GreenStone Farm Credit Services, 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 GreenStone Farm Credit Services, ACA and its subsidiaries GreenStone Farm Credit Services, FLCA and GreenStone Farm Credit Services, 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

The Bureau of Economic Analysis reported first quarter real gross domestic product (GDP) increased at an annual rate of 3.1%. This growth rate represents a pick-up in growth compared to 2.2% for the last quarter of 2018. This performance reflected positive contributions from exports, personal consumption expenditures, nonresidential fixed investment, private inventory investment, and state and local government spending that were slightly offset by a negative contribution from residential fixed investment. Imports, which are a subtraction in the calculation of GDP, decreased.

The United States (U.S.) workforce added 224,000 jobs in June. Year-to-date job growth averaged 172,000 per month. The unemployment rate edged back up to 3.7%. Wage growth increased 3.1% from a year ago. Factory activity continued to struggle due to tariffs. Wisconsin's unemployment rate was 2.9% while Michigan's unemployment rate rose slightly to 4.2%, after bottoming out at 3.9% in August and September of 2018.

Manufacturing activity weakened in June, with the Institute of Supply Management (ISM) index slipping to 51.7. That marked the slowest pace of growth for the factory sector since October 2016. Trade tensions and threats of broad tariffs on products may prove difficult for any near-term improvement opportunity in factory conditions.

Driven by lower mortgage rates and ongoing labor market strength, existing home sales rebounded in May to a three-month high. Housing starts fell 0.9% in June, largely due to a sharp decline in volatile multifamily starts. While single family starts rose in three of the past four months, total year-to-date housing starts ran almost 4% below last year's pace. The 6.1% drop in building permits also dragged down the Leading Economic Index, which fell 0.3%, the largest drop since January 2016.

During its two day meeting beginning on June 12, the Federal Open Market Committee (FOMC) announced that the federal funds rate will remain unchanged at the range of 2.25 to 2.50%. Overall, the committee cited that the labor markets have maintained solid job gains, on average, and the unemployment rate has remained low. Growth in household spending and business fixed investment slowed in the first quarter, and for the last twelve months, overall inflation and inflation for items other than food and energy have declined and are running below 2.0%. Fear around the trade war remains top of mind for market participants, and helped instigate the inversion of the yield curve. The market-implied probability of a rate cut by year-end is rising, which seems to have escalated due to trade tensions.

The legislative processes to ratify the U.S., Mexico, and Canada (USMCA) free trade agreement have begun in their respective countries. Trade talks between the U.S. and China continue with an on-again, off-again pattern.

Agriculture Secretary Sonny Perdue announced on May 23, 2019, that the United States Department of Agriculture (USDA) is initiating a second Market Facilitation Program (MFP) to assist farmers by trade disruptions prompted by foreign retaliatory tariffs on their products. The President authorized the USDA to provide up to $16.0 billion in relief, which is in line with the estimated impacts of the retaliatory tariffs on U.S. agricultural goods. Secretary Perdue announced that the team at the USDA "gathered feedback on last year's program to make this one even stronger and more effective for farmers".

Farmers across the U.S. are experiencing a far-from-normal planting season. The industry has faced prolonged wet conditions preventing crops to be planted. As of June 2, 2019, only 67% of the nation's corn has been planted, by far the slowest pace on record, with Michigan having just 42% of corn planted and Wisconsin having just 58% of corn planted. The average for 2014-2018 for Michigan was 87% and the average for Wisconsin was 91%. USDA reported 39% of the soybeans have been planted, with Michigan having 31% planted and Wisconsin having 34% planted. The average for 2014-2018 for Michigan was 73% and the average for Wisconsin was 78%. Farmers may shift crops, or for some, not plant at all. The trade dynamics and the 2019 MFP may help influence some farmers to get a crop in the ground, although yield could be impacted due to the late planting dates.

The crop progress reports have brought to the forefront worries of lower acreage and yields for the new corn crop. Corn prices and margins have staged a significant recovery off contract lows in May and it appears that the market has put some weather premium into new crop prices.

The USDA is forecasting milk production at 218.7 billion pounds for 2019, only 0.5% above 2018. The industry has seen increases in most dairy product prices. The USDA all-milk price forecast is $18.05 per hundredweight (cwt.) for 2019, which is up from $16.26 per cwt. for 2018. The April national average mailbox milk price was reported at $17.09 per cwt, 10.9% higher than the price one year ago. Michigan's April mailbox milk price continues to lag behind the national average driven by processing capacity constraints, reporting at $15.72 per cwt while Wisconsin's mailbox price was $17.65 per cwt.

The U.S. swine industry stands to benefit from the global supply shortfall as a result of the African Swine Fever (ASF) that has caused substantial pig losses in China and Southeast Asia. China's breeding herd is down 22.0% versus the prior year, and the region is expected to have a supply shortfall in 2019 and 2020, and likely for years to come. The shortfall of pork supply in the region is also forcing consumers to switch to other proteins, including chicken and beef. The U.S. is the largest exporter of animal protein in the world, which puts the U.S. production in a position to benefit as China and other markets increase imports of all proteins. Tariffs on U.S. pork products to China forces the U.S. to be less competitive; however, as competitors in the global market export more supply to China, this will open other markets for the U.S. to export to, making the U.S. a secondary beneficiary of ASF. As U.S. producers respond to the anticipated-higher international pork prices, the USDA is forecasting pork production to increase 3.8% in 2019 to 27.3 billion pounds and by 3.5% in 2020 to 28.3 billion pounds. USDA projects the national live equivalent price at an average of $54.50/cwt in 2019 and $60.00/cwt in 2020. This compares to the average price of $40.67/cwt in 2018.

LOAN PORTFOLIO

Loan Portfolio

Owned loan volume totaled $8.9 billion at June 30, 2019, a $255.4 million increase from December 31, 2018.

Total owned and managed loan volume, including serviced volume on the real estate loans sold to AgriBank was $9.0 billion at June 30, 2019, a $240.3 million increase from December 31, 2018. Our combined mortgage portfolio increased $261.3 million, or 4.0% from December 31, 2018, while our short-term commercial loan portfolio decreased $21.0 million, or 1.0% from December 31, 2018. When compared to June 30, 2018, total owned and managed loan volume was up 4.7%. These increases were driven by growth in all market segments and led by our capital markets and country living segments that have increased 14.0% and 7.0% since June 30, 2018, respectively. Our current volume reflects an asset growth rate year over year that is running slightly above our 2019 Business Plan.

Portfolio Credit Quality

The credit quality of our loan portfolio slowly declined throughout 2018 and the first half of 2019. Acceptable loan credit quality, as measured under the Uniform Classification System, was 91.6% which decreased from 92.2% at December 31, 2018. Year over year, acceptable credit quality decreased 1.9% from 93.5% at June 30, 2018. Portfolio assets criticized as being less than acceptable was comprised of 5.0% other assets especially mentioned (OAEM) and 3.4% adversely classified. OAEM increased 0.7% while adversely classified decreased 0.1% from December 31, 2018.

Adversely classified loans are identified as having material credit weaknesses which, if left uncorrected, result in a greater than normal risk. Portfolio credit quality is considered when assessing the reasonableness of our allowance for loan losses. Weaker borrowers in our dairy and cash crop portfolios continued to be challenged financially during the first half of 2019.

The resulting level of credit quality, when combined with our earnings and addition to capital surplus, results in an adverse assets to total regulatory capital ratio of 18.1%. This ratio has decreased 1.4% since December 31, 2018.

In certain circumstances, Federal Agricultural Mortgage Corporation and other government agency guarantee programs are used to reduce the risk of loss. At June 30, 2019, $328.4 million of our loans were, to some level, guaranteed under these programs. The guaranteed loan volume increased from $308.4 million at December 31, 2018.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**June 30 2019**	December 31 2018
Loans:		
Nonaccrual	**$86,388**	$97,884
Accruing restructured	**3,441**	3,331
Accruing loans 90 days or more past due	**54**	79
Total risk loans	**89,883**	101,294
Acquired Property	**1,557**	1,766
Total risk assets	**$91,440**	$103,060
Total risk loans as a percentage of total loans	**1.0%**	1.2%
Nonaccrual loans as a percentage of total loans	**1.0%**	1.1%
Current nonaccrual loans as a percentage of total nonaccrual loans	**64.1%**	91.2%
Total delinquencies as a percentage of total loans	**0.5%**	0.3%

Note: Accruing loans include accrued interest receivable.

Our risk assets decreased from December 31, 2018, and remained at acceptable levels. Total risk loans as a percentage of total loans remained well within our established risk management guidelines.

Nonaccrual loans decreased from $97.9 million at December 31, 2018 to $86.4 million at June 30, 2019, and remained at acceptable levels. The decrease in nonaccrual loan volume was primarily due to a large commercial dairy that was sold during the first quarter of 2019 along with pay downs on the line of credit of a large greenhouse relationship, which occurred in the second quarter of 2019. As of June 30, 2019, 56.2% of the nonaccrual loan portfolio was comprised of dairy loans.

Our accounting policy requires accruing loans past due 90 days to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, all loans 90 days or more past due and still accruing interest were eligible to remain in accruing status.

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	**1.0%**	1.0%
Nonaccrual loans	**98.4%**	85.9%
Total risk loans	**94.5%**	83.0%

The allowance for loan losses increased $915 thousand from December 31, 2018, to $85.0 million at June 30, 2019. During the first six months of 2019, a provision for loan losses of $2.0 million was recorded. Included in our allowance is additional general industry reserves for our dairy and cash grain portfolios due to expected low commodity prices in the near future along with the wet weather in the spring which resulted in the late planting (if at all) of a large number of acres of corn and soybeans in both Michigan and Wisconsin. The additional general industry reserve for the dairy portfolio increased from $31.5 million at December 31, 2018, to $37.8 million at June 30, 2019. The additional general industry reserve for the cash grain portfolio increased from $9.5 million at December 31, 2018, to $10.3 million at June 30, 2019. These increases were partially offset by the sale and subsequent paydowns of two nonaccrual dairies and payments received from another nonaccrual dairy relationship, along with seasonal paydowns from a large nonaccrual capital markets relationship.

Under certain circumstances, credit losses may be recorded to establish a reserve on unfunded loan commitments. The “Provision for (reversal of) credit losses” in the Consolidated Statements of Comprehensive Income for the six months ended June 30, 2019, included a reversal of provision for credit losses on unfunded loan commitments of $85 thousand. The accrued credit losses are recorded in “Other liabilities” in the Consolidated Statements of Condition. The accrued credit losses related to unfunded loan commitments were $4.1 million and $4.2 million as of June 30, 2019, and December 31, 2018, respectively.

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) For the six months ended June 30	**2019**	2018
Net income	**$99,450**	$85,882
Return on average assets	**2.2%**	2.0%
Return on average members' equity	**11.7%**	10.7%

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) For the six months ended June 30	**2019**	2018	**Increase (decrease) in net income**
Net interest income	**$114,560**	$107,099	**$7,461**
Provision for credit losses	**(1,920)**	(4,563)	**2,643**
Patronage income	**22,640**	15,641	**6,999**
Financially related services income	**3,913**	3,898	**15**
Fee income	**8,105**	6,823	**1,282**
Allocated Insurance Reserve Accounts distribution	**1,997**	4,779	**(2,782)**
Acquired property income, net	**173**	282	**(109)**
Miscellaneous income, net	**617**	658	**(41)**
Operating expenses	**(48,125)**	(46,961)	**(1,164)**
Provision for income taxes	**(2,510)**	(1,774)	**(736)**
Net income	**$99,450**	$85,882	**$13,568**

Changes in Net Interest Income

(in thousands) For the six months ended June 30	**2019 vs 2018**
Changes in volume	**$5,377**
Changes in interest rates	**1,970**
Changes in nonaccrual income and other	**114**
Net change	**$7,461**

The decrease in provision for credit losses from 2018 is primarily due to some large commercial dairy relationships that were downgraded in 2018. There have been no significant downgrades in 2019.

Patronage Income

(in thousands) For the six months ended June 30	**2019**	2018
Wholesale patronage:		
Cash	**$6,719**	$11,763
Stock	**11,203**	--
Pool program patronage	**3,160**	2,390
AgDirect partnership distribution	**1,495**	1,433
Other Farm Credit Institutions	**63**	55
Total patronage income	**$22,640**	$15,641

The increase in patronage income was primarily due to an increase in wholesale patronage, which was primarily due to 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 increase in fee income was primarily due to an increase in loan origination fees along with an increase in loan conversion fees, which was due to opportunities created by lower long-term interest rates in 2019 compared to 2018.

The change in allocated insurance reserve accounts distribution was due to our share of distributions from Allocated Insurance Reserve Accounts (AIRA) of $2.0 million received in March of 2019, compared to $4.8 million received in March of 2018. The AIRA was established by the Farm Credit System Insurance

Corporation (FCSIC) when premiums collected increased the level of the Insurance Fund beyond the required 2% of insured debt. Refer to our 2018 Annual Report for additional information about the FCSIC.

The change in operating expenses was primarily related to an increase in salaries and employee benefits.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable matures on December 31, 2021, at which time the note will be renegotiated. 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 $59.1 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 10 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 regulatory 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 8 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	**16.5%**	16.4%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**16.5%**	16.4%	6.0%	2.5%*	8.5%
Total regulatory capital ratio	**17.5%**	17.3%	8.0%	2.5%*	10.5%
Permanent capital ratio	**16.7%**	16.6%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**17.5%**	17.6%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**18.6%**	18.6%	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.

CERTIFICATION

The undersigned have reviewed the June 30, 2019, Quarterly Report of GreenStone Farm Credit Services, 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.

Edward L. Reed
Chair of the Board
GreenStone Farm Credit Services, ACA

David B. Armstrong
Chief Executive Officer
GreenStone Farm Credit Services, ACA

Travis D. Jones
Executive Vice President – Chief Financial Officer
GreenStone Farm Credit Services, ACA

August 8, 2019

CONSOLIDATED STATEMENTS OF CONDITION

GreenStone Farm Credit Services, ACA
(in thousands)
(Unaudited)

As of:	**June 30 2019**	December 31 2018
ASSETS		
Loans	**$8,874,968**	$8,619,585
Allowance for loan losses	**84,979**	84,064
Net loans	**8,789,989**	8,535,521
Investment in AgriBank, FCB	**208,765**	196,566
Investment securities	**11,066**	7,715
Accrued interest receivable	**70,205**	65,449
Premises and equipment, net	**48,571**	46,579
Acquired property	**1,557**	1,766
Deferred tax assets, net	**4,892**	4,809
Other assets	**45,093**	60,905
Total assets	**$9,180,138**	$8,919,310
LIABILITIES		
Note payable to AgriBank, FCB	**$7,311,310**	$7,072,973
Accrued interest payable	**52,258**	48,402
Patronage distribution payable	**40,700**	82,000
Other liabilities	**44,671**	43,858
Total liabilities	**7,448,939**	7,247,233
Contingencies and commitments (Note 4)		
MEMBERS' EQUITY		
Protected members' equity	**1**	1
Capital stock and participation certificates	**22,668**	22,400
Unallocated surplus	**1,710,284**	1,651,528
Accumulated other comprehensive loss	**(1,754)**	(1,852)
Total members' equity	**1,731,199**	1,672,077
Total liabilities and members' equity	**$9,180,138**	$8,919,310

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

GreenStone Farm Credit Services, ACA
(in thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
For the period ended June 30	**2019**	2018	**2019**	2018
Interest income	**$109,808**	$96,208	**$217,104**	$188,289
Interest expense	**52,258**	42,644	**102,544**	81,190
Net interest income	**57,550**	53,564	**114,560**	107,099
Provision for credit losses	**165**	2,469	**1,920**	4,563
Net interest income after provision for credit losses	**57,385**	51,095	**112,640**	102,536
Non-interest income				
Patronage income	**13,939**	7,828	**22,640**	15,641
Financially related services income	**1,868**	1,928	**3,913**	3,898
Fee income	**4,673**	3,906	**8,105**	6,823
Allocated Insurance Reserve Accounts distribution	**--**	--	**1,997**	4,779
Acquired property income, net	**136**	187	**173**	282
Miscellaneous income, net	**243**	223	**617**	658
Total non-interest income	**20,859**	14,072	**37,445**	32,081
Operating expenses				
Salaries and employee benefits	**16,867**	15,863	**33,448**	31,428
Other operating expenses	**7,493**	8,054	**14,677**	15,533
Total operating expenses	**24,360**	23,917	**48,125**	46,961
Income before income taxes	**53,884**	41,250	**101,960**	87,656
Provision for income taxes	**1,712**	1,121	**2,510**	1,774
Net income	**$52,172**	$40,129	**$99,450**	$85,882
Other comprehensive income				
Employee benefit plans activity	**$49**	$58	**$98**	$116
Total other comprehensive income	**49**	58	**98**	116
Comprehensive income	**$52,221**	$40,187	**$99,548**	$85,998

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

GreenStone Farm Credit Services, ACA

(in thousands)

(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2017	$1	$22,141	$1,548,350	($1,846)	$1,568,646
Net income	--	--	85,882	--	85,882
Other comprehensive income	--	--	--	116	116
Unallocated surplus designated for patronage distributions	--	--	(25,239)	--	(25,239)
Capital stock and participation certificates issued	--	976	--	--	976
Capital stock and participation certificates retired	--	(903)	--	--	(903)
Balance at June 30, 2018	$1	$22,214	$1,608,993	($1,730)	$1,629,478
Balance at December 31, 2018	$1	$22,400	$1,651,528	($1,852)	$1,672,077
Net income	**--**	**--**	**99,450**	**--**	**99,450**
Other comprehensive income	**--**	**--**	**--**	**98**	**98**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(40,688)**	**--**	**(40,688)**
Cumulative effect of change in accounting principle	**--**	**--**	**(6)**	**--**	**(6)**
Capital stock and participation certificates issued	**--**	**1,002**	**--**	**--**	**1,002**
Capital stock and participation certificates retired	**--**	**(734)**	**--**	**--**	**(734)**
Balance at June 30, 2019	**$1**	**$22,668**	**$1,710,284**	**($1,754)**	**$1,731,199**

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 GreenStone Farm Credit Services, ACA (the Association) and its subsidiaries GreenStone Farm Credit Services, FLCA and GreenStone Farm Credit Services, 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. 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	**Percentage**	Amount	Percentage
Real estate mortgage	**$5,364,342**	**60.5%**	$5,265,017	61.1%
Production and intermediate-term	**1,927,001**	**21.7**	2,035,886	23.6
Agribusiness	**1,120,840**	**12.6**	907,425	10.5
Other	**462,785**	**5.2**	411,257	4.8
Total	**$8,874,968**	**100.0%**	$8,619,585	100.0%

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

Delinquency

Aging Analysis of Loans

(in thousands) **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	Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$25,006**	**$8,410**	**$33,416**	**$5,374,185**	**$5,407,601**	**$ --**
Production and intermediate-term	**10,925**	**1,415**	**12,340**	**1,936,119**	**1,948,459**	**54**
Agribusiness	**351**	**284**	**635**	**1,124,244**	**1,124,879**	**--**
Other	**1,340**	**325**	**1,665**	**462,151**	**463,816**	**--**
Total	**$37,622**	**$10,434**	**$48,056**	**$8,896,699**	**$8,944,755**	**$54**

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	Accruing Loans 90 Days or More Past Due
Real estate mortgage	$15,678	$2,992	$18,670	$5,287,020	$5,305,690	$79
Production and intermediate-term	4,381	2,351	6,732	2,049,625	2,056,357	--
Agribusiness	--	332	332	910,298	910,630	--
Other	2,649	588	3,237	408,754	411,991	--
Total	$22,708	$6,263	$28,971	$8,655,697	$8,684,668	$79

Note: Accruing loans include accrued interest receivable.

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) As of:	**June 30 2019**	December 31 2018
Volume with specific allowance	**$63,576**	$76,625
Volume without specific allowance	**26,307**	24,669
Total risk loans	**$89,883**	$101,294
Total specific allowance	**$20,887**	$25,248
For the six months ended June 30	**2019**	2018
Income on accrual risk loans	**$109**	$146
Income on nonaccrual loans	**923**	584
Total income on risk loans	**$1,032**	$730
Average risk loans	**$93,454**	$57,753

Note: Accruing loans include accrued interest receivable.

We had $5.7 million of 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)

Six months ended June 30	**2019**		2018	
	Pre-modification	**Post-modification**	Pre-modification	Post-modification
Real estate mortgage	**$4,020**	**$4,020**	$64	$6
Production and intermediate-term	**3,557**	**3,557**	65	65
Other	**13**	**15**	--	--
Total	**$7,590**	**$7,592**	$129	$71

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 extension of maturity.

We had no TDRs that defaulted during the six months ended June 30, 2019 in which the modification was within twelve months of the respective reporting period. We had TDRs in the production and intermediate-term loan category of $104 thousand that defaulted during the six months ended June 30, 2018, in which the modifications were within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:	**June 30 2019**	December 31 2018
Accrual status:		
Real estate mortgage	**$2,744**	$2,650
Production and intermediate-term	**437**	419
Agribusiness	**--**	--
Other	**260**	262
Total TDRs in accrual status	**$3,441**	$3,331
Nonaccrual status:		
Real estate mortgage	**$4,894**	$2,289
Production and intermediate-term	**4,172**	1,337
Agribusiness	**11,093**	10,535
Other	**182**	184
Total TDRs in nonaccrual status	**$20,341**	$14,345
Total TDRs:		
Real estate mortgage	**$7,638**	$4,939
Production and intermediate-term	**4,609**	1,756
Agribusiness	**11,093**	10,535
Other	**442**	446
Total TDRs	**$23,782**	$17,676

Additional commitments to lend to borrowers whose loans have been modified in a TDR were $1.6 million at June 30, 2019.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Six months ended June 30	**2019**	2018
Balance at beginning of period	**$84,064**	$72,640
Provision for loan losses	**2,005**	463
Loan recoveries	**197**	452
Loan charge-offs	**(1,287)**	(1,002)
Balance at end of period	**$84,979**	$72,553

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 as presented in the chart below. 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) For the six months ended June 30	**2019**	2018
(Reversal of) provision for credit losses	**($85)**	$4,100
As of:	**June 30 2019**	December 31 2018
Accrued credit losses	**$4,084**	$4,169

NOTE 3: INVESTMENT SECURITIES

We held investment securities of $11.1 million at June 30, 2019, and $7.7 million at December 31, 2018. Our investment securities consisted of securities backed by pools of loans guaranteed by the Small Business Administration. The investment securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. No investments within the portfolio were impaired as of June 30, 2019, or December 31, 2018.

Additional Investment Securities Information

(dollars in thousands) As of:	**June 30 2019**	December 31 2018
Amortized cost	**$11,066**	$7,715
Unrealized gains	**208**	278
Fair value	**$11,274**	$7,993
Weighted average yield	**5.2%**	4.9%

Investment income is recorded in “Interest income” in the Consolidated Statements of Comprehensive Income and totaled $308 thousand and $243 thousand for the six months ended June 30, 2019, and 2018, respectively.

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 Basis

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	**$ --**	**$ --**	**$44,823**	**$44,823**
Acquired Property	**--**	**--**	**4,965**	**4,965**

	As of December 31, 2018			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$ --	$53,946	$53,946
Acquired property	--	--	4,891	4,891

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.

Acquired property: Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. 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 property 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.