

First Quarter Financial Report

March 31, 2019



Farm Credit Services *of* America

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Farm Credit Services of America, ACA

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

The following commentary reviews the consolidated financial position and consolidated results of operations of Farm Credit Services of America, ACA, and its subsidiaries (Farm Credit Services of America). The accompanying consolidated financial statements and notes also contain important information about our financial position and results of operations. You should also read our 2018 Annual Report for a description of our organization, operations and significant accounting policies.

AgriBank, FCB's financial condition and results of operations materially affect shareholders' investment in Farm Credit Services of America, ACA. To request a free copy of the combined AgriBank, FCB and Affiliated Associations' financial reports or additional copies of our report contact us at PO Box 2409, Omaha, NE 68103-2409, (800) 531-3905 or via electronic mail to [\\$sr@fcsamerica.com](mailto:$sr@fcsamerica.com) or view them at our Web site, www.fcsamerica.com. You may also contact AgriBank, FCB at 30 East 7th Street, Suite 1600, St. Paul, MN 55101, (651) 282-8800, or via electronic mail to: financialreporting@agribank.com. The combined AgriBank, FCB and Affiliated Associations' financial reports are also available through AgriBank, FCB's Web site at www.agribank.com.

Forward-Looking Information

Any forward-looking statements in this Quarterly Financial 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.

Loan Portfolio

Loan volume was relatively stable in the first quarter, increasing by \$177.8 million from year-end, an increase of 0.6 percent.

We recorded a \$1.8 million provision for credit losses for the first three months of 2019, as compared with \$9.3 million during the first three months of 2018. The rate of credit deterioration in several portfolios has slowed leading to a more modest provision expense compared to the first three months of 2018. Net recoveries of charge-offs for the first three months of 2019 were \$0.2 million compared to net charge offs of \$0.3 million in the same period a year ago.

The following table summarizes risk assets (accruing volume includes accrued interest receivable) and delinquency information (dollars in thousands):

	March 31, 2019	December 31, 2018
Risk loans:		
Nonaccrual	\$ 201,837	\$ 162,529
Restructured	36,788	36,739
90 days past due still accruing interest	19,031	6,645
Total risk loans	<u>257,656</u>	<u>205,913</u>
Other property owned, net	31,474	33,615
Total risk assets	<u>\$ 289,130</u>	<u>\$ 239,528</u>
Risk loans as a percentage of total loans	0.89%	0.71%
Nonaccrual loans as a percentage of total loans	0.70%	0.56%
Current nonaccrual loans as a percentage of total nonaccrual loans	60.9%	65.1%
Total delinquencies as a percentage of total loans	1.03%	0.64%

Total risk loans have increased since year-end due to increases in nonaccrual loans and loans 90 days past due still accruing interest. The increase in nonaccrual loans is primarily due to accounts in the grain, dairy and swine portfolios being classified as nonaccrual. It is our practice to transfer accruing loans that are past due 90 days or more into nonaccrual unless they are adequately secured and in the process of collection. Based on our analysis, loans 90 days or more past due

and still accruing interest were adequately secured and in the process of collection. Risk loans as a percentage of total loans remain at acceptable levels.

The allowance for loan losses is an estimate of losses on loans 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, portfolio quality, estimated collateral values, and current economic and environmental conditions.

Comparative allowance coverage of various loan categories follows:

	March 31, 2019	December 31, 2018
Allowance as a percentage of:		
Total loans	0.55%	0.55%
Nonaccrual loans	78.28%	96.60%
Total risk loans	61.32%	76.25%
Net charge-offs (recoveries) as a percentage of average loans	0.00%	0.01%
Adverse assets to risk funds*	54.86%	53.91%

**Risk funds includes permanent capital and allowance for loan losses.*

Our adversely classified assets increased during the first three months of 2019 ending the quarter at 9.78 percent of the portfolio, compared to 9.27 percent of the portfolio at December 31, 2018. Adversely classified are assets we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses, and in our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2019.

Commodity Review and Outlook Update

Repayment capacity for our loans is largely dependent upon income from corn, soybeans, hogs and cattle. Of somewhat less significance are wheat, dairy and poultry.

While crop margins have stabilized, profit margins for corn and soybeans continue to be negative for a high percentage of producers. Price forecasts for crops continue to reflect the impact of trade disruptions and large inventories of soybeans. The forecast for national yields, and the forecasts for demand, both domestic and export, remain similar to previously reported statistics.

Profit margins within the cattle feeding sector were largely positive during 2018 resulting in stabilization and improvement of financial positions within this portfolio, however wet and cold conditions last fall and winter have negatively impacted performance in the fourth quarter of 2018 and the quarter ended March 31, 2019. Profit margins for egg producers were positive for a majority of 2018, however turned negative over the past two quarters. African Swine Fever is forecast to significantly impact production of pork in China which has driven United States prices for pork up significantly, resulting in very strong profit margins for swine producers.

Operating loan renewals and the receipt of customer financial information is seasonally concentrated in the first quarter of each calendar year. Our review of customer financial information reflected a general level of stabilization across the grain portfolio with earning levels favorably impacted by Market Facilitation Payments. While strong yields were prevalent across a large portion of the geography, the resulting impact of low commodity prices resulted in modest increases in our adversely classified assets and provision for credit losses.

Portions of Nebraska, South Dakota and Iowa received unusual weather events during the first quarter of 2019 including severe blizzard conditions and major flooding along the Niobrara, Platte and Missouri River Valleys. While the true impact of these weather events is not fully known, we do anticipate localized impacts from losses of livestock and the potential for delayed or prevented planting conditions. While locally significant, we do not anticipate a material impact to our financial position or portfolio credit quality.

Refer to the Commodity Review and Outlook section of Management's Discussion & Analysis in the 2018 Annual Report for further analysis of farm land prices and industry conditions.

Results of Operations

The following table presents profitability information (dollars in thousands):

	For the three months ended	
	March 31,	
	<u>2019</u>	<u>2018</u>
Net income (in thousands)	\$150,753	\$141,624
Return on average assets	2.06%	2.07%
Return on average members' equity	11.02%	11.19%

Changes in these ratios are directly related to the changes in income discussed in this section, changes in assets discussed in the Loan Portfolio section and changes in capital discussed in the Funding, Liquidity and Members' Equity section.

Major components of the changes in net income for the three months ended March 31, 2019 compared to the same period in 2018 are outlined in the following table (in thousands):

<u>Increase (decrease) in net income</u>	<u>2019 vs. 2018</u>
Net interest income	11,248
Provision for credit losses	7,480
Noninterest income	(7,623)
Noninterest expense	(2,886)
Provision for income taxes, net	910
Total change in net income	<u>\$9,129</u>

Net interest income was \$189.6 million for the first three months of 2019 compared to \$178.3 million for the first three months of 2018. The annualized net interest margin was 2.71 percent for the first three months of 2019, compared to 2.72 percent for the same period in 2018.

The effects on net interest income from changes in average volumes and rates are quantified in the following table for the three months ended March 31 (in thousands):

	<u>2019 vs. 2018</u>
Change in volume	\$12,542
Change in rates	(1,487)
Change in nonaccrual income	193
Net change	<u>\$11,248</u>

The variance in the provision for credit losses reflects our assessment of risk in the loan portfolio.

The decrease in noninterest income is primarily due to the \$6.8 million 2019 refund from the Farm Credit System Insurance Corporation compared to the refund in 2018 of \$16.2 million. The increase in noninterest expense is primarily due to salary, benefits and other expenses for increased staffing levels to support business initiatives, it is partially offset by a reduction in the Farm Credit System Insurance Corporation premium.

Farm Credit Services of America recorded \$4.8 million of operating expense credits under the income and expense sharing provisions of the alliance agreement in the first three months of 2019 compared to \$3.9 million for the first three months of 2018. Refer to Note 1 in our 2018 Annual Report for additional information on the alliance.

Funding, Liquidity and Members' Equity

We borrow from AgriBank, FCB under a note payable, in the form of a line of credit. Our note payable matures in June 2020 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 Farm Credit Services of America is a stockholder of AgriBank, FCB we expect this borrowing relationship to continue into the foreseeable future.

Cost of funds associated with our note payable includes a marginal cost of debt component, a spread component, which includes cost of servicing, cost of liquidity, bank profit, and, if applicable, a risk premium component. However, we were not subject to a risk premium at March 31, 2019 or December 31, 2018.

Our members' equity increased to \$5.649 billion at March 31, 2019 compared to \$5.497 billion at December 31, 2018. The increase was due to the net income recorded for the first three months of 2019 and net issuance of capital stock.

Farm Credit Administration regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital and permanent capital risk-based capital ratios. In addition, the Farm Credit Administration 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 9 in our 2018 Annual Report for a more complete description of these ratios. The capital adequacy ratios are directly impacted by the changes in capital as more fully discussed in this section and the changes in assets as discussed in the Loan Portfolio section.

	As of March 31, 2019	Regulatory Minimums	Capital Conservation Buffers	Total
Risk-adjusted:				
Common equity tier 1 ratio	15.94%	4.5%	2.5% *	7.0%
Tier 1 capital ratio	15.94%	6.0%	2.5% *	8.5%
Total capital ratio	16.47%	8.0%	2.5% *	10.5%
Permanent capital ratio	16.04%	7.0%	-	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	17.05%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	17.69%	1.5%	-	1.5%

**The 2.5 percent capital conservation buffers over risk-adjusted ratio minimums is being phased in over three years under the Farm Credit Administration capital requirements. The phase in period ends on December 31, 2019.*

Certification

This report has been prepared under the oversight of the Board Audit Committee. The undersigned certify that they have reviewed this report and it has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of their knowledge and belief.



Mark Jensen
President and CEO
May 3, 2019



Jennifer L Zessin
Chairperson, ACA Board of Directors
May 3, 2019



Craig P. Kinnison
Senior Vice-President and CFO
May 3, 2019

Farm Credit Services of America, ACA

Consolidated Balance Sheet

(dollars in thousands)

	March 31, 2019 (unaudited)	December 31, 2018
ASSETS		
Loans	\$28,564,410	\$28,386,634
Allowance for loan losses	158,000	157,000
Net loans	28,406,410	28,229,634
Cash	48,298	108,956
Accrued interest receivable	414,077	467,920
Investment in AgriBank, FCB	570,443	569,657
Investment in AgDirect, LLP	55,855	54,914
Premises and equipment, net	195,302	189,454
Other property owned	31,474	33,615
Investment in RBIC	16,561	13,617
Deferred tax asset, net	3,658	4,120
Other assets	138,787	177,383
Total assets	\$29,880,865	\$29,849,270
LIABILITIES		
Notes payable	\$23,904,766	\$23,812,109
Accrued interest payable	163,414	156,539
Patronage payable	-	230,000
Reserve for unfunded lending commitments	11,000	10,000
Other liabilities	152,321	143,299
Total liabilities	24,231,501	24,351,947
MEMBERS' EQUITY		
At-risk capital:		
Class D common stock	82,720	81,426
Class E common stock	3,363	3,246
Retained earnings	5,563,281	5,412,651
Total members' equity	5,649,364	5,497,323
Total liabilities and members' equity	\$29,880,865	\$29,849,270

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

Farm Credit Services of America, ACA

Consolidated Statement of Income

(dollars in thousands)
(unaudited)

	Three Months Ended	
	March 31,	
	2019	2018
NET INTEREST INCOME		
Interest income	\$352,996	\$302,229
Interest expense	163,443	123,924
Net interest income	189,553	178,305
Provision for credit losses	1,817	9,297
Net interest income after provision for credit losses	187,736	169,008
NONINTEREST INCOME		
Patronage income from AgriBank, FCB	22,075	20,964
Insurance fund refund	6,753	16,215
Loan fees	4,061	4,865
Insurance services	1,275	890
AgDirect program fees	9,785	9,256
Patronage income from AgDirect, LLP	2,551	3,003
Servicing fee income from AgriBank, FCB	150	179
Other noninterest income	2,529	1,430
Total noninterest income	49,179	56,802
NONINTEREST EXPENSE		
Salaries and employee benefits	56,738	53,062
Occupancy and equipment expense	7,377	6,670
Insurance fund premiums	5,556	5,249
Other operating expenses	13,563	14,520
Loss on other property owned	712	1,559
Total noninterest expense	83,946	81,060
Income before income taxes	152,969	144,750
Provision for income taxes	2,216	3,126
Net income	\$150,753	\$ 141,624

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

Farm Credit Services of America, ACA

Consolidated Statement of Changes in Members' Equity

(dollars in thousands)
(unaudited)

	At-risk Capital		Total Members' Equity
	Capital Stock	Retained Earnings	
Balance at December 31, 2017	\$76,838	\$5,009,588	\$5,086,426
Net income		141,624	141,624
Patronage accrual adjustment		36	36
Capital stock:			
Issued	5,922		5,922
Retired	(3,427)		(3,427)
Balance at March 31, 2018	<u>\$79,333</u>	<u>\$5,151,248</u>	<u>\$5,230,581</u>
Balance at December 31, 2018	\$84,672	\$5,412,651	\$5,497,323
Net income		150,753	150,753
Patronage accrual adjustment		(123)	(123)
Capital stock:			
Issued	4,261		4,261
Retired	(2,850)		(2,850)
Balance at March 31, 2019	<u>\$86,083</u>	<u>\$5,563,281</u>	<u>\$5,649,364</u>

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

Notes to Consolidated Financial Statements (unaudited)

Note 1 - Organization and Significant Accounting Policies

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. While our accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry, this interim Quarterly Financial Report is prepared based upon statutory and regulatory requirements and, accordingly, does not include all disclosures required by U.S. GAAP. The results of the three months ended March 31, 2019 are not necessarily indicative of the results to be expected for the year ended 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 2018 Annual Report for the year ended December 31, 2018.

The consolidated financial statements present the consolidated financial results of Farm Credit Services of America, ACA (the parent) and Farm Credit Services of America, FLCA and Farm Credit Services of America, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

Recently Issued or Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board issued ASU 2016-13 “Financial Instruments – Credit Losses”. The guidance is effective for public business entities for non-United States 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 are in the process of reviewing the standard. Significant implementation matters yet to be addressed include system selection, drafting of accounting policies and disclosures, and designing processes and controls. We are currently unable to estimate the impact on the financial statements.

In February 2016, the Financial Accounting Standards Board issued ASU 2016-02 “Leases.” In July 2018, the Financial Accounting Standards Board issued ASU 2018-11 “Leases (Topic 842): Targeted Improvements.” This 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 lessor and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases. 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 or financial statement disclosures, and had no impact on cash flows.

Refer to Note 2 in our 2018 Annual Report for additional information on other accounting standards that have been issued but are not yet effective. We are currently evaluating the impact of the guidance on our Consolidated Financial Statements.

Note 2 – Loans and Allowance for Credit Losses

Loans consisted of the following (dollars in thousands):

	March 31, 2019		December 31, 2018	
	Amount	Percentage	Amount	Percentage
Long-term agricultural mortgage	\$16,441,635	57.6 %	\$16,450,204	58.0 %
Production and intermediate term	6,835,327	23.9	6,849,333	24.1
Agribusiness	2,935,420	10.3	2,705,832	9.5
Rural residential real estate	1,441,063	5.0	1,458,512	5.1
Rural infrastructure	536,857	1.9	512,843	1.8
Mission-related investments	292,603	1.0	328,405	1.2
Agricultural export finance	81,505	0.3	81,505	0.3
Total loans	<u>\$28,564,410</u>	<u>100.0 %</u>	<u>\$28,386,634</u>	<u>100.0 %</u>

Credit Quality

One credit quality indicator we utilize is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- acceptable – loans are expected to be fully collectible and represent the highest quality;
- other assets especially mentioned (OAEM) (special mention) – loans are currently collectible but exhibit some potential weakness;
- substandard – loans exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan;
- doubtful – loans 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; and
- loss – loans are considered uncollectible.

We had no loans categorized as loss at March 31, 2019 or December 31, 2018.

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 (dollars in thousands):

	As of March 31, 2019						Total Amount
	Acceptable		OAEM		Substandard/Doubtful		
	Amount	%	Amount	%	Amount	%	
Long-term agricultural mortgage	\$14,052,037	84.21%	\$985,064	5.90%	\$1,650,188	9.89%	\$16,687,289
Production and intermediate term	5,206,176	74.95%	726,947	10.47%	1,012,810	14.58%	6,945,933
Agribusiness	2,841,245	96.24%	26,570	0.90%	84,367	2.86%	2,952,182
Rural residential real estate	1,319,967	91.01%	51,196	3.53%	79,255	5.46%	1,450,418
Rural infrastructure	520,980	96.32%	11,649	2.15%	8,275	1.53%	540,904
Mission-related investments	320,021	100.00%	-	-	-	-	320,021
Agricultural export finance	81,740	100.00%	-	-	-	-	81,740
Total	\$24,342,166	84.00%	\$1,801,426	6.22%	\$2,834,895	9.78%	\$28,978,487

	As of December 31, 2018						Total Amount
	Acceptable		OAEM		Substandard/Doubtful		
	Amount	%	Amount	%	Amount	%	
Long-term agricultural mortgage	\$14,163,020	84.56%	\$1,056,063	6.30%	\$1,530,258	9.14%	\$16,749,341
Production and intermediate term	5,365,256	76.78%	643,034	9.20%	979,474	14.02%	6,987,764
Agribusiness	2,606,507	95.79%	28,815	1.06%	85,763	3.15%	2,721,085
Rural residential real estate	1,344,315	91.47%	55,431	3.77%	69,948	4.76%	1,469,694
Rural infrastructure	484,879	94.18%	21,129	4.11%	8,817	1.71%	514,825
Mission-related investments	329,771	100.00%	-	-	-	-	329,771
Agricultural export finance	82,074	100.00%	-	-	-	-	82,074
Total	\$24,375,822	84.48%	\$1,804,472	6.25%	\$2,674,260	9.27%	\$28,854,554

Delinquency

The following table provides an aging analysis of past due loans and related accrued interest receivable by loan type (in thousands):

As of March 31, 2019	30-89 Days	90 Days or	Total	Not Past Due or Less Than	Total	90 Days or
	Past Due	More Past Due	Past Due	30 Days Past Due	Loans	More Past Due and Accruing
Long-term agricultural mortgage	\$47,687	\$34,826	\$82,513	\$16,604,776	\$16,687,289	\$7,853
Production and intermediate term	118,289	39,705	157,994	\$6,787,939	6,945,933	7,856
Agribusiness	5,157	1,869	7,026	\$2,945,156	2,952,182	-
Rural residential real estate	6,574	3,716	10,290	\$1,440,128	1,450,418	680
Rural infrastructure	-	-	-	\$540,904	540,904	-
Mission-related investments	37,254	2,642	39,896	\$280,125	320,021	2,642
Agricultural export finance	-	-	-	\$81,740	81,740	-
Total	\$214,961	\$82,758	\$297,719	\$28,680,768	\$28,978,487	\$19,031

As of December 31, 2018	30-89 Days	90 Days or	Total	Not Past Due or Less Than	Total	90 Days or
	Past Due	More Past Due	Past Due	30 Days Past Due	Loans	More Past Due and Accruing
Long-term agricultural mortgage	\$17,199	\$ 19,762	\$36,961	\$16,712,380	\$16,749,341	\$296
Production and intermediate term	92,812	23,948	116,760	6,871,004	6,987,764	1,790
Agribusiness	5,472	2,468	7,940	2,713,145	2,721,085	-
Rural residential real estate	5,790	2,749	8,539	1,461,155	1,469,694	242
Rural infrastructure	-	-	-	514,825	514,825	-
Mission-related investments	4,644	4,317	8,961	\$320,810	329,771	4,317
Agricultural export finance	-	-	-	82,074	82,074	-
Total	\$125,917	\$53,244	\$179,161	\$28,675,393	\$28,854,554	\$6,645

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. Accruing loans include principal and interest. The following tables present information concerning risk loans (in thousands):

	As of March 31,	
	2019	2018
Risk loans with specific allowance	\$ 52,467	\$ 62,561
Risk loans without specific allowance	205,189	187,777
Total risk loans	\$257,656	\$250,338
Total specific allowance	\$16,875	\$16,396
	For the three months ended March 31,	
	2019	2018
Interest income recognized on nonaccrual loans	\$1,220	\$1,027
Interest income on risk accrual loans	707	766
Interest income recognized on risk loans	\$1,927	\$1,793
Average risk loans	\$257,851	\$230,370

There were approximately \$8.0 million in commitments to lend additional funds to customers whose loans were at risk at March 31, 2019.

Troubled Debt Restructurings

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 troubled debt restructurings 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.

The following table presents information regarding troubled debt restructurings that occurred during the period ended March 31 (in thousands):

	2019		2018	
	Premodification Outstanding	Postmodification Outstanding	Premodification Outstanding	Postmodification Outstanding
	Recorded Investment	Recorded Investment	Recorded Investment	Recorded Investment
Long-term agricultural mortgage	\$583	\$583	\$860	\$860
Production and intermediate term	874	842	1,455	1,457
Total	<u>\$1,457</u>	<u>\$1,425</u>	<u>\$2,315</u>	<u>\$2,317</u>

Pre-modification outstanding represents the recorded investment just prior to restructuring, and post-modification outstanding represents the recorded investment immediately following the restructuring. The recorded investment is the face 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 following table presents information regarding troubled debt restructurings that occurred within the previous twelve months for which there was a subsequent payment default during the period ended March 31 (in thousands):

	2019	2018
	Recorded Investment	Recorded Investment
Agribusiness	\$-	\$376
	<u>\$-</u>	<u>\$376</u>

Troubled debt restructurings outstanding at March 31, 2019, totaled \$62.5 million, of which \$25.7 million were in nonaccrual status. There were \$4.5 million in additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring at March 31, 2019.

Allowance for Loan Losses

An analysis of changes in the allowance for credit losses follows (in thousands):

Allowance for loan losses	March 31,	
	2019	2018
Balance at beginning of year	\$157,000	\$130,000
Provision for loan losses	817	8,297
Charge-offs	(836)	(941)
Recoveries	1,019	644
Balance at end of quarter	<u>\$158,000</u>	<u>\$138,000</u>

Reserve for unfunded lending commitments	March 31,	
	2019	2018
Balance at beginning of year	\$10,000	\$11,000
(Reversal of) provision for unfunded lending commitments	1,000	1,000
Balance at end of quarter	<u>\$11,000</u>	<u>\$12,000</u>

We recorded a \$1.8 million provision for credit losses for the first three months of 2019, as compared with \$9.3 million during the first three months of 2018. The rate of credit deterioration in several portfolios has slowed leading to a more modest provision expense compared to the first three months of 2018. Net recoveries of charge-offs for the first three months of 2019 were \$0.2 million compared to net charge offs of \$0.3 million in the same period a year ago.

The allowance for loan losses is an estimate of losses on loans 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, portfolio quality, estimated collateral values, and current economic and environmental conditions.

Note 3 – Investment in Rural Business Investment Company

We and other Farm Credit System institutions are among the limited partners invested in four Rural Business Investment Companies (RBIC). The RBICs facilitate equity and debt investments in agriculture-related businesses that create growth and job opportunities in rural America. Our current total commitment is \$50 million with varying commitment end dates through November 2023. Certain commitments may have an option to extend under specific circumstances. Our investment in the RBICs totaled \$16.6 million at March 31, 2019 as compared to \$13.6 million at December 31, 2018.

Note 4 – 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 levels of inputs 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 March 31, 2019, or December 31, 2018. We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information on assets measured at fair value on a non-recurring basis is as follows (in thousands):

As of March 31, 2019	<u>Fair Value Measurement Using</u>			Total
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Loans	-	-	\$46,208	\$46,208
Other property owned	-	-	\$39,704	\$39,704

As of December 31, 2018	<u>Fair Value Measurement Using</u>			Total
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Loans	-	-	\$17,836	\$17,836
Other property owned	-	-	\$39,957	\$39,957

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 fall under 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 fall under Level 3.

Other property owned: 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 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 fall under Level 3.

Note 5- Commitments and Contingencies

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 accompanying consolidated financial statements. We do not anticipate any material losses because of these contingencies or commitments.

From time to time, 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, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

We are among the forming limited partners in a Rural Business Investment Company. Refer to Note 3 for additional discussion.

Note 6- Subsequent Events

We have evaluated subsequent events through May 3, 2019 which is the date the 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.