Farm Credit Illinois, ACA

Quarterly Report
June 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Illinois, ACA and its subsidiaries Farm Credit Illinois, FLCA and Farm Credit Illinois, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2018 (2018 Annual Report).

Due to the nature of our financial relationship with AgriBank, FCB (AgriBank), the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of AgriBank financial reports or additional copies of our report, contact us at:

Farm Credit Illinois, ACA
1100 Farm Credit Drive
Mahomet, IL 61853
(217) 590-2200
www.farmcreditIL.com

AgriBank, FCB
30 East 7th Street, Suite 1600
St. Paul, MN 55101
(651) 282-8800
www.agribank.com
financialreporting@agribank.com

FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2018 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

Rainfall was unrelenting from the beginning of the growing season through mid-June in many areas of Illinois. April ended the wettest 12 months on record for the continental United States and Illinois soils continued to be more waterlogged than they have ever been into June, according to Scott Irwin, University of Illinois economist. The final planting dates for full crop insurance coverage were June 5 for corn and June 20 for soybeans. The June 3, 2019 Illinois Crop Progress and Conditions report showed planting progress of only 45% of corn acres and 21% of soybean acres, compared with 98% and 84%, respectively, over the prior 5-year period. By July 1, corn planting had reached 95% for corn acres and 87% for soybeans, meaning at least half of the Illinois corn crop and two-thirds of soybean acres were planted in June. The United States Department of Agriculture, USDA, has reported that prevented planting claims were at $151 million by July 1 and they fully expect total prevented planting claims to surpass $1 billion, covering at least 10 million acres, likely record levels. As of July 1, Farm Credit Illinois, FCI, had 766 open prevented planting claims and 1,296 replant claims.

As of June 30, only 42% of the Illinois corn crop was rated Good to Excellent compared with 85% in 2018. Soybeans were rated 44% Good to Excellent compared with 78% last year. Grain prices were rightfully impacted by supply concerns beginning in mid-May. December corn futures rose from $3.76 on April 1 to $4.68 by June 17. USDA released its Acreage and Grain Stocks reports on June 28, with the Acreage report in particular injecting a great deal of uncertainty into the market. Corn planting intentions came in well above trade expectations with perhaps the biggest surprise being that the eastern Corn Belt saw slight to no change from the March intentions. The USDA reported that 15.3 million corn acres remained unplanted as of the survey period and indicated an intention to re-interview 13 of the 18 major corn producing states in July for the August report. Corn prices experienced a heavy decline as a result of the Acreage report. Soybean prices drove higher as a result of lower supply expected under reduced acreage. The cloudy production outlook will lead to speculation and variability in markets through the summer. The next USDA World Agricultural Supply and Demand Estimates report will be one of the most critical in some time, it was released July 11.

Continued trade concerns with China brought about another $16 billion round of Market Facilitation Payments. The payments help compensate farmers for the struggles brought about by the trade war, with many hopeful that a deal will be struck with China by year-end. An agreement has been reached regarding the United States-Mexico-Canada Agreement, it must still be ratified by the U.S. Congress. Any substantial delays could impede progress in reaching agreements with others like the European Union and Japan. With the upcoming 2020 U.S. election cycle, political disagreements may make it more difficult to land trade deals and reopen top export markets.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $4.1 billion at June 30, 2019, a decrease of $94.7 million from December 31, 2018. The volume decrease is primarily due to our commercial volume. The extremely wet planting season led to cautiousness on expenditures. Not knowing how many prevent plant acres there might be slowed input purchases as well as implement purchases.

Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2018. Adversely classified loans decreased to 2.4% of the portfolio at June 30, 2019, from 2.6% of the portfolio at December 31, 2018. Adversely classified loans are loans 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.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**June 30** **2019**	December 31 2018
Loans:		
Nonaccrual	**$ 6,902**	$ 6,635
Accruing restructured	**42**	67
Accruing loans 90 days or more past due	**485**	--
Total risk loans	**7,429**	6,702
Other property owned	**--**	--
Total risk assets	**$ 7,429**	$ 6,702
Total risk loans as a percentage of total loans	**0.2%**	0.2%
Nonaccrual loans as a percentage of total loans	**0.2%**	0.2%
Current nonaccrual loans as a percentage of total nonaccrual loans	**71.9%**	51.0%
Total delinquencies as a percentage of total loans	**0.3%**	0.4%

Note: Accruing loans include accrued interest receivable.

Nonaccrual loans remained at an acceptable level at June 30, 2019, and December 31, 2018.

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

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans inherent in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Allowance Coverage Ratios

As of:	**June 30** **2019**	December 31 2018
Allowance as a percentage of:		
Loans	**0.2%**	0.2%
Nonaccrual loans	**127.1%**	132.6%
Total risk loans	**118.1%**	131.3%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2019.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the six months ended June 30	**2019**	2018
Net income	**$ 34,761**	$ 34,778
Return on average assets	**1.6%**	1.7%
Return on average members' equity	**7.0%**	7.4%

Changes in the chart above relate directly to:

- Changes in income discussed below
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Funding, Liquidity, and Capital section

Changes in Significant Components of Net Income

(in thousands) For the six months ended June 30	2019	2018	(Decrease) increase in net income
Net interest income	$ 46,994	$ 48,305	$ (1,311)
(Reversal of) provisions for loan losses	(43)	3,242	3,285
Patronage income	11,968	8,978	2,990
Other income, net	5,543	6,959	(1,416)
Operating expenses	29,023	27,285	(1,738)
Provision for (benefit from) income taxes	764	(1,063)	(1,827)
Net income	$ 34,761	$ 34,778	$ (17)

Changes in Net Interest Income

(in thousands) For the six months ended June 30	2019 vs 2018
Changes in volume	$ 1,788
Changes in interest rates	(3,071)
Changes in nonaccrual income and other	(28)
Net change	$ (1,311)

The change in the (reversal of) provisions for loan losses was primarily due to an upgraded loss given default classification of a large relationship. This was partially offset by our long-term real estate portfolio, which had an increase in volume and some downgrades in credit classifications, including a capital markets relationship involving three electric cooperative loans that were downgraded during the first quarter and another capital markets relationship in which we increased the specific allowance by $500 thousand.

Patronage Income

(in thousands) For the six months ended June 30	2019	2018
Wholesale patronage		
Cash	$ 3,062	$ 5,554
Stock	5,130	--
Pool program patronage	3,144	2,874
AgDirect partnership distribution	632	550
Total patronage income	$ 11,968	$ 8,978

The increase in patronage income was primarily due to an increase in wholesale patronage. In total wholesale patronage increased primarily as a result of a higher patronage rate for the first six months of 2019 compared to the same period of 2018. Wholesale patronage may be paid in cash or AgriBank stock. All pool program patronage and AgDirect partnership distributions are paid in cash.

The change in other income, net was primarily due to our share of the Allocated Insurance Reserve Accounts (AIRA) distribution received from the Farm Credit System Insurance Corporation (FCSIC) of $939 thousand in 2019, compared to $2.3 million in 2018. The AIRA was established by FCSIC when premiums collected increased the level of the Insurance Fund beyond the required 2% of insured debt. Refer to the 2018 Annual Report for additional information about the FCSIC.

The change in operating expenses was primarily related to an increase in purchased services due to monthly fees paid to Farm Credit Financial Partners, Inc.

The change in provision for (benefit from) income taxes was primarily due to increasing our allowance related to deferred tax assets.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable was scheduled to mature on July 31, 2020. However, it was renewed early for $4.5 billion with a new maturity date of July 31, 2022. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from unallocated surplus. At June 30, 2019, gross loans are funded 79.6% by the direct note and 20.4% by unallocated surplus.

The components of cost of funds associated with our note payable include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity, and bank profit
- A risk premium component, if applicable

We were not subject to a risk premium at June 30, 2019, or December 31, 2018.

Total members' equity increased $34.7 million from December 31, 2018, primarily due to net income for the year. Accumulated other comprehensive loss is the impact of prior service cost and unamortized actuarial gain/loss related to the Pension Restoration Plan. Refer to Note 9 in our 2018 Annual Report for more information on the Pension Restoration Plan.

The Farm Credit Administration (FCA) Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage. Refer to Note 7 in our 2018 Annual Report for a more complete description of these ratios.

Regulatory Capital Requirements and Ratios

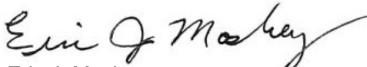
As of:	**June 30 2019**	December 31 2018	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:					
Common equity tier 1 ratio	**19.5%**	18.9%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**19.5%**	18.9%	6.0%	2.5%*	8.5%
Total capital ratio	**19.7%**	19.2%	8.0%	2.5%*	10.5%
Permanent capital ratio	**19.5%**	19.0%	7.0%	N/A	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	**20.8%**	20.3%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**22.5%**	21.6%	1.5%	N/A	1.5%

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums is being phased in over three years under the FCA capital requirements. The phase in period ends on December 31, 2019.

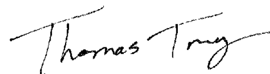
The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section.

CERTIFICATION

The undersigned have reviewed the June 30, 2019, Quarterly Report of Farm Credit Illinois, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Eric J. Mosbey
Chairperson of the Board
Farm Credit Illinois, ACA



Thomas H. Tracy
President and Chief Executive Officer
Farm Credit Illinois, ACA

Kelly D. Loschen
Chief Financial Officer
Farm Credit Illinois, ACA

August 09, 2019

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Illinois, ACA
(in thousands)
(Unaudited)

As of:	June 30 2019	December 31 2018
ASSETS		
Loans	**$ 4,098,367**	$ 4,193,053
Allowance for loan losses	**8,771**	8,798
Net loans	**4,089,596**	4,184,255
Investment in AgriBank, FCB	**114,777**	109,647
Accrued interest receivable	**47,822**	54,569
Deferred tax assets, net	**341**	1,120
Other assets	**53,335**	66,072
Total assets	**$ 4,305,871**	$ 4,415,663
LIABILITIES		
Note payable to AgriBank, FCB	**$ 3,261,866**	$ 3,387,272
Accrued interest payable	**23,056**	22,244
Patronage distribution payable	**3,973**	20,000
Other liabilities	**10,735**	14,597
Total liabilities	**3,299,630**	3,444,113
Contingencies and commitments (Note 4)		
MEMBERS' EQUITY		
Capital stock and participation certificates	**7,481**	7,554
Unallocated surplus	**999,406**	964,705
Accumulated other comprehensive (loss)	**(646)**	(709)
Total members' equity	**1,006,241**	971,550
Total liabilities and members' equity	**$ 4,305,871**	$ 4,415,663

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Farm Credit Illinois, ACA

(in thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
For the period ended June 30	**2019**	2018	**2019**	2018
Interest income	**$ 46,849**	$ 43,421	**$ 92,640**	$ 85,441
Interest expense	**23,056**	19,467	**45,646**	37,136
Net interest income	**23,793**	23,954	**46,994**	48,305
Provision for (reversal of) loan losses	**592**	1,628	**(43)**	3,242
Net interest income after provision for (reversal of) loan losses	**23,201**	22,326	**47,037**	45,063
Other income				
Patronage income	**7,099**	4,420	**11,968**	8,978
Financially related services income	**1,587**	1,830	**3,177**	3,573
Fee income	**574**	441	**1,286**	978
Allocated Insurance Reserve Accounts distribution	**--**	--	**939**	2,318
Miscellaneous income, net	**60**	1	**141**	90
Total other income	**9,320**	6,692	**17,511**	15,937
Operating expenses				
Salaries and employee benefits	**7,950**	7,580	**15,942**	15,124
Other operating expenses	**6,235**	6,677	**13,081**	12,161
Total operating expenses	**14,185**	14,257	**29,023**	27,285
Income before income taxes	**18,336**	14,761	**35,525**	33,715
Provision for (benefit from) income taxes	**114**	(484)	**764**	(1,063)
Net income	**$ 18,222**	$ 15,245	**$ 34,761**	$ 34,778
Other comprehensive income				
Employee benefit plans activity	**$ 29**	$ 40	**$ 63**	$ 80
Total other comprehensive income	**29**	40	**63**	80
Comprehensive income	**$ 18,251**	$ 15,285	**$ 34,824**	$ 34,858

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Illinois, ACA
(in thousands)
(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2017	$ 4	$ 7,922	$ 912,270	$ (1,085)	$ 919,111
Net income	--	--	34,778	--	34,778
Other comprehensive income	--	--	--	80	80
Capital stock and participation certificates issued	--	286	--	--	286
Capital stock and participation certificates retired	(2)	(650)	--	--	(652)
Balance at June 30, 2018	$ 2	$ 7,558	$ 947,048	$ (1,005)	$ 953,603
Balance at December 31, 2018	$ --	$ 7,554	$ 964,705	$ (709)	$ 971,550
Net income	**--**	**--**	**34,761**	**--**	**34,761**
Other comprehensive income	**--**	**--**	**--**	**63**	**63**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(60)**	**--**	**(60)**
Capital stock and participation certificates issued	**--**	**240**	**--**	**--**	**240**
Capital stock and participation certificates retired	**--**	**(313)**	**--**	**--**	**(313)**
Balance at June 30, 2019	**$ --**	**$ 7,481**	**$ 999,406**	**$ (646)**	**$ 1,006,241**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim Consolidated Statements of Condition and Consolidated Statements of Comprehensive Income. Our accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the six months ended June 30, 2019, are not necessarily indicative of the results to be expected for the year ending December 31, 2019. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2018 (2018 Annual Report).

The Consolidated Financial Statements present the consolidated financial results of Farm Credit Illinois, ACA (the Association) and its subsidiaries Farm Credit Illinois, FLCA and Farm Credit Illinois, PCA. All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

Leases: We are the lessee in operating leases. We evaluate arrangements at inception to determine if it is a lease. Leases with an initial term of 12 months or less are not recorded on the balance sheet with lease expense recognized on a straight-line basis over the lease term. For operating leases with terms greater than 12 months the right-of-use (ROU) assets are included in “Other assets” in the Consolidated Statements of Condition and the lease liabilities are included in “Other liabilities” in the Consolidated Statements of Condition.

The ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. Our lease terms may include options to extend or terminate the lease. The length of the lease term is modified to include the option when it is reasonably certain that we will exercise that option. Operating lease expense for lease payments is recognized on a straight-line basis over the lease term.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business. While we are a nonpublic entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements on the public business entities effective date or aligned with other System institutions, whichever is earlier.

Standard and effective date	Description	Adoption status and financial statement impact
In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02 “Leases.” In July 2018, the FASB issued ASU 2018-11 “Leases (Topic 842): Targeted Improvements.” The guidance is effective for public business entities in its first quarter of 2019 and early adoption is permitted.	The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases. Upon adoption, a liability for lease obligations and a corresponding right-of-use asset is recognized on the Consolidated Statements of Condition for all lease arrangements spanning more than 12 months. The guidance includes an optional transition method where an entity is permitted to apply the guidance as of the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings.	We adopted this guidance on January 1, 2019. The adoption of this guidance did not have a material impact on our financial condition, results of operations, and financial statement disclosures, and had no impact on cash flows.
In August 2018, the FASB issued ASU 2018-15 “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract.” The guidance is effective for our first quarter of 2020 and early adoption is permitted.	The guidance clarifies that implementation costs incurred in a hosting arrangement that is a service contract should be accounted for in the same manner as implementation costs incurred to develop or obtain internal-use software.	We are in the process of reviewing the accounting standard. Based on our preliminary review and analysis, this new guidance is not expected to have a material impact on our financial condition, results of operations, cash flows, and financial statement disclosures.
In June 2016, the FASB issued ASU 2016-13 “Financial Instruments – Credit Losses.” This guidance is effective for public business entities for non-U.S. Securities Exchange Commission filers for the first quarter of 2021 and early adoption is permitted.	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	We have no plans to early adopt this guidance. We have reviewed the accounting standard, selected our system, developed and tested the system, and are in the process of drafting disclosures. Significant implementation matters yet to be addressed include drafting of accounting policies and designing processes and controls. We are currently unable to estimate the impact on the financial statements.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	**June 30, 2019**		December 31, 2018	
	Amount	%	Amount	%
Real estate mortgage	**$ 2,396,379**	**58.5%**	$ 2,412,305	57.5%
Production and intermediate-term	**614,964**	**15.0%**	747,936	17.8%
Agribusiness	**817,966**	**20.0%**	788,801	18.8%
Other	**269,058**	**6.5%**	244,011	5.9%
Total	**$ 4,098,367**	**100.0%**	$ 4,193,053	100.0%

The other category is primarily composed of rural infrastructure related loans and agricultural exports.

Delinquency

Aging Analysis of Loans

(in thousands) **As of June 30, 2019**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$ 5,006**	**$ 1,294**	**$ 6,300**	**$ 2,424,979**	**$ 2,431,279**	**$ 315**
Production and intermediate-term	**2,755**	**1,037**	**3,792**	**620,003**	**623,795**	**170**
Agribusiness	**--**	**--**	**--**	**821,515**	**821,515**	**--**
Other	**1,773**	**--**	**1,773**	**267,827**	**269,600**	**--**
Total	**$ 9,534**	**$ 2,331**	**$ 11,865**	**$ 4,134,324**	**$ 4,146,189**	**$ 485**

As of December 31, 2018	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 13,939	$ 2,207	$ 16,146	$ 2,433,127	$ 2,449,273	$ --
Production and intermediate-term	1,319	744	2,063	759,523	761,586	--
Agribusiness	--	--	--	792,319	792,319	--
Other	890	--	890	243,554	244,444	--
Total	$ 16,148	$ 2,951	$ 19,099	$ 4,228,523	$ 4,247,622	$ --

Note: Accruing loans include accrued interest receivable.

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

Risk Loan Information

(in thousands) As of:		June 30 2019		December 31 2018
Volume with specific allowance	$	1,595	$	2,273
Volume without specific allowance		5,834		4,429
Total risk loans	$	7,429	$	6,702
Total specific allowance	$	1,427	$	713
For the six months ended June 30		2019		2018
Income on accrual risk loans	$	9	$	33
Income on nonaccrual loans		140		168
Total income on risk loans	$	149	$	201
Average risk loans	$	7,789	$	7,049

Note: Accruing loans include accrued interest receivable.

We did not have any material commitments to lend additional money to borrowers whose loans were classified as risk loans at June 30,

Troubled Debt Restructurings (TDRs)

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

We did not complete any TDRs during the six months ended June 30, 2019. We completed TDRs of certain production and intermediate-term loans during the six months ended June 30, 2018. Our recorded investment in these loans just prior to and immediately following restructuring was $52 thousand. The recorded investment in the loan is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment.

We had no TDRs that defaulted during the six months ended June 30, 2019, in which the modifications were within twelve months of the respective reporting period. We had TDRs in the production and intermediate-term loan category of $75 thousand that defaulted during the six months ended June 30, 2018, in which the modifications were within twelve months of the respective reporting period.

TDRs Outstanding in the Production and Intermediate-Term Loan Category

(in thousands) As of:		June 30 2019		December 31 2018
TDRs in accrual status	$	42	$	67
TDRs in nonaccrual status		9		9
Total TDRs	$	51	$	76

There were no commitments to lend to borrowers whose loans have been modified in a TDR at June 30, 2019.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) Six months ended June 30		2019		2018
Balance at beginning of period	$	8,798	$	7,111
(Reversal of) provision for loan losses		(43)		3,242
Loan recoveries		16		373
Loan charge-offs		--		(207)
Balance at end of period	$	8,771	$	10,519

NOTE 3: OTHER INVESTMENTS

We and other Farm Credit Institutions are among the limited partners for Rural Business Investment Companies (RBICs). Our total commitment is $4.0 million with varying commitment end dates through November 2023. Certain commitments may have an option to extend under certain circumstances. Our investment in the RBICs are recorded in “Other assets” in the Consolidated Statements of Condition, and totaled $821 thousand at June 30, 2019, and $143 thousand at December 31, 2018.

The investments were evaluated for impairment. No investments were impaired as of June 30, 2019, or December 31, 2018.

NOTE 4: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

NOTE 5: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 in our 2018 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at June 30, 2019, or December 31, 2018.

Non-Recurring

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)

	As of June 30, 2019			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	**$ --**	**$ --**	**$ 176**	**$ 176**
	As of December 31, 2018			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Impaired loans	$ --	$ --	$ 1,638	$ 1,638

Valuation Techniques

Impaired loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset’s fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management’s knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as Level 3.

NOTE 6: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 9, 2019, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.