

# OKLAHOMA



## *2019 Third Quarter Financial Report*



## NOTICE

The shareholders' investment in Oklahoma AgCredit, 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](http://www.cobank.com), or may be obtained at no charge by contacting us at:

Oklahoma AgCredit, ACA  
601 East Kenosha St.  
Broken Arrow, Oklahoma 74012  
918-251-8596

**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 Oklahoma AgCredit, ACA for the nine months ended September 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.

Recent rains had a positive impact on drought within our trade area after experiencing record setting temperatures with the fourth warmest September on record since 1895. This recent moisture has allowed soil moisture to be in good shape for seed bed preparation with ratings by the most recent USDA report as adequate to short. Extensive moisture early in the year, which brought about a later planting season for fall crops, delayed the maturity of those crops with 41% of corn and 18% of sorghum harvested according to the USDA Oklahoma Crop Progress and Condition report as of September 30, 2019.

The warm weather combined with late third quarter rains has allowed growth of forage not normally seen during this time of year. The additional forage will allow cow/calf producers additional management flexibility in areas such as weaning timeframes. Oklahoma is off to a great start for winter wheat pasture with nearly 45% of wheat acres planted and 5% of winter wheat emerged, according to USDA Oklahoma Crop Progress and Condition report as of September 30, 2019. Fallout from the Tyson packinghouse fire continues to linger in the fed cattle markets. While initially affected by the resulting prices post fire, feeder cattle have recovered with the exception of lightweight calves. Retained ownership may be a viable option for stocker calves through the winter and spring. After-effects of the world outbreak of African Swine Fever continues to affect pork supply worldwide. China, who has been hardest hit by this epidemic, has begun importing pork and other meat products to replace this protein. USDA's Final Trade Data reports for third quarter 2019 noted a year-over-year increase of over 11% in United States beef exports worldwide.

Wheat sowing has begun with ample top soil moisture across our trade area. Prices per bushel peaked at \$4.10 per bushel. Then wheat prices experienced a slight downturn after of the release the USDA's World Agricultural Supply and Demand Estimates report coupled with France's sale of undervalued wheat. Expectations for price increases are limited as a record crop is predicted in Argentina. USDA predicts forage producers to have a 92% completion rate for second cutting as of September 30, 2019. Pasture and range condition was up 5% to 88% good to fair as rated by the USDA National Agriculture Statistics Service Oklahoma Field Office.

Crude oil prices ranged steady to lower during the third quarter of 2019 with prices ending slightly above \$56 per barrel for West Texas Intermediate crude. Worldwide crude oil prices have been predicted to average \$64 per barrel in 2019 and \$65 per barrel in 2020 according to the Short-term Energy Outlook by the U.S. Energy Information Administration (EIA). The rig count in Oklahoma drastically decreased by 36 in the third quarter of 2019 to 66 rigs. The nation's rig count decreased by 107 to 860 rigs per the Baker Hughes rig count data report. Oklahoma's unemployment rate remains near a forty-year low at 3.2%.

#### **LOAN PORTFOLIO**

Loans outstanding at September 30, 2019, totaled \$1.36 billion, an increase of \$74.4 million, or 5.80%, from loans of \$1.28 billion at December 31, 2018. The increase was primarily due to new loan originations of real estate mortgage loans, new participations and advances on existing lines of credit for participations.

#### **RESULTS OF OPERATIONS**

Net income for the nine months ended September 30, 2019, was \$17.7 million, a decrease of \$180 thousand, or 1.01%, from the same period ended one year ago. The decrease is primarily due to a decrease in noninterest income partially offset by an increase in net interest income.

Net interest income for the nine months ended September 30, 2019, was \$26.9 million, an increase of \$1.4 million, or 5.67%, compared with the nine months ended September 30, 2018. Net interest income increased as a result of volume growth and an increase in the return on our loanable funds of \$625 thousand, partially offset by a 12 basis point decrease in interest rate spread. Our spread has been negatively impacted by the need to remain competitive with other aggressive financial institutions.

The provision for credit losses for the nine months ended September 30, 2019, was \$164 thousand, an increase of \$221 thousand from the credit loss reversal of \$57 thousand for the same period ended one year ago. The provision for credit losses increased as a result of charge-offs of \$386 thousand.

Noninterest income decreased \$1.1 million during the first nine months of 2019 compared with the first nine months in 2018 primarily due to a decrease in refund of \$452 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. CoBank patronage income decreased \$738 thousand due to a one-time cash patronage distribution of \$610 thousand related to 2018 tax reform changes and a 5 basis point reduction in the patronage rate, partially offset by the note payable volume increase. We also received \$217 thousand from participation stock warrants solely during 2018.

Mineral income of \$607 thousand was recognized during the first nine months of 2019. The increase is primarily the result of an increase in production revenue, from increased volumes, attributed to new wells added since October 1, 2018. Of this amount, \$593 thousand was received from CoBank.

During the first nine months of 2019, noninterest expense increased \$324 thousand to \$14.4 million, primarily due to annual merit increases, employee relocation costs, investments in new software technology and an increase in the annual AgVantis subscription fee, partially offset by a decrease in qualified pension expense.

### CAPITAL RESOURCES

Our shareholders' equity at September 30, 2019, was \$290.5 million, an increase from \$272.7 million at December 31, 2018. This increase is due to net income, the amortization of pension costs included in the net periodic benefit cost, and net stock issuances.

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.



Dale McDaniel  
Chairman of the Audit Committee  
November 6, 2019



Patrick Zeka  
President/CEO  
November 6, 2019



Malinda Thimmesch  
CFO  
November 6, 2019

## Consolidated Statement of Condition

(Dollars in Thousands)

	<b>September 30</b>	December 31
	<b>2019</b>	2018
	<b>UNAUDITED</b>	<b>AUDITED</b>
<b>ASSETS</b>		
Loans	\$ 1,357,803	\$ 1,283,426
Less allowance for loan losses	2,955	3,153
Net loans	1,354,848	1,280,273
Cash	1,776	2,031
Accrued interest receivable	18,660	15,433
Investment in CoBank, ACB	40,803	40,796
Investment in AgDirect	2,752	2,920
Premises and equipment, net	8,621	8,384
Prepaid benefit expense	4,552	3,609
Other assets	5,915	7,239
<b>Total assets</b>	<b>\$ 1,437,927</b>	<b>\$ 1,360,685</b>
<b>LIABILITIES</b>		
Note payable to CoBank, ACB	\$ 1,135,899	\$ 1,071,120
Advance conditional payments	3,725	2,477
Accrued interest payable	2,398	2,144
Patronage distributions payable	-	6,000
Accrued benefits liability	752	708
Reserve for unfunded commitments	499	521
Other liabilities	4,141	5,018
<b>Total liabilities</b>	<b>1,147,414</b>	<b>1,087,988</b>
<b>Commitments and Contingencies</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock	3,428	3,352
Additional paid-in capital	55,558	55,558
Unallocated retained earnings	231,791	214,105
Accumulated other comprehensive loss	(264)	(318)
<b>Total shareholders' equity</b>	<b>290,513</b>	<b>272,697</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,437,927</b>	<b>\$ 1,360,685</b>

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

## Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

UNAUDITED	For the three months ended September 30		For the nine months ended September 30	
	2019	2018	2019	2018
<b>INTEREST INCOME</b>				
Loans	\$ 16,812	\$ 15,047	\$ 50,427	\$ 43,885
<b>Total interest income</b>	<b>16,812</b>	<b>15,047</b>	<b>50,427</b>	<b>43,885</b>
<b>INTEREST EXPENSE</b>				
Note payable to CoBank, ACB	7,850	6,637	23,462	18,381
Other	15	11	43	26
<b>Total interest expense</b>	<b>7,865</b>	<b>6,648</b>	<b>23,505</b>	<b>18,407</b>
Net interest income	8,947	8,399	26,922	25,478
(Credit loss reversal)/Provision for credit losses	(57)	(331)	164	(57)
Net interest income after credit loss reversal/provision for credit losses	<b>9,004</b>	<b>8,730</b>	<b>26,758</b>	<b>25,535</b>
<b>NONINTEREST INCOME</b>				
Financially related services income	4	4	19	16
Loan fees	281	190	718	575
Patronage distribution from Farm Credit institutions	1,113	1,753	3,294	4,032
Farm Credit Insurance Fund distribution	-	-	313	765
Mineral income	184	205	607	480
Other noninterest income	199	175	416	581
<b>Total noninterest income</b>	<b>1,781</b>	<b>2,327</b>	<b>5,367</b>	<b>6,449</b>
<b>NONINTEREST EXPENSE</b>				
Salaries and employee benefits	2,591	2,632	8,071	8,213
Occupancy and equipment	233	212	705	638
Purchased services from AgVantis, Inc.	693	626	2,066	1,862
Farm Credit Insurance Fund premium	238	215	704	641
Supervisory and examination costs	-	108	324	406
Other noninterest expense	792	674	2,562	2,348
<b>Total noninterest expense</b>	<b>4,547</b>	<b>4,467</b>	<b>14,432</b>	<b>14,108</b>
Income before income taxes	6,238	6,590	17,693	17,876
Provision for income taxes	2	-	7	10
<b>Net income</b>	<b>6,236</b>	<b>6,590</b>	<b>17,686</b>	<b>17,866</b>
<b>COMPREHENSIVE INCOME</b>				
Amortization of retirement costs	18	20	54	58
<b>Total comprehensive income</b>	<b>\$ 6,254</b>	<b>\$ 6,610</b>	<b>\$ 17,740</b>	<b>\$ 17,924</b>

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

## Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

UNAUDITED	Capital Stock	Additional Paid-In Capital	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
<b>Balance at December 31, 2017</b>	\$ 3,299	\$ 55,558	\$ 197,200	\$ (241)	\$ 255,816
Comprehensive income			17,866	58	17,924
Stock issued	244				244
Stock retired	(229)				(229)
Patronage reversed			1		1
<b>Balance at September 30, 2018</b>	\$ 3,314	\$ 55,558	\$ 215,067	\$ (183)	\$ 273,756
<b>Balance at December 31, 2018</b>	\$ 3,352	\$ 55,558	\$ 214,105	\$ (318)	\$ 272,697
Comprehensive income			17,686	54	17,740
Stock issued	327				327
Stock retired	(251)				(251)
<b>Balance at September 30, 2019</b>	\$ 3,428	\$ 55,558	\$ 231,791	\$ (264)	\$ 290,513

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

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

**NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

A description of the organization and operations of Oklahoma AgCredit, 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 third quarter 2019 financial statements should be read in conjunction with the 2018 Annual Report to Shareholders.

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

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

In August 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. Early adoption is permitted. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

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

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

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance



becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. In July 2018, the FASB issued an update entitled "Leases – Targeted Improvements," which provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. An entity that elects this additional transition method must provide the required disclosures of the now current standard for all prior periods presented. The guidance and related amendments in this update became effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The adoption of this guidance resulted in an immaterial impact on the Association's financial condition and results of operations.

## NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

	September 30, 2019	December 31, 2018
Real estate mortgage	\$ 914,053	\$ 871,936
Production and intermediate-term	217,422	217,455
Agribusiness	153,800	129,890
Rural Infrastructure	64,919	57,229
International	6,248	4,921
Rural residential real estate	1,361	1,995
<b>Total Loans</b>	<b>\$ 1,357,803</b>	<b>\$ 1,283,426</b>

The Association purchases and sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at September 30, 2019:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	\$ 37,776	\$ 14,743	\$ 645	\$ -	\$ 38,421	\$ 14,743
Production and intermediate-term	35,351	1,710	-	-	35,351	1,710
Agribusiness	150,394	-	-	-	150,394	-
Rural infrastructure	64,919	-	-	-	64,919	-
International	6,248	-	-	-	6,248	-
<b>Total</b>	<b>\$ 294,688</b>	<b>\$ 16,453</b>	<b>\$ 645</b>	<b>\$ -</b>	<b>\$ 295,333</b>	<b>\$ 16,453</b>

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:

	September 30, 2019	December 31, 2018
Real estate mortgage		
Acceptable	97.27%	97.86%
OAEM	1.51%	1.42%
Substandard	1.22%	0.72%
Total	100.00%	100.00%
Production and intermediate-term		
Acceptable	94.41%	95.30%
OAEM	1.82%	1.36%
Substandard	3.77%	3.34%
Total	100.00%	100.00%
Agribusiness		
Acceptable	98.47%	99.23%
OAEM	1.46%	0.51%
Substandard	0.07%	0.26%
Total	100.00%	100.00%
Rural infrastructure		
Acceptable	96.35%	97.64%
OAEM	1.93%	2.36%
Substandard	1.72%	-
Total	100.00%	100.00%
Rural residential real estate		
Acceptable	100.00%	100.00%
Total	100.00%	100.00%
International		
Acceptable	100.00%	100.00%
Total	100.00%	100.00%
Total Loans		
Acceptable	96.92%	97.56%
OAEM	1.56%	1.35%
Substandard	1.52%	1.09%
Total	100.00%	100.00%

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

	September 30, 2019	December 31, 2018
Nonaccrual loans		
Real estate mortgage	\$ 7,224	\$ 3,448
Production and intermediate-term	3,974	3,093
Agribusiness	-	338
Total nonaccrual loans	\$ 11,198	\$ 6,879
Accruing restructured loans		
Real estate mortgage	\$ 326	\$ 334
Production and intermediate-term	843	-
Total accruing restructured loans	\$ 1,169	\$ 334
Accruing loans 90 days past due		
Real estate mortgage	\$ 555	\$ -
Total accruing loans 90 days past due	\$ 555	\$ -
Total high risk assets	\$ 12,922	\$ 7,213

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

Additional impaired loan information is as follows:

	September 30, 2019			December 31, 2018		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with a related allowance for loan losses:						
Real estate mortgage	\$ 167	\$ 166	\$ -	\$ 334	\$ 333	\$ 6
Production and intermediate-term	2,169	2,168	27	311	372	52
Agribusiness	-	-	-	338	343	105
Total	\$ 2,336	\$ 2,334	\$ 27	\$ 983	\$ 1,048	\$ 163
Impaired loans with no related allowance for loan losses:						
Real estate mortgage	\$ 7,938	\$ 8,517		\$ 3,448	\$ 4,098	
Production and intermediate-term	2,648	3,143		2,782	2,939	
Agribusiness	-	152		-	-	
Total	\$ 10,586	\$ 11,812		\$ 6,230	\$ 7,037	
Total impaired loans:						
Real estate mortgage	\$ 8,105	\$ 8,683	\$ -	\$ 3,782	\$ 4,431	\$ 6
Production and intermediate-term	4,817	5,311	27	3,093	3,311	52
Agribusiness	-	152	-	338	343	105
Total	\$ 12,922	\$ 14,146	\$ 27	\$ 7,213	\$ 8,085	\$ 163

Note: The recorded investment in the loan receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the loan receivable.

	For the Three Months Ended September 30, 2019		For the Three Months Ended September 30, 2018	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:				
Real estate mortgage	\$ 167	\$ 2	\$ 302	\$ -
Production and intermediate-term	2,165	-	316	-
Total	\$ 2,332	\$ 2	\$ 618	\$ -
Impaired loans with no related allowance for loan losses:				
Real estate mortgage	\$ 7,256	\$ 3	\$ 2,442	\$ 24
Production and intermediate-term	2,953	17	4,249	-
Agribusiness	177	(15)	-	-
Total	\$ 10,386	\$ 5	\$ 6,691	\$ 24
Total impaired loans:				
Real estate mortgage	\$ 7,423	\$ 5	\$ 2,744	\$ 24
Production and intermediate-term	5,118	17	4,565	-
Agribusiness	177	(15)	-	-
Total	\$ 12,718	\$ 7	\$ 7,309	\$ 24

	For the Nine Months Ended September 30, 2019		For the Nine Months Ended September 30, 2018	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:				
Real estate mortgage	\$ 275	\$ 11	\$ 355	\$ -
Production and intermediate-term	729	-	370	-
Agribusiness	221	-	-	-
Total	\$ 1,225	\$ 11	\$ 725	\$ -
Impaired loans with no related allowance for loan losses:				
Real estate mortgage	\$ 5,251	\$ 118	\$ 2,270	\$ 72
Production and intermediate-term	3,300	17	3,502	2
Agribusiness	62	1	-	-
Total	\$ 8,613	\$ 136	\$ 5,772	\$ 74
Total impaired loans:				
Real estate mortgage	\$ 5,526	\$ 129	\$ 2,625	\$ 72
Production and intermediate-term	4,029	17	3,872	2
Agribusiness	283	1	-	-
Total	\$ 9,838	\$ 147	\$ 6,497	\$ 74

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

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans	Recorded Investment Accruing Loans 90 Days or More Past Due
<b>September 30, 2019</b>						
Real estate mortgage	\$ 2,545	\$ 4,202	\$ 6,747	\$ 920,453	\$ 927,200	\$ 555
Production and intermediate-term	4,475	495	4,970	217,207	222,177	-
Agribusiness	150	-	150	154,172	154,322	-
Rural infrastructure	-	-	-	65,124	65,124	-
Rural residential real estate	100	-	100	1,274	1,374	-
International	-	-	-	6,266	6,266	-
<b>Total</b>	<b>\$ 7,270</b>	<b>\$ 4,697</b>	<b>\$ 11,967</b>	<b>\$ 1,364,496</b>	<b>\$ 1,376,463</b>	<b>\$ 555</b>

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans	Recorded Investment Accruing Loans 90 Days or More Past Due
<b>December 31, 2018</b>						
Real estate mortgage	\$ 2,974	\$ 497	\$ 3,471	\$ 879,449	\$ 882,920	\$ -
Production and intermediate-term	1,312	2,283	3,595	217,735	221,330	-
Agribusiness	-	-	-	130,336	130,336	-
Rural infrastructure	-	-	-	57,324	57,324	-
Rural residential real estate	-	-	-	2,013	2,013	-
International	-	-	-	4,936	4,936	-
<b>Total</b>	<b>\$ 4,286</b>	<b>\$ 2,780</b>	<b>\$ 7,066</b>	<b>\$ 1,291,793</b>	<b>\$ 1,298,859</b>	<b>\$ -</b>

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

	Balance at June 30, 2019	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2019
Real estate mortgage	\$ 931	\$ -	\$ -	\$ (104)	\$ 827
Production and intermediate-term	884	7	-	(27)	850
Agribusiness	1,190	130	-	41	1,101
Rural infrastructure	160	-	-	14	174
Rural residential real estate	1	-	-	(1)	-
International	2	-	-	1	3
<b>Total</b>	<b>\$ 3,168</b>	<b>\$ 137</b>	<b>\$ -</b>	<b>\$ (76)</b>	<b>\$ 2,955</b>

	Balance at December 31, 2018	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2019
Real estate mortgage	\$ 911	\$ -	\$ 2	\$ (86)	\$ 827
Production and intermediate-term	1,523	256	-	(417)	850
Agribusiness	582	130	-	649	1,101
Rural infrastructure	135	-	-	39	174
International	2	-	-	1	3
<b>Total</b>	<b>\$ 3,153</b>	<b>\$ 386</b>	<b>\$ 2</b>	<b>\$ 186</b>	<b>\$ 2,955</b>

	Balance at June 30, 2018	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2018
Real estate mortgage	\$ 1,039	\$ -	\$ -	\$ 14	\$ 1,053
Production and intermediate-term	1,498	-	-	(89)	1,409
Agribusiness	1,006	-	-	(281)	725
Rural infrastructure	129	-	-	(2)	127
Rural residential real estate	1	-	-	(1)	-
International	3	-	-	(1)	2
<b>Total</b>	<b>\$ 3,676</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (360)</b>	<b>\$ 3,316</b>

	Balance at December 31, 2017	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2018
Real estate mortgage	\$ 1,271	\$ -	\$ 2	\$ (220)	\$ 1,053
Production and intermediate-term	1,241	-	-	168	1,409
Agribusiness	774	-	-	(49)	725
Rural infrastructure	119	-	-	8	127
International	3	-	-	(1)	2
<b>Total</b>	<b>\$ 3,408</b>	<b>\$ -</b>	<b>\$ 2</b>	<b>\$ (94)</b>	<b>\$ 3,316</b>

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 September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Balance at beginning of period	\$ 480	\$ 218	\$ 521	\$ 210
Provision for unfunded commitments/ (Reversal of reserve for unfunded commitments)	19	29	(22)	37
<b>Total</b>	<b>\$ 499</b>	<b>\$ 247</b>	<b>\$ 499</b>	<b>\$ 247</b>

Additional information on the allowance for loan losses follows:

	Allowance for Loan Losses Ending Balance at September 30, 2019		Recorded Investments in Loans Outstanding Ending Balance at September 30, 2019	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	\$ -	\$ 827	\$ 8,105	\$ 919,095
Production and intermediate-term	27	823	4,817	217,360
Agribusiness	-	1,101	-	154,322
Rural infrastructure	-	174	-	65,124
Rural residential real estate	-	-	-	1,374
International	-	3	-	6,266
<b>Total</b>	<b>\$ 27</b>	<b>\$ 2,928</b>	<b>\$ 12,922</b>	<b>\$ 1,363,541</b>

	Allowance for Loan Losses Ending Balance at December 31, 2018		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2018	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	\$ 6	\$ 905	\$ 3,782	\$ 879,138
Production and intermediate-term	52	1,471	3,093	218,237
Agribusiness	106	476	338	129,998
Rural infrastructure	-	135	-	57,324
Rural residential real estate	-	-	-	2,013
Mission-related	-	-	-	-
International	-	2	-	4,936
Lease receivables	-	-	-	-
<b>Total</b>	<b>\$ 164</b>	<b>\$ 2,989</b>	<b>\$ 7,213</b>	<b>\$ 1,291,646</b>

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 following table presents additional information regarding troubled debt restructurings that occurred during the periods.

	For the Three Months Ended			
	September 30, 2019		September 30, 2018	
	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings:				
Real estate mortgage	\$ 139	\$ 139	\$ -	\$ -
Production and intermediate-term	891	891	-	-
<b>Total</b>	<b>\$ 1,030</b>	<b>\$ 1,030</b>	<b>\$ -</b>	<b>\$ -</b>

	For the Nine Months Ended			
	September 30, 2019		September 30, 2018	
	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings:				
Real estate mortgage	\$ 139	\$ 139	\$ 327	\$ 327
Production and intermediate-term	3,127	3,128	-	-
Total	\$ 3,266	\$ 3,267	\$ 327	\$ 327

\* Pre-modification represents the recorded investment in the loan receivable just prior to restructuring and post-modification represents the recorded investment in the loan receivable immediately following the restructuring. The recorded investment is the face amount of the loan receivable 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 investment.

The Association had no TDRs within the previous 12 months and for which there were subsequent payment defaults during the first nine months of 2019 and 2018. There were no additional commitments to lend to borrowers whose loans have been modified in troubled debt restructuring at September 30, 2019 and December 31, 2018.

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table.

	Loans modified as TDRs		TDRs in Nonaccrual Status*	
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
Real estate mortgage	\$ 684	\$ 634	\$ 358	\$ 300
Production and intermediate-term	3,050	37	2,207	37
Total	\$ 3,734	\$ 671	\$ 2,565	\$ 337

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

### NOTE 3 - CAPITAL

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

	As of September 30, 2019	As of December 31, 2018	Regulatory Minimums	Capital Conservation Buffer	Total
Risk Adjusted:					
Common equity tier 1 ratio	17.28%	17.48%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	17.28%	17.48%	6.0%	2.5%*	8.5%
Total capital ratio	17.54%	17.74%	8.0%	2.5%*	10.5%
Permanent capital ratio	17.32%	17.52%	7.0%	-	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	17.80%	17.98%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	18.95%	19.03%	1.5%	-	1.5%

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

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



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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Pension and other benefit plans:				
Beginning balance	\$ (282)	\$ (203)	\$ (318)	\$ (241)
Amounts reclassified from accumulated other comprehensive loss	18	20	54	58
Net current period other comprehensive income	18	20	54	58
Ending balance	\$ (264)	\$ (183)	\$ (264)	\$ (183)

The following table represents reclassifications out of accumulated other comprehensive loss.

	Amount Reclassified from Accumulated Other Comprehensive Loss		Location of Gain/Loss Recognized in Statement of Income
	For the Three Months Ended September 30		
	2019	2018	
Pension and other benefit plans:			Salaries and employee benefits
Net actuarial loss	\$ 18	\$ 20	
Total reclassifications	\$ 18	\$ 20	

	Amount Reclassified from Accumulated Other Comprehensive Loss		Location of Gain/Loss Recognized in Statement of Income
	For the Nine Months Ended September 30		
	2019	2018	
Pension and other benefit plans:			Salaries and employee benefits
Net actuarial loss	\$ 54	\$ 58	
Total reclassifications	\$ 54	\$ 58	

#### NOTE 4 - FAIR VALUE MEASUREMENTS

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

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

	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets held in nonqualified benefits trusts				
September 30, 2019	\$ 560	\$ -	\$ -	\$ 560
December 31, 2018	\$ 768	\$ -	\$ -	\$ 768

The Association had no liabilities measured at fair value on a recurring basis at September 30, 2019 or December 31, 2018.

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

	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
<b>September 30, 2019</b>				
Loans	\$ -	\$ -	\$ 2,391	\$ 2,391
December 31, 2018				
Loans	\$ -	\$ -	\$ 968	\$ 968

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

The Association had no liabilities measured at fair value on a non-recurring basis at September 30, 2019 or December 31, 2018.

### Valuation Techniques

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

#### *Assets Held in Non-Qualified Benefits Trusts*

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

#### *Loans Evaluated for Impairment*

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

### NOTE 5 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through November 6, 2019, which is the date the financial statements were issued, and no material subsequent events were identified.





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