PLAINS LAND BANK, FLCA

2019
Quarterly Report
Second Quarter

For the Quarter Ended June 30, 2019

REPORT OF MANAGEMENT

The undersigned certify that we have reviewed this report, that 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 our knowledge and belief.

Greggory S. Lloyd

Greggory S. Lloyd, Chief Executive Officer
July 18, 2019

Daniel L. Krienke, Chairman, Board of Directors
July 18, 2019

Kay Lynn McLaughlin, Chief Financial Officer
July 18, 2019

PLAINS LAND BANK, FLCA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Plains Land Bank, FLCA, referred to as the Association, for the quarter ended June 30, 2019. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2018 Annual Report to Stockholders.

The Association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association's audit committee.

Significant Events:

In January 2019, a patronage of $8,200,000 was declared. This patronage was subsequently paid in March 2019.

Loan Portfolio:

Total loans outstanding at June 30, 2019, including nonaccrual loans and sales contracts, were $670,654,083 compared to $629,153,097 at December 31, 2018, reflecting an increase of 6.6 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.3 percent at June 30, 2019 and December 31, 2018.

The Association had no recoveries and $175,874 in charge-offs for the six months ended June 30, 2019, and no recoveries or charge-offs for the same period in 2018. The Association's allowance for loan losses was 0.3 percent of total loans outstanding as of June 30, 2019 and December 31, 2018.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the Association's components and trends of high-risk assets.

	June 30, 2019		December 31, 2018	
	Amount	**%**	Amount	%
Nonaccrual	**$ 2,233,427**	**30.5%**	$ 2,194,696	80.8%
90 days past due and still accruing interest	**4,558,973**	**62.4%**	-	0.0%
Other property owned, net	**519,840**	**7.1%**	519,840	19.2%
Total	**$ 7,312,240**	**100.0%**	$ 2,714,536	100.0%

Results of Operations:

The Association had net income of $4,092,920 and $7,022,592 for the three and six months ended June 30, 2019, as compared to net income of $3,485,100 and $6,749,740 for the same period in 2018, reflecting an increase of 17.4 and 4.0 percent. Net interest income was $4,676,687 and $9,343,190 for the three and six months ended June 30, 2019, compared to $4,228,457 and $8,455,983 for the same period in 2018.

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	Six Months Ended			
	June 30, 2019		June 30, 2018	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 648,642,836**	**$ 17,886,771**	$ 589,876,563	$ 15,160,695
Interest-bearing liabilities	**544,787,887**	**8,543,581**	490,208,162	6,704,712
Impact of capital	**$ 103,854,949**		$ 99,668,401	
Net interest income		**$ 9,343,190**		$ 8,455,983

	2019 Average Yield	2018 Average Yield
Yield on loans	**5.56%**	5.18%
Cost of interest-bearing liabilities	**3.16%**	2.76%
Interest rate spread	**2.40%**	2.42%
Net interest income as a percentage of average earning assets	**2.90%**	2.89%

	Six Months Ended: June 30, 2019 vs. June 30, 2018		
	Increase due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 1,510,382**	**$ 1,215,694**	**$ 2,726,076**
Interest expense	**746,495**	**1,092,374**	**1,838,869**
Net interest income	**$ 763,887**	**$ 123,320**	**$ 887,207**

Interest income for the three and six months ended June 30, 2019, increased by $1,340,044 and $2,726,076, or 17.3 and 17.9 percent respectively, from the same period of 2018, primarily due to increases in yields on earning assets and an increase in average loan volume. Interest expense for the three and six months ended June 30, 2019, increased by $891,814 and $1,838,869, or 25.5 and 27.4 percent, from the same period of 2018 due to an increase in interest rates and an increase in average debt volume. Average loan volume for the second quarter of 2019 was $657,137,941, compared to $595,919,703 in the second quarter of 2018. The average net interest rate spread on the loan portfolio for the second quarter of 2019 was 2.40 percent, compared to 2.42 percent in the second quarter of 2018.

The Association's return on average assets for the six months ended June 30, 2019, was 2.11 percent compared to 2.23 percent for the same period in 2018. The Association's return on average equity for the six months ended June 30, 2019, was 11.74 percent, compared to 11.92 percent for the same period in 2018.

Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the Bank), which obtains its funds through the issuance of System-wide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	June 30, 2019	December 31, 2018
Note payable to the Bank	$ 568,366,776	$ 527,737,407
Accrued interest on note payable	1,467,557	1,393,690
Total	$ 569,834,333	$ 529,131,097

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2020. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $568,366,776 as of June 30, 2019, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 3.16 percent at June 30, 2019. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2018, is due to the Association's increase in assets since year end. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $101,797,148 at June 30, 2019. The maximum amount the Association may borrow from the Bank as of June 30, 2019, was $675,479,521 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2020, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

Capital Resources:

The Association's capital position decreased by $1,135,209 at June 30, 2019, compared to December 31, 2018. The Association's debt as a percentage of members' equity was 4.63:1 as of June 30, 2019, compared to 4.26:1 as of December 31, 2018.

Farm Credit Administration regulations require the Association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of June 30, 2019, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements:

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 Association early adopted the removal and modified disclosures during the fourth quarter of 2018.

In August 2017, the FASB issued guidance entitled "Targeted Improvements to Accounting for Hedging Activities." The guidance better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance also addresses the timing of effectiveness testing, qualitative and quantitative effectiveness testing and components that can be excluded from effectiveness testing. This guidance became effective for interim and annual periods beginning after December 15, 2018. The adoption of this guidance has not impacted the Association's financial condition or disclosures.

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. 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 Association determined that the adoption of this guidance was not material to its financial condition or results of operations. The Association adopted this guidance on January 1, 2019 and upon adoption, recorded a $9,318 right of use asset and a $9,318 lease liability. As of June 30, 2019, the right of use asset and respective lease liability had an adjusted balance of $4,517.

Relationship with the Farm Credit Bank of Texas:

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2018 Annual Report of Plains Land Bank, FLCA more fully describe the Association's relationship with the Bank.

The annual and quarterly stockholder reports of the Bank are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. The annual and quarterly stockholder reports for the Bank are also available on its website at *www.farmcreditbank.com*.

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Plains Land Bank, FLCA, 5625 Fulton Drive, Amarillo, TX 79109-4212 or calling (806) 353-6688. The annual and quarterly stockholder reports for the Association are also available on its website at *www.plainslandbank.com*. Copies of the Association's quarterly stockholder reports can also be requested by emailing *kmclaughlin@plainslandbank.com.*

PLAINS LAND BANK, FLCA

BALANCE SHEET

	June 30, 2019 (unaudited)	December 31, 2018
ASSETS		
Cash	**$ 44,829**	$ 2,796,307
Loans	**670,654,083**	629,153,097
Less: allowance for loan losses	**1,944,298**	1,933,554
Net loans	**668,709,785**	627,219,543
Accrued interest receivable	**11,462,036**	12,097,131
Investment in and receivable from the Farm		
Capital stock	**10,050,200**	10,050,200
Other	**-**	36,447
Other property owned, net	**519,840**	519,840
Premises and equipment, net	**2,918,393**	2,819,102
Other assets	**1,404,962**	169,213
Total assets	**$ 695,110,045**	$ 655,707,783
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	**$ 568,366,776**	$ 527,737,407
Accrued interest payable	**1,467,557**	1,393,690
Drafts outstanding	**20,755**	110,863
Other liabilities	**1,779,346**	1,855,003
Total liabilities	**571,634,434**	531,096,963
MEMBERS' EQUITY		
Capital stock and participation certificates	**2,044,605**	1,982,940
Unallocated retained earnings	**121,156,007**	122,333,415
Accumulated other comprehensive income	**274,999**	294,465
Total members' equity	**123,475,611**	124,610,820
Total liabilities and members' equity	**$ 695,110,045**	$ 655,707,783

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

PLAINS LAND BANK, FLCA

STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	**2019**	2018
INTEREST INCOME				
Loans	**$ 9,067,828**	$ 7,727,784	**$ 17,886,771**	$ 15,160,695
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**4,391,141**	3,499,327	**8,543,581**	6,704,712
Net interest income	**4,676,687**	4,228,457	**9,343,190**	8,455,983
PROVISION FOR LOAN LOSSES (LOAN LOSS REVERSAL)	**(56,832)**	(17,708)	**201,851**	(156,372)
Net interest income after provision for loan losses	**4,733,519**	4,246,165	**9,141,339**	8,612,355
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**630,062**	552,528	**1,257,593**	1,100,571
Loan fees	**54,985**	50,840	**92,311**	77,115
Financially related services income	**17,262**	2,215	**20,094**	5,111
Gain on sale of premises and equipment, net	**14,283**	6,114	**14,283**	6,114
Other noninterest income	**26,362**	26,464	**176,516**	373,296
Total noninterest income	**742,954**	638,161	**1,560,797**	1,562,207
NONINTEREST EXPENSES				
Salaries and employee benefits	**726,026**	750,615	**2,192,707**	2,125,096
Directors' expense	**58,957**	77,103	**138,461**	141,998
Purchased services	**92,673**	73,859	**299,346**	197,695
Travel	**44,040**	40,409	**100,781**	86,412
Occupancy and equipment	**79,503**	118,516	**175,245**	182,821
Communications	**18,996**	16,610	**34,015**	31,628
Advertising	**59,591**	62,236	**135,809**	121,106
Public and member relations	**63,651**	44,140	**107,209**	81,392
Supervisory and exam expense	**60,920**	47,745	**121,841**	105,706
Insurance Fund premiums	**116,173**	108,295	**273,117**	248,434
Loss on other property owned, net	**15,494**	-	**10,181**	-
Other noninterest expense	**47,529**	59,698	**90,832**	102,534
Total noninterest expenses	**1,383,553**	1,399,226	**3,679,544**	3,424,822
NET INCOME	**4,092,920**	3,485,100	**7,022,592**	6,749,740
Other comprehensive income:				
Change in postretirement benefit plans	**(9,733)**	(3,156)	**(19,466)**	(6,313)
COMPREHENSIVE INCOME	**$ 4,083,187**	$ 3,481,944	**$ 7,003,126**	$ 6,743,427

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

PLAINS LAND BANK, FLCA

STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2017	$ 1,912,255	$ 115,313,174	$ 45,651	$ 117,271,080
Comprehensive income	-	6,749,740	(6,313)	6,743,427
Capital stock/participation certificates and allocated retained earnings issued	161,885	-	-	161,885
Capital stock/participation certificates and allocated retained earnings retired	(125,290)	-	-	(125,290)
Patronage refunds:				
Cash	-	(7,101,550)	-	(7,101,550)
Balance at June 30, 2018	$ 1,948,850	$ 114,961,364	$ 39,338	$ 116,949,552
Balance at December 31, 2018	$ 1,982,940	$ 122,333,415	$ 294,465	$ 124,610,820
Comprehensive income	-	7,022,592	(19,466)	7,003,126
Capital stock/participation certificates and allocated retained earnings issued	153,550	-	-	153,550
Capital stock/participation certificates and allocated retained earnings retired	(91,885)	-	-	(91,885)
Patronage refunds:				
Cash	-	(8,200,000)	-	(8,200,000)
Balance at June 30, 2019	**$ 2,044,605**	**$ 121,156,007**	**$ 274,999**	**$ 123,475,611**

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

PLAINS LAND BANK, FLCA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Plains Land Bank, FLCA, referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Armstrong, Briscoe, Carson, Floyd, Gray, Hale, the southwest portion of Hall, Hansford, Hemphill, Hutchinson, Lipscomb, Motley, Ochiltree, Oldham, Potter, Randall, and Roberts in the state of Texas. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

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 Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements 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 Stockholders. 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, 2018. Descriptions of the significant accounting policies are included in the 2018 Annual Report to Stockholders. 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 Association early adopted the removal and modified disclosures during the fourth quarter of 2018.

In August 2017, the FASB issued guidance entitled "Targeted Improvements to Accounting for Hedging Activities." The guidance better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance also addresses the timing of effectiveness testing, qualitative and quantitative effectiveness testing and components that can be excluded from effectiveness testing. This guidance became effective for interim and annual periods beginning after December 15, 2018. The adoption of this guidance has not impacted the Association's financial condition or disclosures.

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. 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 Association determined that the adoption of this guidance was not material to its financial condition or results of operations. The Association adopted this guidance on January 1, 2019 and upon adoption, recorded a $9,318 right of use asset and a $9,318 lease liability. As of June 30, 2019, the right of use asset and respective lease liability had an adjusted balance of $4,517.

The financial statements comprise the operations of the FLCA. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended June 30, 2019, are not necessarily indicative of the results to be expected for the year ended December 31, 2019. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**June 30, 2019 Amount**	December 31, 2018 Amount
Production agriculture:		
Real estate mortgage	**$ 584,255,457**	$ 549,728,525
Production and intermediate term	**6,274,498**	8,411,484
Agribusiness:		
Processing and marketing	**35,591,271**	32,552,221
Loans to cooperatives	**8,217,682**	4,237,212
Farm-related business	**1,401,592**	2,258,718
Energy	**16,438,002**	15,806,099
Rural residential real estate	**9,730,948**	9,412,327
Communication	**8,744,633**	6,746,511
Total	**$ 670,654,083**	$ 629,153,097

The Association purchases or 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 June 30, 2019:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Agribusiness	$ 42,496,256	$ -	$ -	$ -	$ 42,496,256	$ -
Real estate mortgage	19,261,281	10,850,026	5,306,722	-	24,568,003	10,850,026
Energy	16,438,002	-	-	-	16,438,002	-
Communication	8,744,633	-	-	-	8,744,633	-
Production and intermediate term	6,274,498	-	-	-	6,274,498	-
Total	$ 93,214,670	$ 10,850,026	$ 5,306,722	$ -	$ 98,521,392	$ 10,850,026

The Association is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. As of June 2019, there were no ACPs, and there were $8,841,409 of funds held included on the balance sheet.

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	June 30, 2019	December 31, 2018
Nonaccrual loans:		
Real estate mortgage	**$ 2,233,427**	$ 2,194,696
Accruing loans 90 days or more past due:		
Real estate mortgage	**4,558,973**	-
Total nonperforming loans	**6,792,400**	2,194,696
Other property owned	**519,840**	519,840
Total nonperforming assets	**$ 7,312,240**	$ 2,714,536

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; and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

	June 30, 2019	December 31, 2018
Real estate mortgage		
Acceptable	**96.2** %	95.7 %
OAEM	**0.9**	1.9
Substandard/doubtful	**2.9**	2.4
	100.0	100.0
Production and intermediate term		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Agribusiness		
Acceptable	**93.6**	95.9
OAEM	**3.1**	-
Substandard/doubtful	**3.3**	4.1
	100.0	100.0
Energy and water/waste water		
Acceptable	**92.3**	91.5
OAEM	**7.7**	8.5
Substandard/doubtful	**-**	-
	100.0	100.0
Communication		
Acceptable	**100.0**	88.1
OAEM	**-**	11.9
Substandard/doubtful	**-**	-
	100.0	100.0
Rural residential real estate		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Total loans		
Acceptable	**96.1**	95.7
OAEM	**1.2**	2.0
Substandard/doubtful	**2.7**	2.3
	100.0 %	100.0 %

The following tables provide an age analysis of past due loans (including accrued interest) 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 Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 2,168,294**	**$ 5,377,383**	**$ 7,545,677**	**$ 587,799,241**	**$ 595,344,918**	**$ 818,410**
Processing and marketing	**-**	**-**	**-**	**35,695,177**	**35,695,177**	**-**
Energy	**-**	**-**	**-**	**16,586,664**	**16,586,664**	**-**
Rural residential real estate	**20,053**	**-**	**20,053**	**9,759,338**	**9,779,391**	**-**
Communication	**-**	**-**	**-**	**8,747,649**	**8,747,649**	**-**
Loans to cooperatives	**-**	**-**	**-**	**8,262,837**	**8,262,837**	**-**
Production and intermediate term	**-**	**-**	**-**	**6,295,016**	**6,295,016**	**-**
Farm-related business	**-**	**-**	**-**	**1,404,467**	**1,404,467**	**-**
Total	**$ 2,188,347**	**$ 5,377,383**	**$ 7,565,730**	**$ 674,550,389**	**$ 682,116,119**	**$ 818,410**

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 Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 421,898	$ 133,915	$ 555,813	$ 560,985,645	$ 561,541,458	$ -
Processing and marketing	-	-	-	32,619,735	32,619,735	-
Energy	28,457	-	28,457	15,819,915	15,848,372	-
Rural residential real estate	-	-	-	9,458,724	9,458,724	-
Communication	-	-	-	6,747,224	6,747,224	-
Loans to cooperatives	-	-	-	4,318,400	4,318,400	-
Production and intermediate term	-	-	-	8,451,152	8,451,152	-
Farm-related business	-	-	-	2,265,163	2,265,163	-
Total	$ 450,355	$ 133,915	$ 584,270	$ 640,665,958	$ 641,250,228	$ -

Note: The recorded investment in the 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 investment.

A restructuring of a debt constitutes a troubled debt restructuring 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. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

There were no troubled debt restructured loans as of June 30, 2019. There were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring as of June 30, 2019 and December 31, 2018.

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). Charge-offs recorded at the modification date were $175,874 for the six months ended June 31, 2019.

The predominant form of concession granted for troubled debt restructuring includes principle concessions. Other types of modifications include extension of the term, principal or accrued interest reductions, interest rate decreases and delayed payments, among others. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case we assess all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

Additional impaired loan information is as follows:

	June 30, 2019			December 31, 2018		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	**$1,250,412**	**$ 1,426,017**	**$ 74,888**	$ 133,915	$ 133,915	$ 6,758
Total	**$1,250,412**	**$ 1,426,017**	**$ 74,888**	$ 133,915	$ 133,915	$ 6,758
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$5,541,988**	**$ 5,275,441**	**$ -**	$ 2,060,781	$ 2,060,781	$ -
Total	**$5,541,988**	**$ 5,275,441**	**$ -**	$ 2,060,781	$ 2,060,781	$ -
Total impaired loans:						
Real estate mortgage	**$6,792,400**	**$ 6,701,458**	**$ 74,888**	$ 2,194,696	$ 2,194,696	$ 6,758
Total	**$6,792,400**	**$ 6,701,458**	**$ 74,888**	$ 2,194,696	$ 2,194,696	$ 6,758

[a] Unpaid principal balance represents the recorded principal balance of the loan.

	For the Three Months Ended				For the Six Months Ended			
	June 30, 2019		June 30, 2018		**June 30, 2019**		June 30, 2018	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	**$1,250,177**	**$ -**	$ -	$ -	**$1,393,168**	**$ -**	$ -	$ -
Total	**$1,250,177**	**$ -**	$ -	$ -	**$1,393,168**	**$ -**	$ -	$ -
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	**$4,935,712**	**$ 61,844**	$4,238,148	$ 25,443	**$4,782,095**	**$ 116,627**	$4,347,536	$ 38,944
Total	**$4,935,712**	**$ 61,844**	$4,238,148	$ 25,443	**$4,782,095**	**$ 116,627**	$4,347,536	$ 38,944
Total impaired loans:								
Real estate mortgage	**$6,185,889**	**$ 61,844**	$4,238,148	$ 25,443	**$6,175,263**	**$ 116,627**	$4,347,536	$ 38,944
Total	**$6,185,889**	**$ 61,844**	$4,238,148	$ 25,443	**$6,175,263**	**$ 116,627**	$4,347,536	$ 38,944

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at March 31, 2019	$ 1,567,045	$ 22,296	$ 226,665	$ 52,045	$ 123,698	$ 20,497	$ 2,012,246
Charge-offs	(131)	-	-	-	-	-	(131)
Provision for loan losses	(36,960)	(2,922)	19,799	(33,902)	(2,429)	(418)	(56,832)
Other	(1,831)	(1,137)	(5,879)	(2,261)	123	-	(10,985)
Balance at June 30, 2019	$ 1,528,123	$ 18,237	$ 240,585	$ 15,882	$ 121,392	$ 20,079	$ 1,944,298
Balance at December 31, 2018	$ 1,506,648	$ 26,804	$ 191,405	$ 51,890	$ 138,781	$ 18,026	$ 1,933,554
Charge-offs	(175,874)	-	-	-	-	-	(175,874)
Provision for loan losses	200,487	(8,965)	59,178	(33,719)	(17,183)	2,053	201,851
Other	(3,138)	398	(9,998)	(2,289)	(206)	-	(15,233)
Balance at June 30, 2019	$ 1,528,123	$ 18,237	$ 240,585	$ 15,882	$ 121,392	$ 20,079	$ 1,944,298
Ending Balance:							
Individually evaluated for impairment	$ 74,888	$ -	$ -	$ -	$ -	$ -	$ 74,888
Collectively evaluated for impairment	1,453,235	18,237	240,585	15,882	121,392	20,079	1,869,410
Balance at June 30, 2019	$ 1,528,123	$ 18,237	$ 240,585	$ 15,882	$ 121,392	$ 20,079	$ 1,944,298
Balance at March 31, 2018	$ 1,313,453	$ 19,437	$ 223,686	$ 62,546	$ 145,729	$ 12,776	$ 1,777,627
Charge-offs	-	-	-	-	-	-	-
Provision for loan losses	(11,184)	3,987	(14,912)	(1,194)	3,378	2,217	(17,708)
Other	1,292	(3,170)	791	-	(4,396)	-	(5,483)
Balance at June 30, 2018	$ 1,303,561	$ 20,254	$ 209,565	$ 61,352	$ 144,711	$ 14,993	$ 1,754,436
Balance at December 31, 2017	$ 1,458,451	$ 26,496	$ 211,359	$ 50,625	$ 142,371	$ 13,202	$ 1,902,504
Charge-offs	-	-	-	-	-	-	-
Provision for loan losses	(154,685)	(4,159)	(15,961)	10,702	5,940	1,791	(156,372)
Other	(205)	(2,083)	14,167	25	(3,600)	-	8,304
Balance at June 30, 2018	$ 1,303,561	$ 20,254	$ 209,565	$ 61,352	$ 144,711	$ 14,993	$ 1,754,436
Ending Balance:							
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	1,303,561	20,254	209,565	61,352	144,711	14,993	1,754,436
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-
Balance at June 30, 2018	$ 1,303,561	$ 20,254	$ 209,565	$ 61,352	$ 144,711	$ 14,993	$ 1,754,436

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:							
Ending Balance at June 30, 2019	$595,344,918	$ 6,295,016	$ 45,362,481	$ 8,747,649	$ 16,586,664	$9,779,391	$682,116,119
Individually evaluated for impairment	$ 6,792,400	$ -	$ -	$ -	$ -	$ -	$ 6,792,400
Collectively evaluated for impairment	$588,552,518	$ 6,295,016	$ 45,362,481	$ 8,747,649	$ 16,586,664	$9,779,391	$675,323,719
Ending Balance at June 30, 2018	$536,723,207	$ 7,131,472	$ 45,168,698	$ 7,684,930	$ 15,505,496	$7,279,852	$619,493,655
Individually evaluated for impairment	$ 3,182,369	$ -	$ -	$ -	$ -	$ -	$ 3,182,369
Collectively evaluated for impairment	$533,540,838	$ 7,131,472	$ 45,168,698	$ 7,684,930	$ 15,505,496	$7,279,852	$616,311,286

NOTE 3 — CAPITAL:

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Minimums	Conservation Buffer	Total	As of June 30, 2019
Common equity tier 1 ratio	4.50%	2.50%	7.00%	15.99%
Tier 1 capital ratio	6.00%	2.50%	8.50%	15.99%
Total capital ratio	8.00%	2.50%	10.50%	16.29%
Permanent capital ratio	7.00%	0.00%	7.00%	16.04%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.00%	1.00%	5.00%	16.50%
UREE leverage ratio	1.50%	0.00%	1.50%	17.70%

*The 2.5% capital conservation buffer for risk-adjusted ratios will be phased in over a three year period ending on December 31, 2019.

Risk-adjusted assets have been defined by FCA Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) are as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the deduction of the allowance for loan losses from risk-adjusted assets for the permanent capital ratio.

The ratios are based on a three-month average daily balance in accordance with FCA regulations and are calculated as follows:

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.

- Total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-adjusted assets.

- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.

- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

If the capital ratios fall below the minimum regulatory requirements, including the capital conservation and leverage buffer amounts, capital distributions (equity redemptions, dividends, and patronage), and discretionary bonus payments to senior offices are restricted or prohibited without prior FCA approval.

The components of the Association's risk-adjusted capital, based on 90-day average balances, were as follows at June 30, 2019 and December 31, 2018, respectively:

June 30, 2019	**Common Equity tier 1 ratio**	**Tier 1 capital ratio**	**Total capital ratio**	**Permanent capital ratio**
Numerator:				
Unallocated retained earnings	**$ 118,364,453**	**$ 118,364,453**	**$ 118,364,453**	**$ 118,364,453**
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**2,025,938**	**2,025,938**	**2,025,938**	**2,025,938**
Allowance for loan losses and reserve for credit losses subject to certain limitations			**2,077,722**	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(10,050,200)**	**(10,050,200)**	**(10,050,200)**	**(10,050,200)**
	$ 110,340,191	**$ 110,340,191**	**$ 112,417,913**	**$ 110,340,191**
Denominator:				
Risk-adjusted assets excluding allowance	**700,106,641**	**700,106,641**	**700,106,641**	**700,106,641**
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	**(10,050,200)**	**(10,050,200)**	**(10,050,200)**	**(10,050,200)**
	$ 690,056,441	**$ 690,056,441**	**$ 690,056,441**	**$ 690,056,441**

December 31, 2018	Common Equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	$ 118,974,026	$ 118,974,026	$ 118,974,026	$ 118,974,026
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	1,976,479	1,976,479	1,976,479	1,976,479
Allowance for loan losses and reserve for credit losses subject to certain limitations			1,860,899	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(9,186,183)	(9,186,183)	(9,186,183)	(9,186,183)
	$ 111,764,322	$ 111,764,322	$ 113,625,221	$ 111,764,322
Denominator:				
Risk-adjusted assets excluding allowance	672,848,270	672,848,270	672,848,270	672,848,270
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(9,186,183)	(9,186,183)	(9,186,183)	(9,186,183)
Allowance for loan losses				(1,792,628)
	$ 663,662,087	$ 663,662,087	$ 663,662,087	$ 661,869,459

(dollars in thousands)	June 30, 2019 Tier 1 leverage ratio	June 30, 2019 UREE leverage ratio	December 31, 2018 Tier 1 leverage ratio	December 31, 2018 UREE leverage ratio
Numerator:				
Unallocated retained earnings	**$118,364,453**	**$118,364,453**	$118,974,026	$118,974,026
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**2,025,938**	**-**	1,976,479	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(10,050,200)**	**-**	(9,186,183)	-
	$ 110,340,191	**$ 118,364,453**	$ 111,764,322	$ 118,974,026
Denominator:				
Total Assets	**679,507,864**	**679,507,864**	654,658,469	654,658,469
Regulatory Adjustments and Deductions:				
Regulatory deductions included in tier 1 capital	**(10,618,533)**	**(10,618,533)**	(10,583,683)	(10,583,683)
	$ 668,889,331	**$ 668,889,331**	$ 644,074,786	$ 644,074,786

An additional component of equity is accumulated other comprehensive income, which is reported, is as follows:

Accumulated Other Comprehensive Income

	June 30, 2019
Nonpension postretirement benefits	**$ 274,999**
Total	**$ 274,999**

	June 30, 2018
Nonpension postretirement benefits	$ 39,338
Total	$ 39,338

The Association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in "Salaries and employee benefits" in the Consolidated Statement of Comprehensive Income. The following table summarizes the changes in accumulated other comprehensive income (loss) for the six months ended June 30:

	2019	2018
Accumulated other comprehensive income (loss) at January 1	**$294,465**	$ 45,651
Actuarial losses	**(14,249)**	-
Amortization of prior service credit included in salaries and employee benefits	**(5,217)**	(6,313)
Other comprehensive loss, net of tax	**(19,466)**	(6,313)
Accumulated other comprehensive income at June 30	**$ 274,999**	$ 39,338

NOTE 4 — FAIR VALUE MEASUREMENTS:

FASB 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 12 to the 2018 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a nonrecurring basis for each of the fair value hierarchy values are summarized below:

June 30, 2019	**Fair Value Measurement Using**			**Total Fair**	**Total Gains**
	Level 1	**Level 2**	**Level 3**	**Value**	**(Losses)**
Assets:					
Other property owned	**-**	**-**	**519,840**	**519,840**	**(10,181)**

December 31, 2018	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Assets:					
Other property owned	-	-	519,840	519,840	-

Uncertainty of Fair Value Measurements

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the mortgage-backed securities are prepayment rates, probability of default and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would have resulted in a significantly lower (higher) fair value measurement.

Generally, a change in the assumption used for the probability of default would have been accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Quoted market prices are generally not available for the instruments presented below. Accordingly, fair values are based on internal models that consider judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

With regard to nonrecurring measurements for 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 take into account unobservable inputs, such as income and expense, comparable sales, replacement cost, and comparability adjustments.

Valuation Techniques

As more fully discussed in Note 12 to the 2018 Annual Report to Stockholders, authoritative 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 represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see Notes to the 2018 Annual Report to Stockholders.

Cash

For cash, the carrying amount is a reasonable estimate of fair value.

Loans

Fair value is estimated by discounting the expected future cash flows using the Associations' current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the Associations' current loan origination rates as well as management's estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale and could be less.

For purposes of estimating fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows, primarily based on contractual terms, and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

The fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For collateral-dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral.

Loans Evaluated for Impairment

For certain loans evaluated for impairment under FASB impairment guidance, 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, a majority of these loans have fair value measurements that fall within Level 3 of the fair value 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 of the hierarchy if the process uses independent appraisals and other market-based information.

Commitments to Extend Credit

The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates.

Other Property Owned

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of the other property owned involves the use of independent appraisals and other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

NOTE 5 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the six months ended June 30:

	Other Benefits	
	2019	2018
Service cost	**$ 8,287**	$ 12,654
Interest cost	**23,824**	24,436
Amortization of prior service credits	**(5,217)**	(6,313)
Amortization of net actuarial gain	**(14,249)**	-
Net periodic benefit cost	**$ 12,645**	$ 30,777

The Association's liability for the unfunded accumulated obligation for these benefits at June 30, 2019, was $1,036,596 and is included in "Other Liabilities" in the balance sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item "other components of net periodic postretirement benefit cost" in the income statement.

The structure of the District's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The Association previously disclosed in its financial statements for the year ended December 31, 2018, that it expected to contribute $394,270 to the District's defined benefit pension plan in 2019. As of June 30, 2019, $134,514 of contributions have been made. The Association presently anticipates contributing an additional $134,513 to fund the defined benefit pension plan in 2019 for a total of $269,029.

NOTE 6 — COMMITMENTS AND CONTINGENT LIABILITIES:

The Association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

NOTE 7 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through July 18, 2019, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of July 18, 2019.