,279** | $ 3,978 |
| Volume without specific allowance | **8,981** | 7,821 |
| Total risk loans | **$ 12,260** | $ 11,799 |
| Total specific allowance | **$ 1,117** | $ 1,055 |
| For the six months ended June 30 | **2019** | 2018 |
| Income on accrual risk loans | **$ 100** | $ 77 |
| Income on nonaccrual loans | **287** | 306 |
| Total income on risk loans | **$ 387** | $ 383 |
| Average risk loans | **$ 11,763** | $ 8,786 |

Note: Accruing loans include accrued interest receivable.

We did not have any material commitments to lend additional money to borrowers whose loans were classified as risk loans at June 30, 2019.

## Troubled Debt Restructurings (TDRs)

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

**TDR Activity**

| (in thousands)<br>Six months ended June 30 | **2019** | | 2018 | |
|---|---|---|---|---|
| | Pre-modification | Post-modification | Pre-modification | Post-modification |
| Real estate mortgage | **$ 200** | **$ 214** | $ 67 | $ 67 |
| Production and intermediate-term | **269** | **180** | 805 | 915 |
| Total | **$ 469** | **$ 394** | $ 872 | $ 982 |

Pre-modification represents the outstanding recorded investment of the loan just prior to restructuring and post-modification represents the outstanding recorded investment of the loan immediately following the restructuring. The recorded investment in the loan is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment.

The primary types of modification included deferral of principal and interest rate reduction below market. There were no TDRs that defaulted during the six months ended June 30, 2019, or 2018 in which the modification was within twelve months of the respective reporting period.

**TDRs Outstanding**

| (in thousands)<br>As of: | **June 30<br>2019** | December 31<br>2018 |
|---|---|---|
| Accrual status: | | |
| Real estate mortgage | **$ 757** | $ 771 |
| Production and intermediate-term | **884** | 1,020 |
| Agribusiness | **2,033** | 2,091 |
| Total TDRs in accrual status | **$ 3,674** | $ 3,882 |
| Nonaccrual status: | | |
| Real estate mortgage | **$ 838** | $ 861 |
| Production and intermediate-term | **655** | 474 |
| Agribusiness | **--** | -- |
| Total TDRs in nonaccrual status | **$ 1,493** | $ 1,335 |
| Total TDRs: | | |
| Real estate mortgage | **$ 1,595** | $ 1,632 |
| Production and intermediate-term | **1,539** | 1,494 |
| Agribusiness | **2,033** | 2,091 |
| Total TDRs | **$ 5,167** | $ 5,217 |

Additional commitments to lend to borrowers whose loans have been modified in a TDR were $86 thousand at June 30, 2019.

## Allowance for Loan Losses

**Changes in Allowance for Loan Losses**

| (in thousands)<br>Six months ended June 30 | **2019** | 2018 |
|---|---|---|
| Balance at beginning of period | **$ 2,444** | $ 2,138 |
| Provision for loan losses | **196** | 45 |
| Loan recoveries | **23** | 76 |
| Loan charge-offs | **(104)** | (29) |
| Balance at end of period | **$ 2,559** | $ 2,230 |

The "Provision for credit losses" in the Consolidated Statements of Comprehensive Income includes a provision for loan losses as presented in the previous chart, as well as a (reversal of) provision for credit losses on unfunded commitments. The accrued credit losses on unfunded commitments are recorded in "Other liabilities" in the Consolidated Statements of Condition.

**Credit Loss Information on Unfunded Commitments**

| (in thousands)<br>For the six months ended June 30 | | 2019 | | 2018 |
|---|---|---|---|---|
| (Reversal of) provision for credit losses | **$** | **(16)** | $ | 134 |
| As of: | | **June 30 2019** | | December 31 2018 |
| Accrued credit losses | **$** | **130** | $ | 146 |

## NOTE 3: OTHER INVESTMENT

We and other Farm Credit Institutions are among the limited partners for a Rural Business Investment Company (RBIC). Our total commitment is $2.0 million through December 2020 with an option to extend under certain circumstances. Our investment in the RBIC is recorded in “Other assets” in the Consolidated Statements of Condition, and totaled $470 thousand at June 30, 2019, and $345 thousand at December 31, 2018.

The investment was evaluated for impairment. The investment was not impaired as of June 30, 2019, or December 31, 2018.

## NOTE 4: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

## NOTE 5: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 in our 2018 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at June 30, 2019, or December 31, 2018.

### Non-Recurring

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

**Assets Measured at Fair Value on a Non-recurring Basis**

(in thousands)

| | **As of June 30, 2019** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair Value Measurement Using | | | | | | Total Fair | |
| | Level 1 | | Level 2 | | Level 3 | | Value | |
| Impaired loans | **$** | **--** | **$** | **--** | **$** | **2,270** | **$** | **2,270** |
| | As of December 31, 2018 | | | | | | | |
| | Fair Value Measurement Using | | | | | | Total Fair | |
| | Level 1 | | Level 2 | | Level 3 | | Value | |
| Impaired loans | $ | -- | $ | -- | $ | 3,069 | $ | 3,069 |

### Valuation Techniques

**Impaired loans:** Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset’s fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management’s knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as Level 3.

## NOTE 6: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 8, 2019, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.