FARM CREDIT OF
SOUTHERN COLORADO

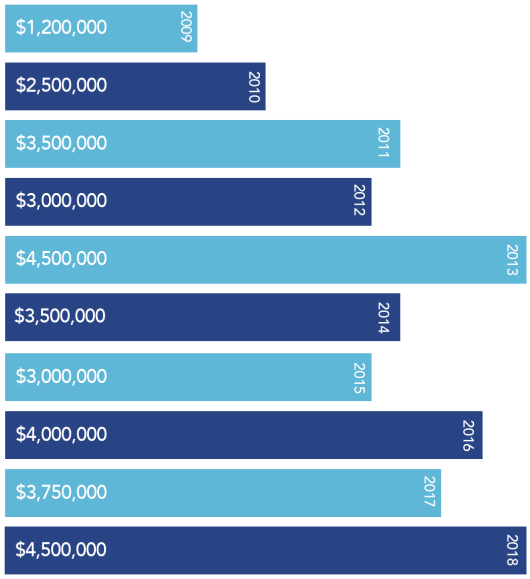
2019

1st Quarter Report to Shareholders

Our mission is to be a growing and successful cooperative that empowers employees to be a financial partner to our members, while promoting the success of agriculture and our communities.

PATRONAGE

For over 100 years, Farm Credit has been passionately serving Rural America and Agriculture. We are proud to partner with the hard-working people who dedicate themselves to bettering America.

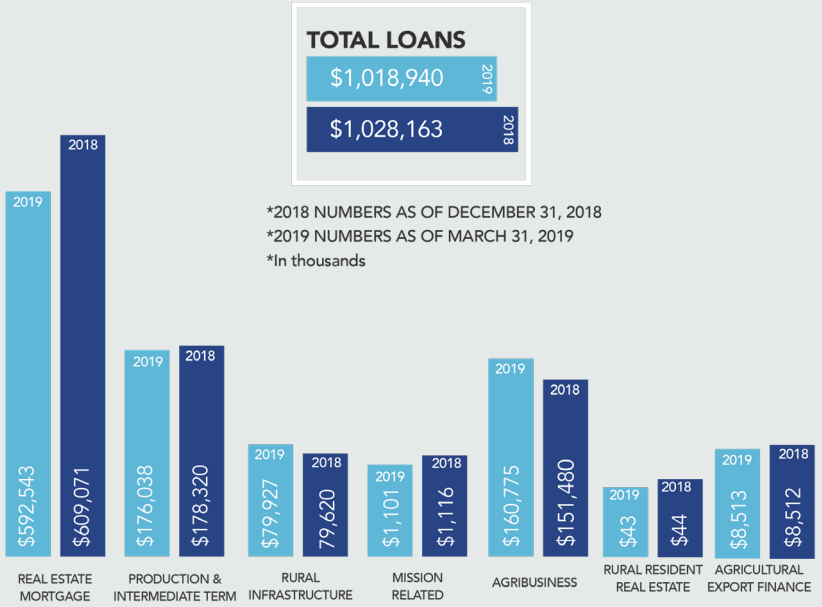


In the last 10 years, our cooperative has returned over $33,450,000 of profits to our eligible member-owners in patronage.

Our mission is to be a growing and successful cooperative that empowers employees to be a financial partner to our members while promoting the success of agriculture and our communities.

PORTFOLIO BREAKDOWN

Our association loan summary as of March 31, 2019.



KEY NUMBERS

$1,081,976

TOTAL ASSETS
At 3/31/19 IN THOUSANDS

$258,135

TOTAL SHAREHOLDER'S EQUITY
At 3/31/19 IN THOUSANDS

$3,961

NET INCOME
At 3/31/19 IN THOUSANDS

$4,500

PATRONAGE DISTRIBUTED IN 2019
IN THOUSANDS

NOTICE TO STOCKHOLDERS

The shareholders' investment in Farm Credit of Southern Colorado, ACA is materially affected by the financial condition and results of operations of CoBank, ACB (CoBank). The 2018 CoBank Annual Report to Shareholders, and the CoBank quarterly shareholders' reports are available free of charge by accessing CoBank's website, www.cobank.com, or may be obtained at no charge by contacting us at:

Farm Credit of Southern Colorado, ACA

5110 Edison Avenue, PO Box 75640
Colorado Springs, Colorado 80970-5640
Phone Number: 800-815-8559

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Unaudited)

The following discussion summarizes the financial position and results of operations of Farm Credit of Southern Colorado, ACA for the three months ended March 31, 2019, with comparisons to prior periods. You should read these comments along with the accompanying financial statements and footnotes and the 2018 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

In rural America, conditions continue to be challenging. Farmers continue to see low commodity prices due to large surpluses around the world and trade tariffs imposed on U.S. exports. Wheat continues to face hefty competition from export markets, which continues to put downward pressure on prices. U.S. corn plantings are still projected to raise more than 2 million acres this year; and there continues to be question as to whether China will buy U.S. corn and soybeans. The Brazilian corn crop is estimated to be 92 million tons. These planting forecasts will add pressure on corn prices as well.

While current financial conditions appear stable, farm income is low following sharp declines for several years. The prices of major agricultural commodities also remain low during the first quarter 2019. Note today, the price of corn is about 40% less than it was from 2010 to 2013. The silver lining in our territory is land values continue to remain stable.

Additionally, our producers' economic conditions have been greatly impacted by the Midwest weather. The Midwest flooding in March, while devastating to those producers, will have a positive impact to our lending territory. Grain production lost in the Midwest will be relied upon from our region to fill in those supply gaps and thus hopefully provide improvement in price. From the feedback from our branch staff, planting of corn is on track and winter wheat is in excellent condition.

San Luis Valley, nestled in the mountain regions, is the lending territory for our potato producers. The snow is above normal and will provide sufficient irrigation water for the 2019 potato crop. The San Luis Valley producers are the 2nd to 3rd largest suppliers of fresh potatoes in the U.S. market. Prices have held to above breakeven in 2018 and is expected to occur again in 2019. Also, barley is another crop grown for the local brewing industry with Coors as the largest contractor. Prices continue to remain stable or improving.

Our cow/calf producers will benefit greatly with all the moisture in the first quarter of 2019. Pastures are beginning to green up. This will provide an adequate feed source in rotating cattle during the summer months. Calf prices are seeing improvement for the fall run supply being impacted from the Midwest flooding.

In summary, heavy rain and snow storms during late fall and early winter have eased drought conditions and improved moisture conditions considerably in our lending territory. The mountains and eastern plains have received above normal snow and moisture which has resulted in excellent subsoil conditions for spring planting and excellent moisture to bring up the winter wheat. There is much optimism for the 2019 crop year with our producers heading into second quarter planting season.

LOAN PORTFOLIO

Loans outstanding at March 31, 2019, totaled $1.02 billion, a decrease of $9.2 million, or 0.90%, from loans of $1.03 billion at December 31, 2018. The decrease was primarily due to annual pay downs and payoffs outpacing new core loan activity partially offset by an increase in our capital markets portfolio.

RESULTS OF OPERATIONS

Net income, excluding comprehensive income, for the three months ended March 31, 2019, was $4.0 million, a decrease of $416 thousand, or 9.50%, from the same period ended one year ago. The decrease is primarily the result of a higher provision for credit losses, and a lower Farm Credit Insurance Fund distribution in 2019 as compared to the first three months of 2018, partially offset by higher net interest income.

Net interest income for the three months ended March 31, 2019, was $7.3 million, an increase of $564 thousand, or 8.35%, compared with the three months ended March 31, 2018. Net interest income increased due to an increase in our average accrual loan volume coupled with an increase in return on our loanable funds, partially offset by a decrease in the spread between our average borrower rate and our average cost of funds.

The provision for credit losses for the three months ended March 31, 2019, was $422 thousand, compared with the provision for credit loss reversal of $183 thousand for the same period ended one year ago. The provision for credit losses increased as a result of loan downgrades during the first quarter of 2019. In the first quarter of 2018, there was a credit loss reversal as a result of a lower average loss given default profile of the Association.

Noninterest income decreased $360 thousand during the first three months of 2019 compared with the first three months in 2018 primarily due to a decrease of $431 thousand in the refund from Farm Credit System Insurance Corporation (FCSIC). The refunds are our portion of excess funds above the secure base amount in the FCSIC Allocated Insurance Reserve Accounts. Refer to the 2018 Annual Report to Shareholders for additional information. There was also a $60 thousand decrease in patronage from CoBank during the first quarter 2019 as compared to the same period in 2018. These decreases were partially offset by an increase in mineral income. We received mineral income of $268 thousand during the first three months of 2019, which is distributed to us quarterly by CoBank.

During the first three months of 2019, noninterest expense increased $15 thousand to $4.5 million primarily due to increased purchased services costs from AgVantis, along with increased salaries and employee benefit costs, partially offset by a decrease in our occupancy and equipment costs.

CAPITAL RESOURCES

Our shareholders' equity at March 31, 2019, was $258.1 million, an increase from $253.3 million at December 31, 2018. This increase is due to net income, net stock issuances and amortization of pension costs included in the net periodic benefit cost.

The undersigned certify they have reviewed this report, this report has been prepared in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of his or her knowledge and belief.

//signed//
Mark Peterson
Chairman of the Board
May 6, 2019

//signed//
Jeremy M Anderson
CEO
May 6, 2019

//signed//
Shawna R Neppl
CFO
May 6, 2019

Consolidated Statement of Condition

(Dollars in Thousands)

	March 31 2019	December 31 2018
	UNAUDITED	AUDITED
ASSETS		
Loans	**$ 1,018,940**	$ 1,028,163
Less allowance for loan losses	**3,303**	2,863
Net loans	**1,015,637**	1,025,300
Cash	**2,436**	9,015
Accrued interest receivable	**14,590**	16,531
Investment in CoBank, ACB	**32,435**	32,435
Investment in AgDirect	**137**	137
Premises and equipment, net	**12,282**	11,939
Prepaid benefit expense	**2,255**	2,409
Other assets	**2,204**	5,031
Total assets	**$ 1,081,976**	$ 1,102,797
LIABILITIES		
Note payable to CoBank, ACB	**$ 807,094**	$ 828,090
Advance conditional payments	**12,105**	10,647
Accrued interest payable	**1,961**	1,884
Patronage distributions payable	**-**	4,500
Accrued benefits liability	**448**	735
Reserve for unfunded commitments	**398**	411
Other liabilities	**1,835**	3,193
Total liabilities	**823,841**	849,460
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Preferred stock	**3,621**	2,826
Capital stock	**1,447**	1,454
Unallocated retained earnings	**253,567**	249,624
Accumulated other comprehensive (loss)/income	**(500)**	(567)
Total shareholders' equity	**258,135**	253,337
Total liabilities and shareholders' equity	**$ 1,081,976**	$ 1,102,797

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

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

	For the three months ended March 31	
UNAUDITED	**2019**	2018
INTEREST INCOME		
Loans	**$ 13,475**	$ 11,550
Total interest income	**13,475**	11,550
INTEREST EXPENSE		
Note payable to CoBank, ACB	**6,112**	4,786
Other	**46**	11
Total interest expense	**6,158**	4,797
Net interest income	**7,317**	6,753
Provision for credit losses/(Credit loss reversal)	**422**	(183)
Net interest income after provision for credit losses/credit loss reversal	**6,895**	6,936
NONINTEREST INCOME		
Financially related services income	**24**	38
Loan fees	**91**	101
Patronage distribution from Farm Credit institutions	**822**	882
Farm Credit Insurance Fund distribution	**247**	678
Mineral income	**268**	141
Other noninterest income	**88**	60
Total noninterest income	**1,540**	1,900
NONINTEREST EXPENSE		
Salaries and employee benefits	**2,535**	2,483
Occupancy and equipment	**362**	443
Purchased services from AgVantis, Inc.	**536**	471
Gains on other property owned, net	**-**	(3)
Farm Credit Insurance Fund premium	**175**	167
Supervisory and examination costs	**113**	95
Other noninterest expense	**750**	800
Total noninterest expense	**4,471**	4,456
Income before income taxes	**3,964**	4,380
Provision for income taxes	**3**	3
Net income	**3,961**	4,377
COMPREHENSIVE INCOME		
Amortization of retirement costs	**67**	66
Total comprehensive income	**$ 4,028**	$ 4,443

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

UNAUDITED	Preferred Stock	Capital Stock	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2017	$ 2,619	$ 1,410	$ 238,141	$ (841)	$ 241,329
Comprehensive income			4,377	66	4,443
Stock issued	100	37			137
Stock retired	(78)	(28)			(106)
Preferred stock dividends	4		(7)		(3)
Balance at March 31, 2018	$ 2,645	$ 1,419	$ 242,511	$ (775)	$ 245,800
Balance at December 31, 2018	$ 2,826	$ 1,454	$ 249,624	$ (567)	$ 253,337
Comprehensive income			3,961	67	4,028
Stock issued	1,170	32			1,202
Stock retired	(386)	(39)			(425)
Preferred stock dividends	11		(18)		(7)
Balance at March 31, 2019	**$ 3,621**	**$ 1,447**	**$ 253,567**	**$ (500)**	**$ 258,135**

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

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

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of Farm Credit of Southern Colorado, ACA (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2018, are contained in the 2018 Annual Report to Shareholders. These unaudited first quarter 2019 financial statements should be read in conjunction with the 2018 Annual Report to Shareholders.

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

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

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

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

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

In June 2016, the FASB issued guidance entitled “Measurement of Credit Losses on Financial Instruments.” The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

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

NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

	March 31, 2019	December 31, 2018
Real estate mortgage	**$ 592,543**	$ 609,071
Production and intermediate-term	**176,038**	178,320
Agribusiness	**160,775**	151,480
Rural infrastructure	**79,927**	79,620
Rural residential real estate	**43**	44
Mission-related	**1,101**	1,116
Agricultural export finance	**8,513**	8,512
Total loans	**$ 1,018,940**	$ 1,028,163

The Association purchases and sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at March 31, 2019:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ 39,952	$ 41,358	$ 1,903	$ —	$ 41,855	$ 41,358
Production and intermediate-term	22,279	—	—	—	22,279	—
Agribusiness	152,349	—	—	—	152,349	—
Rural infrastructure	79,927	—	—	—	79,927	—
Agricultural export finance	8,513	—	—	—	8,513	—
Total	$ 303,020	$ 41,358	$ 1,903	$ —	$ 304,923	$41,358

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

- Acceptable – assets are expected to be fully collectible and represent the highest quality.
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness.
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan.
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable.
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of:

	March 31, 2019	December 31, 2018
Real estate mortgage		
Acceptable	**90.03%**	90.50%
OAEM	**4.17%**	4.17%
Substandard	**5.69%**	5.33%
Doubtful	**0.11%**	–
Total	**100.00%**	100.00%
Production and intermediate-term		
Acceptable	**88.77%**	87.83%
OAEM	**4.76%**	5.25%
Substandard	**6.43%**	6.88%
Doubtful	**0.04%**	0.04%
Total	**100.00%**	100.00%
Agribusiness		
Acceptable	**96.21%**	97.08%
OAEM	**2.29%**	1.54%
Substandard	**1.50%**	1.38%
Total	**100.00%**	100.00%
Rural infrastructure		
Acceptable	**95.85%**	99.28%
OAEM	**0.70%**	0.72%
Substandard	**3.45%**	–
Total	**100.00%**	100.00%
Rural residential real estate		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%
Mission-related		
Substandard	**100.00%**	100.00%
Total	**100.00%**	100.00%
Agricultural export finance		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%
Total Loans		
Acceptable	**91.22%**	91.64%
OAEM	**3.67%**	3.67%
Substandard	**5.04%**	4.68%
Doubtful	**0.07%**	0.01%
Total	**100.00%**	100.00%

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

(dollars in thousands)	**March 31, 2019**	December 31, 2018
Nonaccrual loans		
Real estate mortgage	**$ 10,848**	$ 10,049
Production and intermediate-term	**127**	129
Agribusiness	**420**	337
Mission-related	**1,101**	—
Total nonaccrual loans	**$ 12,496**	$ 10,515
Accruing restructured loans		
Real estate mortgage	**$ 501**	$ 495
Production and intermediate-term	**691**	789
Total accruing restructured loans	**$ 1,192**	$ 1,284
Accruing loans 90 days past due		
Real estate mortgage	**$ 2,147**	$ —
Production and intermediate-term	**—**	75
Total accruing loans 90 days past due	**$ 2,147**	$ 75
Total impaired loans and total high risk assets	**$ 15,835**	$ 11,874

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

Additional impaired loan information is as follows:

	March 31, 2019			December 31, 2018		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	**$ 652**	**$ 626**	**$ 7**	$ 651	$ 626	$ 5
Production and intermediate-term	**9**	**9**	**1**	80	92	31
Agribusiness	**420**	**433**	**106**	337	343	106
Mission-related	**1,101**	**1,101**	**380**	—	—	—
Total	**$ 2,182**	**$ 2,169**	**$ 494**	$ 1,068	$ 1,061	$ 142
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 12,844**	**$ 14,586**		$ 9,893	$ 11,200	
Production and intermediate-term	**809**	**1,324**		913	1,387	
Total	**$ 13,653**	**$ 15,910**		$ 10,806	$ 12,587	
Total impaired loans:						
Real estate mortgage	**$ 13,496**	**$ 15,212**	**$ 7**	$ 10,544	$ 11,826	$ 5
Production and intermediate-term	**818**	**1,333**	**1**	993	1,479	31
Agribusiness	**420**	**433**	**106**	337	343	106
Mission-related	**1,101**	**1,101**	**380**	—	—	—
Total	**$ 15,835**	**$ 18,079**	**$ 494**	$ 11,874	$ 13,648	$ 142

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

	For the Three Months Ended March 31, 2019		For the Three Months Ended March 31, 2018	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	**$ 658**	**$ —**	$ 558	$ —
Production and intermediate-term	**8**	**—**	—	—
Agribusiness	**368**	**—**	—	—
Mission-related	**49**	**—**	—	—
Total	**$ 1,083**	**$ —**	$ 558	$ —
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 11,219**	**$ 15**	$ 12,904	$ 10
Production and intermediate-term	**815**	**11**	1,919	41
Total	**$ 12,034**	**$ 26**	$ 14,823	$ 51
Total impaired loans:				
Real estate mortgage	**$ 11,877**	**$ 15**	$ 13,462	$ 10
Production and intermediate-term	**823**	**11**	1,919	41
Agribusiness	**368**	**—**	—	—
Mission-related	**49**	**—**	—	—
Total	**$ 13,117**	**$ 26**	$ 15,381	$ 51

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

March 31, 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	Recorded Investment in Loans Outstanding	Recorded Investment Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 525	$ 7,266	$ 7,791	$ 594,075	$ 601,866	$ 2,147
Production and intermediate-term	7,977	117	8,094	172,111	180,205	—
Agribusiness	—	—	—	161,472	161,472	—
Rural infrastructure	—	—	—	80,304	80,304	—
Rural residential real estate	—	—	—	43	43	—
Mission-related	—	—	—	1,101	1,101	—
Agricultural export finance	—	—	—	8,539	8,539	—
Total	$ 8,502	$ 7,383	$ 15,885	$1,017,645	$1,033,530	$ 2,147

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	Recorded Investment in Loans Outstanding	Recorded Investment Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ —	$ 260	260	$ 620,316	$ 620,576	$ —
Production and intermediate-term	2,520	113	2,633	179,802	182,435	75
Agribusiness	—	—	—	152,073	152,073	—
Rural infrastructure	—	—	—	79,908	79,908	—
Rural residential real estate	—	—	—	45	45	—
Mission-related	—	—	—	1,118	1,118	—
Agricultural export finance	—	—	—	8,539	8,539	—
Total	$ 2,520	$ 373	$ 2,893	$1,041,801	$1,044,694	$ 75

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

	Balance at December 31, 2018	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at March 31, 2019
Real estate mortgage	$ 710	$ —	$ —	$ 32	$ 742
Production and intermediate-term	668	—	—	50	718
Agribusiness	932	—	5	55	992
Rural infrastructure	330	—	—	134	464
Mission-related	216	—	—	164	380
Agricultural export finance	7	—	—	—	7
Total	$ 2,863	$ —	$ 5	$ 435	$ 3,303

	Balance at December 31, 2017	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at March 31, 2018
Real estate mortgage	$ 675	$ —	$ —	$ (92)	$ 583
Production and intermediate-term	557	20	—	12	549
Agribusiness	693	—	—	(68)	625
Rural infrastructure	317	—	—	7	324
Mission-related	13	—	—	—	13
Agricultural export finance	6	—	—	—	6
Total	$ 2,261	$ 20	$	$ (141)	$ 2,100

The Association maintains a separate reserve for unfunded commitments, which is included in Liabilities on the Association's Consolidated Statement of Condition. The related provision for the reserve for unfunded commitments is included as part of the provision for credit losses on the Consolidated Statement of Comprehensive Income, along with the provision for loan losses. A summary of changes in the reserve for unfunded commitments follows:

	For the Three Months Ended March 31	
	2019	2018
Balance at beginning of period	**$ 411**	$ 382
Reversal of reserves for unfunded commitments	**(13)**	(42)
Total	**$ 398**	$ 340

Additional information on the allowance for credit losses follows:

	Allowance for Credit Losses Ending Balance at March 31, 2019		Recorded Investments in Loans Outstanding Ending Balance at March 31, 2019	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ 7	$ 735	$ 13,495	$ 588,371
Production and intermediate-term	1	717	818	179,387
Agribusiness	106	886	421	161,051
Rural infrastructure	—	464	—	80,304
Rural residential real estate	—	—	—	43
Mission-related	380	—	1,101	—
Agricultural export finance	—	7	—	8,539
Total	$ 494	$ 2,809	$ 15,835	$ 1,017,695

	Allowance for Credit Losses Ending Balance at December 31, 2018		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2018	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ 5	$ 705	$ 10,544	$ 610,032
Production and intermediate-term	31	637	993	181,442
Agribusiness	106	826	337	151,736
Rural infrastructure	—	330	—	79,908
Rural residential real estate	—	—	—	45
Mission-related	—	216	—	1,118
Agricultural export finance	—	7	—	8,539
Total	$ 142	$ 2,721	$ 11,874	$ 1,032,820

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The Association recorded no new TDRs during the three months ended March 31, 2019 and March 31, 2018.

The Association had no TDRs within the previous 12 months and for which there were subsequent payment defaults during the first three months of 2019 and 2018. Additional commitments to lend to borrowers whose loans have been modified in troubled debt restructurings were $546 at March 31, 2019 and $545 at December 31, 2018.

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

	Loans modified as TDRs		TDRs in Nonaccrual Status*	
	March 31, 2019	December 31, 2018	**March 31, 2019**	December 31, 2018
Real estate mortgage	**$ 501**	$ 495	**$ —**	$ —
Production and intermediate-term	**691**	789	**—**	—
Total	**$ 1,192**	$ 1,284	**$ —**	$ —

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

NOTE 3 - CAPITAL

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

	As of March 31, 2019	As of December 31, 2018	Regulatory Minimums	Capital Conservation Buffer	Total
Risk Adjusted:					
Common equity tier 1 ratio	19.71%	19.68%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	19.71%	19.68%	6.0%	2.5%*	8.5%
Total capital ratio	20.01%	19.94%	8.0%	2.5%*	10.5%
Permanent capital ratio	20.09%	19.98%	7.0%	–	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	20.77%	20.78%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	21.49%	21.41%	1.5%	–	1.5%

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

If capital ratios fall below the regulatory minimum plus buffer amounts, capital distributions (equity redemptions, cash dividend payments, and cash patronage payments) and discretionary senior executive bonuses are restricted or

prohibited without prior FCA approval. The current regulations establish a three-year phase-in of the capital conservation buffer, which began on January 1, 2017. There will be no phase-in of the leverage buffer.

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

	For the Three Months Ended March 31	
	2019	2018
Pension and other benefit plans:		
Beginning balance	**$ (567)**	$ (841)
Amounts reclassified from accumulated other comprehensive loss	**67**	66
Net current period other comprehensive income	**67**	66
Ending balance	**$ (500)**	$ (775)

The following table represents reclassifications out of accumulated other comprehensive income/(loss).

	Amount Reclassified from Accumulated Other Comprehensive Income/(Loss) For the Three Months Ended March 31		Location of Gain/Loss Recognized in Statement of Income
	2019	2018	
Pension and other benefit plans:			
Net actuarial loss	**$ 67**	$ 66	Salaries and employee benefits
Total reclassifications	**$ 67**	$ 66	

NOTE 4 - FAIR VALUE MEASUREMENTS

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

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

	Fair Value Measurement Using			**Total Fair Value**
	Level 1	**Level 2**	**Level 3**	
Assets held in nonqualified benefits trusts				
March 31, 2019	**$ 8**	**$ –**	**$ –**	**$ 8**
December 31, 2018	$ 8	$ –	$ –	$ 8

During the first three months of 2019, the Association recorded no transfers in or out of Levels 2 or 3.

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

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

	Fair Value Measurement Using			**Total Fair Value**
	Level 1	**Level 2**	**Level 3**	
March 31, 2019				
Loans	**$ –**	**$ –**	**$ 1,695**	**$ 1,695**
December 31, 2018				
Loans	$ –	$ –	$ 281	$ 281

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

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

Valuation Techniques

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

Assets Held in Non-Qualified Benefits Trusts

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

Loans Evaluated for Impairment

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

NOTE 5 - SUBSEQUENT EVENTS

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