

2019

SECOND QUARTER REPORT TO SHAREHOLDERS

Ag Lending You Can Count On



**COLUSA-GLENN
FARM CREDIT**

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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 Services of Colusa-Glenn, ACA (the "Association") and subsidiaries 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.

The shareholders' investment in Farm Credit Services of Colusa-Glenn, 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 website, www.cobank.com, or may be obtained at no charge by contacting us at Farm Credit Services of Colusa-Glenn, ACA, 310 6th Street, P.O. Box 449, Colusa, California 95932, or calling (530) 458-2163.

GENERAL

We have continued to grow our loan portfolio, maintain strong credit quality, and remain well capitalized through the quarter ended June 30, 2019. Our success is due to our conservative lending approach, the financial stability and support of our member-base, and proactive portfolio management. There have been challenges the Association and its members have had to overcome in the past few years including commodity price volatility and rising interest rates. Commodity prices across the United States have experienced significant volatility over the past four years. This volatility has been driven, in part, by the strength of the U.S. dollar compared to foreign currencies, decreased global demand for our exports, deterioration or slowing of growth in global economies, tariff disputes between the U.S., China and others, and negative net farm income trends in the U.S.

During this period, prices for rice, almonds and walnuts fell along with prices for other miscellaneous crops we finance. Our primary concern with respect to commodity price volatility is its impact to our borrower's financial position and collateral values. Overall, market pricing on rice, almonds and walnuts has improved though not to the record levels reached in recent years. We feel that our approach to credit analysis when originating and renewing crop loans for these commodities reflects a conservative approach to prices; however, we also acknowledge that these markets remain somewhat volatile. We continue to monitor changes in market conditions for rice, almonds, walnuts and landlords, as well as the remainder of the portfolio. We are optimistic that the Federal Open Market Committee (FOMC) will continue to lower rates as financial indicators necessitate adjustments.

LOAN PORTFOLIO

Loans outstanding at June 30, 2019, totaled \$424.7 million, an increase of \$7.5 million, or 1.8%, from loans of \$417.2 million at December 31, 2018. The increase was attributable to organic growth within our territory, primarily in our real estate mortgage and agribusiness portfolios. This growth was partially offset by a decrease in our production and intermediate-term portfolio largely due to seasonal loan repayments and delayed advances on lines of credit. Loan volume within this portfolio has increased considerably since the first quarter 2019 and is expected to continue throughout the rest of the year.

RESULTS OF OPERATIONS

Net income for the six months ended June 30, 2019, was \$4.6 million, an increase of \$830 thousand, or 21.8%, from \$3.8 million for the six months ended June 30, 2018. This increase is primarily attributable to an increase in net interest income driven by loan growth year over year, coupled with an increase in the reversal of credit loss, and partially offset by increased noninterest expense.

Net interest income for the six months ended June 30, 2019, was \$6.4 million, an increase of \$966 thousand, or 17.8%, from \$5.4 million for the six months ended June 30, 2018. The increase is attributable to increased loan volume and spreads, coupled with increased earnings on fixed term investments.

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

The credit loss reversal for the six months ended June 30, 2019, was \$230 thousand, a decrease of \$244 thousand from the provision for credit losses of \$14 thousand for the same period ended one year ago. The credit loss reversal through June 30, 2019, is due to less stress within our portfolio as commodity price pressure, frost and water availability concerns within our territories have eased.

Noninterest income for the six months ended June 30, 2019, was \$843 thousand, a decrease of \$26 thousand, or 3.0%, from \$869 thousand for the same period ended one year ago. This is primarily due to a decrease in refund of \$105 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. This decrease was partially offset by increased patronage and loan fee income.

We received mineral income of \$2 thousand during the first six months of 2019, which is distributed to us quarterly by CoBank.

Noninterest expense for the six months ended June 30, 2019, was \$2.8 million, an increase of \$325 thousand, or 13.3%, from \$2.4 million for the six months ended June 30, 2018. The increase was primarily due to an increase in purchased services, occupancy and equipment expense, and other noninterest expense. Purchased services increased year over year due to higher costs related to audit fees, information technology support services, and human resources and payroll services. Occupancy and equipment expense increased due to higher rental costs for our Colusa branch office. Other noninterest expense increased due to a decrease in our standard loan origination costs.

CAPITAL RESOURCES

Our shareholders' equity at June 30, 2019, was \$113.5 million, an increase of \$3.6 million, or 3.3%, from shareholders' equity of \$109.9 million at December 31, 2018. This increase is due to net income and net stock issuances, offset by accrued patronage distributions.

FORWARD LOOKING INFORMATION

This discussion contains forward looking statements. These statements are not guarantees of future performance; future operations involve certain risks, uncertainties, and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," or "will" are intended to identify forward-looking statements. These statements are based on management's assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. Readers are cautioned not to place undue reliance on these forward-looking statements. We will not update any forward-looking statements to reflect events or circumstances arising after they are made.

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

CERTIFICATION

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.



Michael Doherty
Chairman of the Board
August 8, 2019



Tim Elrod
President & Chief Executive Officer
August 8, 2019



Amy Ceballos
Chief Financial Officer
August 8, 2019

CONSOLIDATED STATEMENTS OF CONDITION
(In Thousands)

	June 30, 2019	December 31, 2018
	<i>Unaudited</i>	<i>Audited</i>
ASSETS		
Loans	\$ 424,708	\$ 417,227
Less allowance for loan losses	1,675	1,898
Net loans	423,033	415,329
Cash	917	2,702
Accrued interest receivable	7,072	5,857
Investment in CoBank, ACB	10,378	10,337
Premises and equipment, net	1,762	526
Other assets	1,512	2,366
Total assets	\$ 444,674	\$ 437,117
LIABILITIES		
Note payable to CoBank, ACB	\$ 296,471	\$ 296,154
Advance conditional payments	30,829	21,773
Accrued interest payable	308	304
Patronage distributions payable	983	2,000
Accrued benefits liability	100	101
Deferred tax liability	200	142
Unfunded disbursements	355	900
Reserve for unfunded commitments	294	247
Other liabilities	1,597	5,611
Total liabilities	331,137	327,232
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Capital stock and participation certificates	518	516
Unallocated retained earnings	113,019	109,369
Total shareholders' equity	113,537	109,885
Total liabilities and shareholders' equity	\$ 444,674	\$ 437,117

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited and in Thousands)

	<i>For the Three Months Ended June 30</i>		<i>For the Six Months Ended June 30</i>	
	2019	2018	2019	2018
INTEREST INCOME				
Loans	\$ 5,319	\$ 4,308	\$ 10,446	\$ 8,328
Total interest income	5,319	4,308	10,446	8,328
INTEREST EXPENSE				
Note payable to CoBank	1,915	1,462	3,698	2,726
Other	176	105	364	184
Total interest expense	2,091	1,567	4,062	2,910
Net interest income	3,228	2,741	6,384	5,418
(Credit loss reversal)/Provision for credit losses	(52)	231	(230)	14
Net interest income after credit loss reversal/ provision for credit losses	3,280	2,510	6,614	5,404
NONINTEREST INCOME				
Financially related services income	3	4	5	6
Patronage distribution from Farm Credit Institutions	341	295	679	644
Farm Credit Insurance Fund distribution	-	-	78	183
Mineral income	1	1	2	2
Other noninterest income	15	20	79	34
Total noninterest income	360	320	843	869
NONINTEREST EXPENSE				
Salaries and employee benefits	726	725	1,444	1,465
Occupancy and equipment	85	47	153	99
Purchased services	252	222	495	414
Farm Credit Insurance Fund premium	53	47	108	97
Supervisory and examination costs	44	42	88	85
Data processing services	241	198	482	398
Other noninterest expense	(56)	(62)	(3)	(116)
Total noninterest expense	1,345	1,219	2,767	2,442
Income before income taxes	2,295	1,611	4,690	3,831
Provision for/(Benefit from) income taxes	5	(33)	57	28
Net income/Comprehensive income	\$ 2,290	\$ 1,644	\$ 4,633	\$ 3,803

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited and in Thousands)

	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Total Shareholders' Equity
Balance at December 31, 2017	\$ 534	\$ 102,906	\$ 103,440
Net income/Comprehensive income		3,803	3,803
Capital stock and participation certificates issued	44		44
Capital stock and participation certificates retired	(54)		(54)
Patronage distributions: Cash		(446)	(446)
Balance at June 30, 2018	\$ 524	\$ 106,263	\$ 106,787
Balance at December 31, 2018	\$ 516	\$ 109,369	\$ 109,885
Net income/Comprehensive income		4,633	4,633
Capital stock and participation certificates issued	29		29
Capital stock and participation certificates retired	(27)		(27)
Patronage distributions: Cash		(983)	(983)
Balance at June 30, 2019	\$ 518	\$ 113,019	\$ 113,537

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited and in Thousands, Except Where Noted)

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of Farm Credit Services of Colusa-Glenn, 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.

Certain amounts in the prior period financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

Loan Portfolio

A summary of the Association’s loan portfolio as of June 30, 2019, and December 31, 2018, is as follows:

	June 30, 2019			December 31, 2018		
	Principal	Interest	Total	Principal	Interest	Total
Real estate mortgage	\$ 252,760	\$ 5,670	\$ 258,430	\$ 244,375	\$ 4,593	\$ 248,968
Production and intermediate-term	85,761	855	86,616	99,370	857	100,227
Agribusiness	77,497	540	78,037	62,256	393	62,649
Rural infrastructure	8,690	7	8,697	11,226	14	11,240
Total loans	\$ 424,708	\$ 7,072	\$ 431,780	\$ 417,227	\$ 5,857	\$ 423,084

Participations Purchased and Sold

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 principal balances of participations purchased and sold as of June 30, 2019, and December 31, 2018:

	June 30, 2019		December 31, 2018	
	Purchased	Sold	Purchased	Sold
Other Farm Credit Institutions:				
Real estate mortgage	\$ 41,369	\$ 35,154	\$ 42,564	\$ 33,338
Production and intermediate-term	4,496	8,566	5,542	11,376
Agribusiness	42,619	14,589	37,086	12,263
Rural infrastructure	8,690	-	11,226	-
Total	\$ 97,174	\$ 58,309	\$ 96,418	\$ 56,977

The Association had no participation interests purchased from or sold to Non-Farm Credit Institutions at June 30, 2019, and December 31, 2018.

Notes to Consolidated Financial Statements

Loans by Credit Class

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 as of June 30, 2019, and December 31, 2018:

	June 30, 2019	December 31, 2018
Real estate mortgage:		
Acceptable	97.70%	97.42%
OAEM	0.60%	0.79%
Substandard	1.70%	1.79%
Subtotal	<u>100.00%</u>	<u>100.00%</u>
Production and intermediate-term:		
Acceptable	95.53%	96.85%
OAEM	1.29%	1.52%
Substandard	3.18%	1.63%
Subtotal	<u>100.00%</u>	<u>100.00%</u>
Agribusiness:		
Acceptable	87.55%	99.88%
OAEM	1.92%	0.12%
Substandard	10.53%	0.00%
Subtotal	<u>100.00%</u>	<u>100.00%</u>
Rural infrastructure		
Acceptable	<u>100.00%</u>	<u>100.00%</u>
Subtotal	<u>100.00%</u>	<u>100.00%</u>
Total Loans:		
Acceptable	95.47%	97.72%
OAEM	0.97%	0.84%
Substandard	3.56%	1.44%
Total	<u>100.00%</u>	<u>100.00%</u>

High Risk Assets

High risk assets consist of impaired loans and other property owned. These nonperforming assets (including related accrued interest) and related credit quality as of June 30, 2019, and December 31, 2018, are as follows:

	June 30, 2019	December 31, 2018
Nonaccrual loans:		
Production and intermediate-term	\$ 1	\$ 1
Total nonaccrual loans	1	1
Total high risk assets	\$ 1	\$ 1

The Association had no accruing restructured loans, no accruing loans 90 days past due and no other property owned for the periods presented.

Impaired Loan Information

Additional impaired loan information as of June 30, 2019, and December 31, 2018, is as follows:

	June 30, 2019		December 31, 2018	
	Recorded Investment	Unpaid Principal Balance	Recorded Investment	Unpaid Principal Balance
Impaired loans with no related allowance for credit losses				
Production and intermediate-term	\$ 1	\$ 1,402	\$ 1	\$ 1,423
Total	\$ 1	\$ 1,402	\$ 1	\$ 1,423

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.

There were no impaired loans with a related allowance for credit losses as of June 30, 2019, and December 31, 2018.

The following tables provides average impaired loans:

	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 no related allowance for credit losses:				
Real estate mortgage	\$ -	\$ -	\$ 350	\$ -
Production and intermediate-term	1	2	30	-
Total	\$ 1	\$ 2	\$ 380	\$ -

	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 no related allowance for credit losses:				
Real estate mortgage	\$ -	\$ -	\$ 344	\$ -
Production and intermediate-term	161	4	16	-
Total	\$ 161	\$ 4	\$ 360	\$ -

Notes to Consolidated Financial Statements

Past Due Loans

The following tables provide an age analysis of past due loans (including accrued interest) as of June 30, 2019, and December 31, 2018:

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	Recorded Investment in Loans Outstanding	Recorded Investment Accruing Loans 90 Days or More Past Due
Real estate mortgage	\$ -	\$ -	\$ -	\$ 258,430	\$ 258,430	\$ -
Production and intermediate-term	-	-	-	86,616	86,616	-
Agribusiness	-	-	-	78,037	78,037	-
Rural infrastructure	-	-	-	8,697	8,697	-
Total	\$ -	\$ -	\$ -	\$ 431,780	\$ 431,780	\$ -

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	Recorded Investment in Loans Outstanding	Recorded Investment Accruing Loans 90 Days or More Past Due
Real estate mortgage	\$ -	\$ -	\$ -	\$ 248,968	\$ 248,968	\$ -
Production and intermediate-term	120	-	120	100,107	100,227	-
Agribusiness	-	-	-	62,649	62,649	-
Rural infrastructure	-	-	-	11,240	11,240	-
Total	\$ 120	\$ -	\$ 120	\$ 422,964	\$ 423,084	\$ -

Allowance for Loan Losses

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	\$ 297	\$ -	\$ -	\$ 95	\$ 392
Production and intermediate-term	791	-	2	(154)	639
Agribusiness	542	-	-	70	612
Rural infrastructure	36	-	-	(4)	32
Total	\$ 1,666	\$ -	\$ 2	\$ 7	\$ 1,675

	Balance at December 31, 2018	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2019
Real estate mortgage	\$ 465	\$ -	\$ -	\$ (73)	\$ 392
Production and intermediate-term	1,175	14	68	(590)	639
Agribusiness	225	-	-	387	612
Rural infrastructure	33	-	-	(1)	32
Total	\$ 1,898	\$ 14	\$ 68	\$ (277)	\$ 1,675

Notes to Consolidated Financial Statements

	Balance at March 31, 2018	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2018
Real estate mortgage	\$ 485	\$ -	\$ -	\$ 50	\$ 535
Production and intermediate-term	915	-	1	134	1,050
Agribusiness	242	-	-	(11)	231
Rural infrastructure	40	-	-	-	40
Total	\$ 1,682	\$ -	\$ 1	\$ 173	\$ 1,856

	Balance at December 31, 2017	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2018
Real estate mortgage	\$ 497	\$ -	\$ -	\$ 38	\$ 535
Production and intermediate-term	1,172	-	81	(203)	1,050
Agribusiness	141	-	-	90	231
Rural infrastructure	42	-	-	(2)	40
Total	\$ 1,852	\$ -	\$ 81	\$ (77)	\$ 1,856

Reserve for Unfunded Commitments

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	\$ 353	\$ 168	\$ 247	\$ 135
Provision for/(Reversal of) reserves for unfunded commitments	(59)	58	47	91
Total	\$ 294	\$ 226	\$ 294	\$ 226

Individual and Collective Impairment Evaluation

A summary of the Association's individual and collective impairment evaluation as of June 30, 2019, and December 31, 2018, is as follows (including accrued interest):

	Allowance for Loan Losses		Recorded Investments in Loans Outstanding		Total
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	
As of June 30, 2019					
Real estate mortgage	\$ -	\$ 392	\$ -	\$ 258,430	\$ 258,430
Production and intermediate-term	-	639	1	86,615	86,616
Agribusiness	-	612	-	78,037	78,037
Rural infrastructure	-	32	-	8,697	8,697
Total	\$ -	\$ 1,675	\$ 1	\$ 431,779	\$ 431,780

Notes to Consolidated Financial Statements

As of December 31, 2018	Allowance for Loan Losses		Recorded Investments in Loans Outstanding			
	Individually	Collectively	Individually	Collectively	Total	
	Evaluated for Impairment	Evaluated for Impairment	Evaluated for Impairment	Evaluated for Impairment		
Real estate mortgage	\$ -	\$ 465	\$ -	\$ 248,968	\$ 248,968	
Production and intermediate-term	-	1,175	1	100,226	100,227	
Agribusiness	-	225	-	62,649	62,649	
Rural infrastructure	-	33	-	11,240	11,240	
Total	\$ -	\$ 1,898	\$ 1	\$ 423,083	\$ 423,084	

Troubled Debt Restructuring

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 TDRs within the previous 12 months and for which there were subsequent payment defaults during the first six months of 2019 and 2018.

NOTE 3 - CAPITAL

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

	As of June 30, 2019	As of December 31, 2018	Regulatory Minimums	Capital Conservation Buffer	Total
Risk Adjusted:					
Common equity tier 1 ratio	21.63%	20.96%	4.5%	2.5% *	7.0%
Tier 1 capital ratio	21.63%	20.96%	6.0%	2.5% *	8.5%
Total capital ratio	22.06%	21.40%	8.0%	2.5% *	10.5%
Permanent capital ratio	21.72%	21.29%	7.0%	-	7.0%
Non-risk-adjusted					
Tier 1 leverage ratio	25.13%	23.52%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	25.72%	24.09%	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.

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.

The Association has assets held in nonqualified benefit trusts measured at fair value on a recurring basis that are determined to be Level 1 of \$1 at June 30, 2019, and December 31, 2018.

The Association had no assets or 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 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.

NOTE 5 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through August 8, 2019, which is the date the financial statements were issued, and no material subsequent events were identified.

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