FARM CREDIT
Services of Hawaii, ACA
Federal Land Bank Association of Hawaii, FLCA
Hawaii Production Credit Association

2018
ANNUAL REPORT

Dedicated to the Growth and Prosperity of Agriculture

Farm Credit Services of Hawaii, ACA
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December 31, 2018, 2017 and 2016

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Farm Credit Services of Hawaii, ACA
Chairwoman's and President's Report

2018 was a pivotal year for Farm Credit Services of Hawaii. As a result of strategic, operational and regulatory challenges, the Board and Management initiated an in depth strategic review of our existing business model and options available to address our challenges. As recently announced, our Board of Directors voted to pursue a combination with American AgCredit, subject to an affirmative vote by our stockholders.

Theodore M. Tokunaga, Jr., our CEO for the past 36 years retired in October 2018. Dan Key was selected as our interim CEO for a 6 month contract expiring March 29, 2019. We have arranged with American AgCredit for Fred Dixon to serve as our interim CEO beginning March 29, 2019.

Below are some financial highlights of Farm Credit Services of Hawaii, ACA performance for 2018:

- Total comprehensive income was $1,525,000. Net income amounted to $440,000. In 2017 the association recorded an actuarial loss of $1,085,000 and took steps to eliminate that charge in 2018 resulting in this offsetting gain.
- Total members' equity equals $28,784,000 at year end.
- Loan volume as of December 31, 2018 amounted to $79,453,000 an increase of $1,018,000 over the prior year end.
- Acceptable and special mention credit quality as of December 31, 2018 was 97.7%, a slight improvement from the prior year end.
- Tier 1 capital ratio as of December 31, 2018 was 28.6%.

Thank you to our stockholders for their continued support as we work to improve our product and service offerings to Hawaii agriculture.

Faith K. Okabe
Chairwoman of the Board
March 15, 2019

Daniel L. Key
President, CEO & Secretary

Farm Credit Services of Hawaii, ACA
Report of Management

The consolidated financial statements of Farm Credit Services of Hawaii, ACA (Association) are prepared by management, who is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances, and in the opinion of management, fairly present the financial condition of the Association. Other financial information included in the 2018 annual report is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. To monitor compliance, CoBank, ACB's Internal Audit staff performs audits of the accounting records, review accounting systems and internal controls, and recommend improvements as appropriate. The Association is also examined by the Farm Credit Administration (FCA) regulator of the Farm Credit System.

The Audit Committee of the Board of Directors has overall responsibility for the Association's system of internal control and financial reporting. The Audit Committee consults regularly with management and reviews the results of the examinations by the various entities named above. The independent auditors have direct access to the Audit Committee.

The undersigned certify the Farm Credit Services of Hawaii, ACA Annual Report has been reviewed and 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.

Faith K. Okabe
Chairwoman of the Board

Daniel L. Key
President, CEO & Secretary

Robert Yahiku
Chief Financial Officer

March 15, 2019

Farm Credit Services of Hawaii, ACA
Audit Committee Report

The Audit Committee (Committee) includes 5 members from the Board of Directors of Farm Credit Services of Hawaii, ACA (Association). In 2018 14 Committee meetings were held. The Committee oversees the scope of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter. The Committee approved the appointment of PricewaterhouseCoopers, LLP (PwC) as the Association's independent auditors for 2018.

The fees for professional services rendered for the Association by its independent auditor, PwC, during 2018 were $155,193 for audit services and $9,700 for tax services.

The Committee reviewed the non-audit services provided by PwC and concluded these services were not incompatible with maintaining the independent auditor's independence.

Management is responsible for the Association's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the Association's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and the Association's audited financial statements for the year ended December 31, 2018 (the "Financial Statements") with management. The Committee also reviews with PwC the matters required to be discussed by Statements on Auditing Standards. Both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Financial Statements in the Association's Annual Report to Shareholders for the year ended December 31, 2018 and for filing with the FCA.

Gary J. Ash, Chairman of the Audit Committee

Michelle M. Galimba
Rodney M. Haraguchi
David D. Nobriga
Faith K. Okabe

March 15, 2019

Farm Credit Services of Hawaii, ACA
Five-Year Summary of Selected Financial Data
December 31, 2018, 2017, 2016, 2015 and 2014

(dollars in thousands)	December 31				
	2018	2017	2016	2015	2014
Consolidated Balance Sheet Data					
Loans	$ 79,453	$ 78,435	$ 77,151	$ 77,868	$ 80,063
Less: Allowance for loan losses	(1,400)	(1,400)	(1,400)	(1,400)	(1,400)
Net loans	78,053	77,035	75,751	76,468	78,663
Cash	450	917	1,182	933	525
Investment in CoBank	6,064	6,064	6,064	6,064	6,064
Other property owned	-	-	789	1,027	238
Other assets	4,063	2,763	2,171	1,654	1,642
Total assets	$ 88,630	$ 86,779	$ 85,957	$ 86,146	$ 87,132
Obligation with maturities of one year or less	$ 59,846	$ 59,503	$ 57,659	$ 58,072	$ 59,591
Total liabilities	59,846	59,503	57,659	58,072	59,591
Capital stock and participation certificates	309	326	323	330	318
Unallocated retained earnings	27,390	28,035	27,975	27,744	27,223
Accumulated other comprehensive loss	1,085	(1,085)			
Total members' equity	28,784	27,276	28,298	28,074	27,541
Total liabilities and members' equity	$ 88,630	$ 86,779	$ 85,957	$ 86,146	$ 87,132
Consolidated Statement of Income Data					
For the year ended December 31					
Net interest income	$ 3,406	$ 3,277	$ 3,582	$ 3,543	$ 3,384
Provision for loan losses	-	-	-	-	-
Noninterest Expense, net	(2,932)	(3,111)	(3,206)	(2,894)	(2,364)
(Provision for)Benefit from income taxes	(34)	19	(20)	(3)	(59)
Net income	$ 440	$ 185	$ 356	$ 646	$ 961
Total Comprehensive (loss)/income	$ 1,525	$ (900)	$ 356	$ 646	$ 961
Consolidated Key Financial Ratios					
For the year					
Return on average assets	0.50%	0.21%	0.41%	0.76%	1.16%
Return on average members' equity	1.57%	0.67%	1.26%	2.32%	3.54%
Net interest income as a % of average earning assets	4.35%	4.38%	4.63%	4.59%	4.53%
Net charge-offs as a % of average loans	0.00%	0.00%	0.00%	0.00%	0.13%
At Year End					
Members' equity as a % of total assets	32.48%	31.43%	32.92%	32.59%	31.69%
Ratio of debt to members' equity	2:08:1	2:18:1	2:04:1	2:07:1	2:16:1
Allowance for loan losses as a % of loans	1.76%	1.78%	1.81%	1.80%	1.75%
Common Equity Tier 1 (CET1) Capital	28.58%	29.80%			
Tier 1 Capital	28.58%	29.80%			
Total Capital	29.84%	31.06%			
Tier 1 Leverage	27.47%	27.73%			
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	27.09%	27.32%			
Permanent capital ratio	32.30%	33.66%	36.60%	35.97%	35.69%
Total surplus ratio	N/A	N/A	36.15%	35.51%	35.25%
Core surplus ratio	N/A	N/A	31.18%	30.44%	30.09%
Other					
Cash dividends paid	$ -	$ 125	$ 125	$ 125	$ 125

Introduction

The following discussion summarizes the financial position and results of operations of Farm Credit Services of Hawaii, ACA (the Association) for the year ended December 31, 2018. Comparisons with prior years are included. We have emphasized material known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact our financial condition and results of operations. The discussion and analysis should be read in conjunction with the accompanying consolidated financial statements, footnotes and other sections of this report. The accompanying consolidated financial statements were prepared under the oversight of our Audit Committee. The Management's Discussion and Analysis includes the following sections:

- Plan of Combination; Interim CEO Appointment
- Business Overview
- Economic Overview
- Loan Portfolio
- Credit Risk Management
- Results of Operations
- Liquidity
- Capital Resources
- Regulatory Matters
- Governance
- Forward-Looking Information
- Critical Accounting Policies and Estimates
- Customer Privacy

Our quarterly reports to shareholders are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. The reports may be obtained free of charge on our website, www.hawaiifarmcredit.com, or upon request. We are located at 99-860 Iwaena Street, Suite A; Aiea, HI 96701 or may be contacted by calling (800) 894-4996.

Plan of Combination and Interim CEO Appointment

On February 14, 2019, the Association's board of directors approved an Agreement and Plan of Combination between the Association and American AgCredit, ACA ("Plan of Combination"). Under the Plan of Combination, American AgCredit would acquire the entirety of the Association's operations, Association stockholders would become stockholders of American AgCredit, and American AgCredit would become the System institution chartered to serve the state of Hawaii. The Plan of Combination must receive the approval of FCA and then the Association's voting stockholders. The FCA regulatory review process is currently underway.

Also on February 14, 2019, the Board approved the appointment of Fred Dixon as interim CEO commencing March 29, 2019. Mr. Dixon will replace Daniel Key, who was contracted to serve as interim CEO following Ted Tokunaga's retirement in October 2018 and through the month of March 2019. Mr. Dixon is currently a vice president with American AgCredit. Mr. Dixon will retain this position while serving as the Association's interim CEO pursuant to an Interim Staffing Service Agreement by and between the Association and American AgCredit.

Business Overview

Farm Credit System Structure and Mission
We are one of 69 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 100 years. The System mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The Farm Credit Administration (FCA) is the System's independent safety and soundness federal regulator and was established to supervise, examine and regulate System institutions.

Our Structure and Focus
As a cooperative, we are owned by the members we serve. Our territory served extends across a diverse agricultural region of the State of Hawaii. The counties in our territory are listed in Note 1 of the accompanying consolidated financial statements. We make long-term real estate mortgage loans to farmers, ranchers, rural residents and agribusinesses and production and intermediate-term loans for agricultural production or operating purposes. Additionally, we serve as an intermediary in offering various insurance programs. Our success begins with our extensive agricultural experience and knowledge of the market and is dependent on the level of satisfaction we provide to our borrowers.

As part of the System, we obtain the funding for our lending and operations from a Farm Credit Bank. Our funding bank, CoBank, ACB (CoBank), is a cooperative of which we are a member.

We, along with the borrower's investment in our Association are materially affected by CoBank's financial condition and results of operations. The CoBank quarterly and annual 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 99-860 Iwaena Street, Suite A; Aiea, HI 96701 or by calling (800) 894-4996. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

We purchase technology and other operational services from AgVantis, which is a technology service corporation. Our Services Agreement with AgVantis expires when terminated or cancelled by either party. Farm Credit Foundations, a human resource service provider for a number of Farm Credit institutions, provides our payroll and human resource services.

Economic Overview

For many years, agriculture experienced a sustained period of favorable economic conditions due to strong commodity prices, rising land values, and, to a lesser extent, government support and multi-peril insurance programs. Because of this overall prosperity and continued robust agricultural environment, our financial results were positively impacted. Production agriculture, however, is a cyclical business that is heavily influenced by commodity prices, weather and general economic conditions.

Overall economic conditions in the recent past had been weak in Hawaii, but the state showed positive growth in 2018 and 2017. This slow, but positive growth is expected to continue in 2019, with a projected growth in GDP of over 2%. Land values and overall real estate prices declined from the peak of the mid 2000's, but the local market has stabilized.

Tourism improved in the last six years and the number of visitor days and visitor expenditures continued to show improving trends. Continued growth is projected in 2019 and as a result, the unemployment rate within the state declined to less than 3%.

The entire Hawaiian Island chain was impacted by several weather events in 2018. In April, a series of thunderstorms produced almost 50 inches of rainfall in a 24 hour period. Hardest hit were the islands of Kauai and Oahu with landslides and flash flooding causing crop, livestock, and property damage. The 2018 Pacific hurricane season was very active. Hurricane Lane (Category 5) and Hurricane Olivia (Category 4) were the two that caused more flooding and damage to the islands. Due to the amount and frequency of rainfall in 2018, drought conditions have improved from prior years.

On May 3, the Kilauea lower East Rift Zone eruption and lava flow on the island of Hawaii began in the Leilani Estates subdivision located in the lower Puna District on the island of Hawaii. The eruption lasted 124 days ending on September 4th. Approximately 14 square miles was buried in lava and about 875 acres of new land was added to the island. Businesses and services were impacted including farms and tour companies. Thousands of residents were forced to evacuate with reported 700 homes destroyed and an estimated $800 million in property damage.

At December 31, 2018 overall credit quality was 97.7%. (Acceptable and OAEM), slightly stronger than the 97.5% for the previous year. The transfer of one loan to non-accrual in 2017 increased overall non-accrual loan volume, which had been zero as of December 31, 2016.

The Agricultural Improvement Act of 2018 (Farm Bill) was signed into law on December 20, 2018. This new Farm Bill will govern an array of federal farm and food programs, including commodity price support payments, farm credit, conservation programs, research, rural development and foreign and domestic food programs for five years through 2023. The new Farm Bill continues to provide support for crop insurance programs and commodity support programs, strengthen livestock disaster programs, and provides dairy producers with an updated voluntary margin protection program that will provide more flexibility to dairy operations. The Farm Bill also authorizes the production and marketing of industrial hemp in accord with state or federal regulations.

Many provisions of the Farm Bill will require the United States Department of Agriculture to develop rules and procedures to fully implement these authorities. The timing for the issuance of those rules is uncertain and has been impacted by the ongoing shutdown of portions of the Federal government.

Loan Portfolio

Total loans outstanding were $79.5 million at December 31, 2018, an increase of $1 million, or 1.3%, from loans at December 31, 2017 of $78.4 million, and an increase of $1.3 million, or 1.7%, from loans at December 31, 2016 of $77.2 million. The increase in loans in 2018 from 2017 and 2016 was primarily due to the new real estate mortgage loan volume. The types of loans outstanding at December 31 are reflected in the following table.

	2018		2017		2016	
(dollars in thousands)	Amount	Percentage	Amount	Percentage	Amount	Percentage
Real estate mortgage loans	$ 75,546	95.08 %	$ 74,671	95.20 %	$ 73,246	94.94 %
Production and intermediate-term loans	3,907	4.92	3,764	4.80	3,905	5.06
Total loans	$ 79,453	100.00 %	$ 78,435	100.00 %	$ 77,151	100.00 %

In 2018, real estate mortgage loans outstanding were $75.5 million, compared with $74.7 million at December 31, 2017, as new loan volume, including participations purchased, exceeded payoffs and pay downs. Long-term mortgage loans are primarily used to purchase, refinance or improve real estate. These loans have maturities ranging from 5 to 40 years. Real estate mortgage loans are also made to rural homeowners. By federal regulation, a real estate mortgage loan must be secured by a first lien and may only be made in an amount up to 85% of the original appraised value of the property, or up to 97% of the appraised value, if the loan is guaranteed by certain state, federal, or other governmental agencies. Under our current underwriting standards, we loan less than the regulatory limit of 85% of the appraised value of the property.

The production and intermediate-term loans increased to $3.9 million compared to $3.8 million in 2017, primarily due to growth in new loan volume including participations purchased. Production loans are used to finance the ongoing operating needs of agricultural producers. Production loans generally match the borrower's normal production and marketing cycle, which is typically 12 months. Intermediate-term loans are generally used to finance depreciable capital assets of a farm or ranch. Intermediate-term loans are written for a specific term, 1 to 15 years, with most loans being less than 10 years.

Portfolio Diversification

While we make loans and provide financially related services to qualified borrowers in agricultural and rural sectors and to certain related entities, our loan portfolio is diversified by loan participations purchased and sold, geographic locations served, commodities financed and loan size as illustrated in the following three tables.

We purchase loan participations from other System entities to generate additional earnings and diversify risk related to existing commodities financed and our geographic area served. In addition, we sell a portion of certain large loans to other System entities to reduce risk and comply with lending limits we have established.

Our volume of participations purchased and sold as of December 31, is as follows:

(dollars in thousands)	2018	2017	2016
Participations purchased	$ 7,036	$ 750	$ 495
Participations sold	1,754	2,844	2,384

We have no purchased loans, loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests that are held in lieu of retaining a subordinated participation interest in the loans sold.

The geographic distribution of loans by county at December 31 follows. As previously mentioned we purchase loan participations outside our territory, which are included as Other in the following table.

	2018		2017		2016	
(in thousands of dollars)	Number	Volume	Number	Volume	Number	Volume
Hawaii	250	$ 46,245	253	$ 50,057	257	$ 50,051
Oahu	39	9,613	36	6,970	38	9,204
Kauai	25	6,862	26	7,384	27	7,405
Maui	41	9,697	59	13,274	51	9,996
Other	8	7,036	4	750	4	495
	363	$ 79,453	378	$ 78,435	377	$ 77,151

The following table shows the primary agricultural commodities produced by our borrowers based on the Standard Industrial Classification System (SIC) published by the federal government. This system is used to assign commodity or industry categories based on the primary business of the customer. A primary business category is assigned when the commodity or industry accounts for 50% or more of the total value of sales for a business; however, a large percentage of agricultural operations typically include more than one commodity.

(in thousands of dollars)	December 31,					
	2018		2017		2016	
Commodity	**Amount**	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**
Fruits and nuts	$ 24,055	30.27%	$ 23,552	30.03%	$ 23,503	30.46%
Cattle and livestock	20,679	26.03%	20,659	26.34%	20,273	26.28%
Flowers and foliage	8,700	10.95%	7,613	9.70%	7,730	10.02%
Vegetables	8,587	10.81%	8,220	10.48%	8,391	10.88%
Other	17,432	21.94%	18,391	23.45%	17,254	22.36%
	$ 79,453	100.00%	$ 78,435	100.00%	$ 77,151	100.00%

The Association's credit risk associated with commodities reflects somewhat of a concentration in the broad categories of fruits and nuts and cattle and livestock. It should be noted, however, that there is a wide range of individual commodities within each of those broad categories and they were combined for presentation purposes. Overall credit quality within each broad commodity group has been satisfactory with each of these commodity groups reflecting at least 97% overall credit quality (Acceptable and OAEM loans) except for other, which is at 94%. The other commodities represent several loan commodities the largest of which is coffee.

Repayment ability of our borrowers is closely related to the production and profitability of the commodities they raise. If a loan fails to perform, restructuring and/or other servicing alternatives are influenced by the underlying value of the collateral which is impacted by industry economics. Our future performance would be negatively impacted by adverse agricultural conditions. The degree of the adverse impact would be correlated to the commodities negatively affected and the magnitude and duration of the adverse agricultural conditions to our borrowers.

The overall commodity concentration risk has remained relatively stable. The potential risk exposure within each commodity group is modest. The purchase of interests in participation loans continues to help balance our concentration within the loan portfolio. The Association has also established policies to monitor and control the level of risk in the portfolio. These policies include a concentration of risk policy to limit the concentration of risk in any one commodity, or in large loans. There is also a counterparty-risk policy to monitor the concentration of third party risk (i.e. loan participations purchased) from any one association or institution. As of December 31, 2018, loan volume in all commodities was within established risk parameters for all commodity groups. Large loan volume was also within established risk parameters. As of December 31, 2018, all counterparty risks were within established risk parameters.

Statistics and information from Hawaii Agricultural Statistics Service (HASS) are included in the commodity summaries that follow.

Fruits and Nuts: Overall performance in this group remained generally satisfactory with most loans paying per terms. Overall credit quality decreased slightly from 100% acceptable and OAEM to 99.5% at December 31, 2018.

Overall credit quality for our macadamia nut growers has remained good. Prices have improved since previous weak years. For the 2017 - 2018 year, farm prices averaged $1.10 per pound, a new record price. Strong demand continued for nuts coming from Asian markets, primarily China. Increased demand was compounded by the fact that Australia's macadamia nut-producing areas have again been hit by drought conditions, which have reduced their yields and quality of product. This has resulted in increased demand and prices for Hawaii's crop. Future prices are expected to stay favorable as Asian countries improve their economic base and overall quality of living. Loan performance in this segment of the loan portfolio has remained good.

Nursery (Flowers and Foliage): Estimated grower sales of Hawaii's flower and nursery products totaled $77.6 million in 2017, (the most current available data), which was up from the $74.5 million of the prior year, according to the USDA National Agricultural Statistics Service, Hawaii Field Office. Decreases were recorded in cut and potted orchids, landscape plant material, lei flowers, foliage, bedding and garden plants. Increases were noted in potted flowering plants, plant rentals and other nursery products. Production is expected to show a decrease in 2018 as the volcanic eruptions in the Puna area of the Big Island destroyed a large segment of the cut orchid producers. It is not certain if this group of farmers will be able to reestablish operations in other locations. Some growers may elect to discontinue operations, including those at or nearing retirement age. Prices for remaining producers remain strong due to the resultant lack of supply.

Overall credit quality remained strong with 99.9% overall credit quality. Loans are performing per terms. Overall performance in this segment of the portfolio has been satisfactory.

Cattle and Livestock: Overall volume in this area remains very heavily centered in beef cattle. Cattle prices had been strong, but trended downward in 2016. Prices rebounded during 2017 and have remained stable through most of 2018.

2018 experienced increased rainfall for the majority of the state, resulting in all islands being removed from past drought monitoring lists. Pasture conditions were excellent for most of the year, which assisted ranchers in pushing better quality grass fat product and larger calves to market. Former A&B sugar lands on the Island of Maui continue to be developed into pasture lands, with further herd expansion expected. The State of Hawaii is now allowing locally-raised beef to enter the school lunch program. This is expected to increase demand for locally-raised hamburger and stew meats. However, two up-and-coming dairies (one on the Big Island and one on Kauai) have decided to cease operations due to various environmental, economic, and other difficulties. This leaves the state with just one producing dairy.

Processing and slaughter capacity for all types of livestock on all islands continues to be a concern. Backlog in slaughter is still being experienced by most ranches. One slaughterhouse's decision to no longer slaughter hogs, sheep, and goats has had a negative impact to local producers of these commodities.

Overall credit quality within this commodity remained generally satisfactory.

Vegetables: Vegetables and produce continued to rank high (exclusive of pineapples and sugar cane) in terms of the value of farm production within the state. The Hawaii Agricultural Statistics estimated the farm value of vegetables and melons at $45.4 million in 2017, which was down from a value of $49.2 million in 2016.

Extremely rainy conditions in 2018 may have had some adverse effects for vegetable and produce farmers. No data is presently available regarding significant negative effects. Growers that are under shade or greenhouse typically are not affected by increased rainfall. Adverse conditions were likely experienced by all field grown products for a period of time. Most significant effects were experienced by sweet potato and ginger root producers. Prices remain favorable or good for most commodities. The recent acceptance of local vegetables into the school lunch program will provide good market support for this group.

Other Commodities: Volume in this area is comprised of several other commodities, the largest of which is coffee.

Production for 2018-19 crop year was estimated at 24.6 million pounds (cherry basis), which was down 14% from the prior year. This was mainly attributed to significant volcanic activities that sent plumes of volcanic ash and gasses through the coffee regions of Ka'u and Kona. This occurred during the peak flowering season, which resulted in the burn off or non-development of flowers. The offset to the lower production was record high prices for coffee that was available. Although yields were lower, the offsetting higher prices helped farmers remain profitable.

Volcanic activities have ceased and subjects are now experiencing good flowering for the 2019-20 crop season. This area is still considered one of growth with increased entrants into this market. Several larger farms will be entering production within the next several years. Due to strong demand for the product, this additional production is not expected to have overall negative effects.

The coffee berry borer remains a concern for the industry, though controlling measures are showing signs of progress to lessen its impact on yields.

The principal balance outstanding at December 31, 2018 for loans $250 thousand or less accounted for 30.9% of loans outstanding and 69.4% of the number of loans. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. The table below details loan principal by dollar size at December 31.

Loans By Size

	2018		2017		2016	
(dollars in thousands)	**Amount Outstanding**	**Number of Loans**	**Amount Outstanding**	**Number of Loans**	**Amount Outstanding**	**Number of Loans**
$1 – $250	$ 24,512	252	$ 28,137	268	$ 29,161	277
$251 – $500	26,309	77	27,481	81	25,608	74
$501 – $1,000	17,721	27	15,631	24	13,453	20
$1,001 – $5,000	10,911	7	7,186	5	8,929	6
$5,001 - $25,000	-	-	-	-	-	-
	$ 79,453	363	$ 78,435	378	$ 77,151	377

Credit guarantees with government agencies of $10.7 million at December 31, 2018, $11.2 million at December 31, 2017, and $10.9 million at December 31, 2016 were outstanding.

Credit Commitments

We may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of our borrowers. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in our consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. We may also participate in standby letters of credit to satisfy the financing needs of our borrowers. These standby letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2018.

(dollars in thousands)	Less Than 1 Year	1 - 3 Years	3 - 5 Years	Over 5 Years	Total
Commitments to extend credit	$ 2,858	$ 4,703	$ -	$ 179	$ 7,740
Standby letters of credit	-	191	-	-	191
Total commitments	$ 2,858	$ 4,894	$ -	$ 179	$ 7,931

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance sheet credit risk because their amounts are not reflected on the Consolidated Statements of Condition until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and we apply the same credit policies to these commitments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on our credit evaluation of the borrower. No material losses are anticipated as a result of these credit commitments.

High Risk Assets

Nonperforming loan volume is comprised of nonaccrual loans, restructured loans, and loans 90 days past due still accruing interest and are referred to as impaired loans. High risk assets consist of impaired loans and other property owned. Comparative information regarding high risk assets in the portfolio, including accrued interest, follows:

(in thousands of dollars)	2018	2017	2016
Nonaccrual loans			
Real estate mortgage	$ 648	$ 697	$ -
Total nonaccrual loans	648	697	-
Accruing restructured loans			
Real estate mortgage	1,059	745	225
Total accruing restructured loans	1,059	745	225
Accruing loans 90 days past due			
Real estate mortgage	-	-	712
Total accruing loans 90 days past due	-	-	712
Total impaired loans	1,707	1,442	937
Other property owned	-	-	789
Total high risk assets	$ 1,707	$ 1,442	$ 1,726
Nonaccrual loans to total loans	0.82%	0.89%	0.00%
Impaired loans to total loans	2.15%	1.84%	1.21%
High risk assets to total loans	2.15%	1.84%	2.24%
High risk assets to total members' equity	5.93%	5.29%	6.10%

Total high risk assets increased by $265 thousand, or 18.4%, to $1.7 million at December 31, 2018 compared to $1.4 million at December 31, 2017. The increase in our high risk assets was primarily due to an increase in accruing restructured loans.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. Nonaccrual loans decreased $49 thousand compared with December 31, 2017 due to repayment on a nonaccrual loan. In 2018, 2017 and 2016, we had no nonaccrual loans current as to principal and interest.

Accruing restructured loans including related accrued interest increased $314 thousand during 2018 as a result of the restructure of certain real estate mortgage loans. The accruing restructured loans include only the year-end balances of loans and related accrued interest on which monetary concessions have been granted to borrowers and that are in accrual status. Accruing restructured loans do not include loans on which monetary concessions have been granted but which are in nonaccrual status.

There were no loans 90 days past due and still accruing interest at December 31, 2018 and 2017. The Association had $712 thousand in loans that were 90 days past due and still accruing interest at December 31, 2016.

Other property owned is real or personal property that has been acquired through foreclosure, deed in lieu of foreclosure or other means. The Association had no other property owned at December 31, 2018 and 2017. The Association reported one property valued at $789 thousand as other property owned at December 31, 2016. High risk asset volume may increase in the future as the local economy is fragile and changes nationally could negatively impact it.

Credit Quality

We review the credit quality of the loan portfolio on an on-going basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System (UCS), which is used by all System institutions. Below are the classification definitions:

- 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 as substandard assets. However, doubtful assets have additional weaknesses in existing facts that make collection in full highly questionable.
- Loss – Assets are not considered collectible.

The following table presents statistics based on UCS related to the credit quality of the loan portfolio, including accrued interest at December 31.

	2018	2017	2016
Acceptable	96.17 %	96.78 %	96.35 %
OAEM	1.49	0.75	1.48
Substandard	2.34	2.47	2.17
	100.00 %	100.00 %	100.00 %

The overall quality of the loan portfolio has remained stable the last several years. Loans classified as "Acceptable" or "OAEM" as a percentage of total loans and accrued interest receivable were 97.7% at December 31, 2018, 97.5% at December 31, 2017, and 97.8% at December 31, 2016. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans decreased to 2.0% at December 31, 2018 compared to 3.8% at December 31, 2017 and 2.9% at December 31, 2016. With our borrowers' generally strong financial positions and the continued emphasis on sound underwriting standards, the credit quality of our loan portfolio remains strong. Agriculture remains a cyclical business that is heavily influenced by production, operating costs and commodity prices. Each of these can be significantly impacted by uncontrollable events.

Allowance for Loan Losses

We maintain an allowance for loan losses at a level consistent with the probable and estimable losses inherent in the loan portfolio identified by management. The allowance for loan losses at each period end was considered to be adequate to absorb probable losses existing in the loan portfolio. Because the allowance for loan losses considers factors such as current agricultural and economic conditions, loan loss experience, portfolio quality and loan portfolio composition, there will be a direct impact to the allowance for loan losses and our income statement when there is a change in any of those factors. The following table provides relevant information regarding the allowance for loan losses as of the end of the last three fiscal years

(dollars in thousands)	2018	2017	2016
Balances at beginning of year	$ 1,400	$ 1,400	$ 1,400
Charge–offs			
Real estate mortgage		-	-
Total charge–offs	-	-	-
Balances at end of year	$ 1,400	$ 1,400	$ 1,400
Net charge-offs (recoveries) to average net loans	0.00 %	0.00 %	0.00 %

The following table presents the allowance for loan losses by loan type as of the end of the last three fiscal years.

(in thousands of dollars)	2018	2017	2016
Real estate mortgage	$ 918	$ 918	$ 918
Production and intermediate-term	482	482	482
	$ 1,400	$ 1,400	$ 1,400

The allowance for loan losses was $1.4 million at December 31, 2018, 2017 and 2016. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 is shown in the following table.

	2018	2017	2016
Allowance for loan losses as a percentage of			
Loans	1.76%	1.78%	1.81%
Impaired loans	82.02%	97.09%	100.49%
Nonaccrual loans	216.05%	200.86%	0.00%

Young, Beginning and Small Farmers and Ranchers Program

As part of the System, we are committed to providing sound and dependable credit and related services to young, beginning and small (YBS) farmers and ranchers

Farm Credit Services of Hawaii, ACA recognizes that young, beginning and small (YBS) farmers represent the future of agriculture in Hawaii and have unique and diverse needs, but may have difficulty finding adequate financing. We are committed to serving the unique and diverse needs of YBS and Minority farmers and strive to provide sound, constructive and competitive credit to these farmers in both good times and bad.

We also recognize the role education plays in the ongoing viability of agriculture in Hawaii, and believe that investments in local 4-H and Future Farmers of America are investments in the future of agriculture in Hawaii. We remain committed to the upcoming generation of farmers and ranchers and strive to show our continued support through various outreach activities including scholarships and grants.

The FCA regulatory definitions for YBS farmers and ranchers are shown below.

- Young Farmer: A farmer, rancher, or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.
- Beginning Farmer: A farmer, rancher, or producer or harvester of aquatic products who had 10 years or less farming or ranching experience as of the date the loan was originally made.
- Small Farmer: A farmer, rancher, or producer or harvester of aquatic products who normally generated less than $250 thousand in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

The following table outlines our percentage of YBS loans within our chartered territory as a percentage of our loan portfolio (by number) that is within our chartered territory as of December 31. The USDA column represents the percent of farmers and ranchers classified as YBS within our territory per the 2012 USDA Agricultural Census, which is the most current data available. Due to FCA regulatory definitions, a loan may be included in multiple categories as each would be included in each category in which the definition was met.

	December 31			
	2018	2017	2016	USDA
Young	10.89%	9.63%	9.65%	7.00%
Beginning	61.03%	63.10%	62.73%	33.10%
Small	71.35%	72.46%	71.85%	96.40%

Note that several differences exist in definitions between USDA statistics and our data due to our use of FCA definitions. Young farmers are defined as 34 years old and younger by the USDA, while FCA definitions include farmers 35 years old and younger. Beginning farmers are defined by FCA as those with 10 years or less farming experience; however, the USDA identifies beginning farmers as on their current farm less than 10 years. This may include both beginning farmers and experienced farmers who have recently changed farmsteads. Our percentages are based on the number of loans in our portfolio, while the USDA percentages are based on the number of farmers and ranchers. While these definition differences do exist, the information is the best comparative information available.

We establish annual marketing goals to increase market share of loans to YBS farmers and ranchers. Our goals are as follows:

- **Annual Scholarship Program** – We continue to annually offer two $1,500 scholarships to two deserving students who will further their education in agriculture at an accredited university of their choice.

- **4-H Livestock Program** – Grant funds are available to help subsidize qualified 4-H and FFA projects on the islands of Oahu, Kauai, Hawaii, Maui, and Molokai/Lanai (Grant funds total $2,500). A University of Hawaii extension agent coordinates the distribution of grant funds for the Association.

- **Speaking Engagements**-We continue speaking engagements at the University of Hawaii campus at Hilo and Manoa and meet with students and teachers to discuss our role in financing agriculture in the state of Hawaii and the lending programs available to young and beginning farmers.

- **Community Outreach Activities** – We continue to participate in community fairs and trade shows.

- **Coordination with Farm Service Agency (FSA)** – We are a Preferred Lender with Farm Service Agency and continue to actively use the FSA loan guarantee program. We work closely with local FSA offices to "graduate" FSA borrowers from direct lending to Farm Credit Financing. Our Preferred Lender status with Farm Service Agency was renewed for another 5 years in 2015.

- **Advertising** – We have included information on our programs for Young, Beginning, Small and Minority Farmers in our advertising in various magazines and our web site.

The Association's goal for 2018 called for a 5% increase in YBS volume in each YBS category. The table below summarizes the volume of new loans that were made for each YBS category and the changes in actual YBS volume for 2018.

The YBS loan volume change is summarized below:

(in thousands of dollars)	Young	Beginning	Small
Balances at December 31, 2017	$ 6,406	$ 53,146	$ 58,299
New loans	2,393	6,919	7,654
Pay offs, pay downs	(1,261)	(12,294)	(12,477)
Balances at December 31, 2018	$ 7,538	$ 47,771	$ 53,476
Increase (decrease)	$ 1,132	$ (5,375)	$ (4,823)

New YBS loan volume goals are as follows:

(in thousands of dollars)	Young	Beginning	Small
2016	294	2,647	2,825
2017	325	3,408	4,944
2018	336	2,689	2,907
2019	353	2,823	3,053

As can be seen in the table, the Association's volume of new loans for Young, Beginning and Small Farmer new loan volume exceeded the new volume goals for each category. New volume goals and actual 2018 results are shown below:

	Young	Beginning	Small
2018 Goal new volume	$ 336	$ 2,689	$ 2,907
Actual new loan volume	2,393	6,919	7,654
Margin over goal	$ 2,057	$ 4,230	$ 4,747

Unfortunately, the pay-offs/ pay downs of loans did not allow for 5% year-end volume growth in each category. Although, the total volume goals by category were not met, the number of Young and Beginning Farmers on a percentage basis continued to exceed area demographics.

To ensure that credit and services offered to our YBS farmers and ranchers are provided in a safe and sound manner and within our risk-bearing capacity, we utilize the financing programs adopted by the Association Board of Directors to facilitate the extension of credit to YBS farmers, ranchers, or producers or harvesters of aquatic products. The association has specific YBS lending standards and maintains Preferred Lender Status with Farm Service Agency and works with them to obtain loan guarantees on loan applications from YBS applicants. YBS loan policies also allow loan-pricing exceptions to make loans more affordable to YBS applicants.

Credit Risk Management

Credit risk arises from the potential failure of a borrower to meet repayment obligations that result in a financial loss to the lender. Credit risk exists in our loan portfolio and also in our unfunded loan commitments and standby letters of credit. Credit risk is actively managed on an individual and portfolio basis through application of sound lending and underwriting standards, policies and procedures.

Underwriting standards are utilized to determine an applicant's operational, financial, and managerial resources available for repaying debt within the terms of the note and loan agreement. Underwriting standards include among other things, an evaluation of:

- Character – borrower integrity and credit history;
- Capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income;
- Collateral – to protect the lender in the event of default and also serve as a secondary source of loan repayment;
- Capital – ability of the operation to survive unanticipated risks; and,
- Conditions – intended use of the loan funds, terms, restrictions, etc.

Processes for information gathering, balance sheet and income statements verification, loan analysis, credit approvals, disbursements of proceeds and subsequent loan servicing actions are established and followed. Underwriting standards vary by industry and are updated periodically to reflect market and industry conditions.

By regulation, we cannot have loan commitments to one borrower for more than 15% of our permanent capital. Additionally, we set our own lending limits to manage loan concentration risk. Lending limits have been established for individual loan size, commodity type, special lending programs and geographic concentrations. We have adopted an individual lending limit maximum of 10% of permanent capital for our highest quality borrowers.

We have established internal lending delegations to properly control the loan approval process. Delegations to staff are based on our risk-bearing ability, loan size, complexity, type and risk, as well as the expertise and position of the credit staff member. Larger and more complex loans or loans perceived to have higher risk are typically approved by our loan committee with the most experienced and knowledgeable credit staff serving as members.

The majority of our lending is first mortgage real estate loans which must be secured by a first lien on real estate. Production and intermediate-term lending accounts for most of the remaining volume and is typically secured by livestock, crops and equipment. Collateral evaluations are completed in compliance with FCA and Uniform Standards of Professional Appraisal Practices requirements. All property is appraised at market value. All collateral evaluations must be performed by a qualified appraiser. Certain appraisals must be performed by individuals with a state certification or license.

We use a two-dimensional risk rating model (Model) based on the Farm Credit System's Combined System Risk Rating Guidance. The Model estimates each loan's probability of default (PD) and loss given default (LGD). PD estimates the probability that a borrower will experience a default within twelve months from the date of determination. LGD provides an estimation of the anticipated loss with respect to a specific financial obligation of a borrower assuming a default has occurred or will occur within the next twelve months. The Model uses objective and subjective criteria to identify inherent strengths, weaknesses, and risks in each loan.

The Model's 14-point probability of default scale provides for nine acceptable categories, one OAEM category, two substandard categories, one doubtful category and one loss category; each carrying a distinct percentage of default probability. The Model's LGD scale provides 6 categories, A through F, that have the following anticipated principal loss and range of economic loss expectations:

- A 0% anticipated principal loss; 0% to 5% range of economic loss
- B 0% to 3% anticipated principal loss; >5% to 15% range of economic loss
- C > 3% to 7% anticipated principal loss; >15% to 20% range of economic loss
- D > 7% to 15% anticipated principal loss; >20% to 25% range of economic loss
- E > 15% to 40% anticipated principal loss; >25% to 50% range of economic loss
- F above 40% anticipated loss; above 50% range of economic loss

Results of Operations

Earnings Summary

In 2018, we recorded net income of $440 thousand, compared with $185 thousand in 2017, and $356 thousand in 2016. The increase in 2018 was primarily due to an increase in net interest income and noninterest income and a decrease in non-interest expense. The decrease in 2017 net income was primarily due to lower interest income as a result of higher interest expense.

The following table presents the changes in the significant components of net income from the previous year.

(dollars in thousands)	**2018 vs. 2017**	**2017 vs. 2016**
Net income, prior year	$ 185	$ 356
Increase (decrease) from changes in:		
Interest income	693	(20)
Interest expense	(564)	(285)
Net interest income	129	(305)
Noninterest income	80	(39)
Noninterest expense	99	134
Provision for income taxes	(53)	39
Total increase(decrease) in net income	255	(171)
Net income, current year	$ 440	$ 185

Return on average assets increased to 0.50% from 0.21% in 2018, and return on average shareholders' equity increased to 1.57% from 0.67% in 2018, primarily as a result of an increase in earnings.

Net Interest Income

Net interest income for 2018 was $3.4 million compared with $3.3 million for 2017 and $3.6 million for 2016. Net interest income is our principal source of earnings and is impacted by interest earning asset volume, yields on assets and cost of debt. The table below provides an analysis of the individual components of the change in net interest income during 2018 and 2017.

(dollars in thousands)	**2018 vs. 2017**	**2017 vs. 2016**
Net interest income, prior year	$ 3,277	$ 3,582
Increase (decrease) in net interest income from changes in		
Interest rates earned and paid	(43)	(156)
Volume of accruing assets/interest bearing liabilities	172	(109)
Interest income on nonaccrual loans	-	(40)
Increase (decrease) in net interest income	129	(305)
Net interest income, current year	$ 3,406	$ 3,277

The following table illustrates net interest margin and the average interest rates on loans and debt cost and interest rate spread.

	For the Year Ended December 31		
	2018	**2017**	**2016**
Net interest margin	4.35 %	4.38 %	4.63 %
Interest rate on			
Average loan volume	5.90 %	5.33 %	5.13 %
Average debt	2.16 %	1.31 %	0.75 %
Interest rate spread	3.74 %	4.02 %	4.38 %

During 2018, the decrease in net interest rate spread resulted from a 57 basis point increase in interest rates on average loan volume and an 85 basis point increase in interest rates on average debt.

During 2017, the decrease in net interest rate spread resulted from a 20 basis point increase in interest rates on average loan volume and a 56 basis point increase in interest rates on average debt. Net interest margin decreased from the decrease of net interest income on nonaccrual loans.

In August 2017, CoBank announced changes to their capital plans and patronage programs for eligible customer-owners designed to address a number of marketplace challenges. Such challenges include, among others, higher minimum capital requirements under the New Capital Regulations in addition to other increased regulatory costs, the impact of a prolonged low interest rate environment on returns on invested capital, decreased returns on equity and assets, declining spreads and net interest margin driven by intense competition in the banking industry, and low and declining spreads in rural electric and water loans. These changes are intended to strengthen CoBank's long-term capacity to serve customers' borrowing needs, enhance the ability to capitalize future customer growth, and ensure equitability among different customer segments.

Pursuant to the changes approved by CoBank's Board of Directors, CoBank created two separate capital plans for cooperative and other eligible direct borrowers under which targeted patronage levels and cash/equity splits will be more equitably balanced between earnings generated by different customer portfolios and the use of CoBank by its patronage-eligible members. Pursuant to these new plans, agribusiness, communications and project finance customers are in one plan, while rural electric and water customers are in another. In addition, target patronage levels for all customers and partners are reduced under the new plans.

For cooperatives and other eligible direct borrowers as well as for loans purchased from other Farm Credit institutions, the new target patronage levels took effect in the 2018 calendar year and will be reflected in patronage distributions made in March 2019. Affiliated Associations and non-affiliated Farm Credit and other financing institutions will transition to their new target patronage levels over a multiyear period ending in 2020. No changes are being made to target equity requirements or the loan base periods for any borrower or commercial partner.

Provision for Loan Losses/(Loan Loss Reversals)
We monitor our loan portfolio on a regular basis to determine if any increase through provision for loan losses or decrease through a loan loss reversal in our allowance for loan losses is warranted based on our assessment of the probable and estimable losses inherent in the loan portfolio. We recorded no provision for loan loss in 2018, 2017 and 2016.

Noninterest Income
During 2018, we recorded noninterest income of $365 thousand, compared with $285 thousand in 2017 and $324 thousand in 2016. Patronage distributions from CoBank are our primary source of noninterest income. Patronage is accrued in the year earned and then received from CoBank in the following year. CoBank patronage is distributed in cash. Patronage earned from Farm Credit Institutions was $303 thousand in 2018, $248 thousand in 2017, and $260 thousand in 2016.

Noninterest income also includes loan fees, financially related services income and other noninterest income.

Noninterest Expense
Noninterest expense for 2018 decreased $99 thousand, or 3.0%, to $3.3 million compared with $3.4 million for 2017. During 2017 noninterest expense decreased by $134 thousand, or 3.8%, compared with $3.5 million for 2016. Noninterest expense for each of the three years ended December 31 is summarized below:

(dollars in thousands)	2018	2017	2016	Percent of Change 2018/2017	Percent of Change 2017/2016
Salaries and employee benefits	$ 1,864	$ 1,911	$ 1,855	(2.46)%	3.07 %
Occupancy and equipment	197	211	202	(6.64)	4.46
Supervisory and examination costs	42	37	35	13.51	5.71
Other	1,155	1,175	1,317	(1.70)	(10.78)
Total operating expense	3,258	3,334	3,409	(2.28)	(2.17)
Loss on other property owned, net	-	5	51	(100.00)	(90.20)
Farm Credit Insurance Fund premium	39	57	70	(31.58)	(18.57)
Total noninterest expense	$ 3,297	$ 3,396	$ 3,530	(2.92)%	(3.77)%

For the year ended December 31, 2018, total operating expense decreased $76 thousand, or 2.3%, compared with the year ended December 31, 2017, primarily due to decreased salaries and employee benefits.

Insurance Fund premium decreased $18 thousand to $39 thousand due to a decrease in the premium rate.

We recorded $34 thousand of provision for income taxes during 2018, compared with $19 thousand in benefit from income taxes during 2017 and a $20 thousand provision for taxes in 2016.

Liquidity

Liquidity is necessary to meet our financial obligations. Liquidity is needed to pay our note with CoBank, fund loans and other commitments, and fund business operations in a cost-effective manner. Our liquidity policy is intended to manage short-term cash flow, maximize debt reduction and liquidate nonearning assets. Our direct loan with CoBank, cash on hand and borrower loan repayments provide adequate liquidity to fund our on-going operations and other commitments.

Funding Sources

Our primary source of liquidity is the ability to obtain funds for our operations through a borrowing relationship with CoBank. Our note payable to CoBank is collateralized by a pledge to CoBank of substantially all of our assets. Substantially all cash received is applied to the note payable and all cash disbursements are drawn on the note payable. The indebtedness is governed by a General Financing Agreement (GFA) with CoBank which matures on December 31, 2022. The annual average principal balance of the note payable to CoBank was $58.8 million in 2018, $57.3 million in 2017 and $56.6 million in 2016.

We plan to continue to fund lending operations through the utilization of our funding arrangement with CoBank, retained earnings from current and prior years and from borrower stock investments. CoBank's primary source of funds is the ability to issue System-wide Debt Securities to investors through the Federal Farm Credit Bank Funding Corporation. This access has traditionally provided a dependable source of competitively priced debt that is critical for supporting our mission of providing credit to agriculture and rural America. Although financial markets experienced significant volatility in the last few years, we were able to obtain sufficient funding to meet the needs of our customers.

During 2018 CoBank notified us of certain potential defaults in the areas of regulatory compliance, governance, business operations and strategic direction which we are in the process of addressing. We have not been notified of a default in the GFA and are not in default. A cure period through June 30, 2019 has been established.

Interest Rate Risk

The interest rate risk inherent in our loan portfolio is substantially mitigated through our funding relationship with CoBank which allows for loans to be match-funded. Borrowings from CoBank match the pricing, maturity, and option characteristics of our loans to borrowers. CoBank manages interest rate risk through the direct loan pricing and its asset/liability management processes. Although CoBank incurs and manages the primary sources of interest rate risk, we may still be exposed to interest rate risk through the impact of interest rate changes on earnings generated from our loanable funds.

Funds Management

We offer variable, fixed, adjustable and prime-based rate loans to borrowers. Our Board of Directors determines the interest rate charged based on the following factors: 1) the interest rate charged by CoBank; 2) our existing rates and spreads; 3) the competitive rate environment; and 4) our profitability objectives.

Capital Resources

Capital supports asset growth and provides protection for unexpected credit and operating losses. Capital is also needed for investments in new products and services. We believe a sound capital position is critical to our long-term financial success due to the volatility and cycles in agriculture. Over the past several years, we have been able to build capital primarily through net income retained after payment of dividends. Members' equity at December 31, 2018 totaled $28.8 million compared with $27.3 million at December 31, 2017 and $28.3 million at December 31, 2016. The 2018 increase of $1.5 million in shareholders' equity reflects net income and net stock issuances, dividends paid and other comprehensive gain from a nonqualified Defined Benefit Pension Restoration Plan. Our capital position is reflected in the following ratio comparisons.

	2018	2017	2016
Debt to shareholders' equity	2:08:1	2:18:1	2:04:1
Shareholders' equity as a percent of loans	36.23%	34.78%	36.68%
Shareholders' equity as a percent of total assets	32.48%	31.43%	32.92%

Retained Earnings

Our retained earnings was $28.5 million at December 31, 2018, $28.0 million at December 31, 2017 and $28.0 million at December 31, 2016. The 2018 retained earnings increased due to net income of $440 thousand.

Dividends

No dividends were declared or paid in 2018. $125 thousand in dividends were paid for each of the years ended December 31, 2017 and 2016 based on the prior years income.

Stock

Our total stock and participation certificates decreased $17 thousand to $309 thousand at December 31, 2018 and increased $3 thousand to $326 thousand at December 31, 2017. The decrease in 2018 was due to $34 thousand of stock issuances, offset by $51 thousand of stock retirements. We require a stock investment for each borrower loan. The current initial investment requirement is the lesser of 2% of the loan amount or $1 thousand

Accumulated Other Comprehensive Income or Loss
Accumulated other comprehensive loss of $1.1 million was reported at December 31, 2017, the initial year that the Association was required to report these losses related to the Association's non-qualified Defined Benefit Pension Restoration Plan (Plan). During 2018, the Plan's sole participant withdrew and the Accumulated Other Comprehensive Loss of $1.1 million was reversed. There are no employees in the plan at December 31, 2018.

Capital Plan and Regulatory Requirements
Our Board of Directors establishes a formal capital adequacy plan that addresses capital goals in relation to risks. The capital adequacy plan assesses the capital level necessary for financial viability and to provide for growth. Our plan is updated annually and approved by our Board of Directors. FCA regulations require the plan consider the following factors in determining optimal capital levels, including:

- Regulatory capital requirements;
- Asset quality;
- Needs of our customer base; and
- Other risk-oriented activities, such as funding and interest rate risks, contingent and off-balance sheet liabilities and other conditions warranting additional capital.

In 2016, the FCA adopted final rules (the New Capital Regulations) relating to regulatory capital requirements for System banks and Associations. The New Capital Regulations took effect January 1, 2017. The stated objectives of the New Capital Regulations are as follows:

- To modernize capital requirements while ensuring that System institutions continue to hold sufficient regulatory capital to fulfill the System's mission as a government-sponsored enterprise;
- To ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System;
- To make System regulatory capital requirements more transparent; and
- To meet certain requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act).

The New Capital Regulations, among other things, replaced existing core surplus and total surplus requirements with common equity tier 1 (CET1), tier 1 and total capital (tier 1 plus tier 2) risk-based capital ratio requirements. The New Capital Regulations also added a tier 1 leverage ratio for all System institutions, which replaced the existing net collateral ratio for System banks. In addition, the New Capital Regulations established a capital conservation buffer and a leverage buffer and enhanced the sensitivity of risk weightings. The revisions to the risk-weightings included alternatives to the use of credit ratings, as required by the Dodd-Frank Act.

The New Capital Regulations set the following minimum risk-based requirements:

- A CET1 capital ratio of 4.5%;
- A tier 1 capital ratio (CET1 capital plus additional tier 1 capital) of 6.0%; and
- A total capital ratio (tier 1 capital plus tier 2) of 8%.

The New Capital Regulations also set a minimum tier 1 leverage ratio (tier 1 capital divided by total assets) of 4.0%, of which at least 1.5% must consist of unallocated retained earnings (URE) and URE equivalents, which are nonqualified allocated equities with certain characteristics of URE.

The New Capital Regulations established a capital cushion (capital conservation buffer) of 2.5% above the risk-based CET1, tier 1 and total capital requirements. In addition, the New Capital Regulations established a leverage capital cushion (leverage buffer) of 1.0% above the tier 1 leverage ratio requirement. 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 New Capital Regulations established a three-year phase-in of the capital conservation buffer beginning January 1, 2017. There is no phase-in of the leverage buffer. The Permanent Capital Ratio continues to remain in effect; however, the risk-adjusted assets are calculated differently than in the past.

As shown in the following table, at December 31, 2018, our capital and leverage ratios exceeded regulatory minimums. If these capital standards are not met, the FCA can impose restrictions, including limiting our ability to pay patronage distributions and retire equities:

	2018	2017	Minimum Requirement with Buffer
Common Equity Tier 1 Capital ratio	28.58%	29.80%	7.00%
Tier 1 Capital ratio	28.58%	29.80%	8.50%
Total Capital ratio	29.84%	31.60%	10.50%
Tier 1 Leverage ratio	27.47%	27.73%	5.00%
Unallocated Retained Earnings and URE equivalents (UREE) leverage ratio	27.09%	27.32%	1.50%
Permanent capital ratio	32.30%	33.66%	7.00%

The following table shows our capital ratios at December 31 for 2014-2016:

	2016	2015	2014	Regulatory Minimum
Permanent capital ratio	36.60%	35.97%	35.69%	7.00%
Total surplus ratio	36.15%	35.51%	35.25%	7.00%
Core surplus ratio	31.18%	30.44%	30.09%	3.50%

As of December 31, 2018, we exceeded the regulatory minimum and capital ratios. However, the minimum ratios established were not meant to be adopted as the optimum capital level, so we have established goals in excess of the regulatory minimum. As of December 31, 2018, the Association exceed all regulatory capital requirements.

Regulatory Matters

As of December 31, 2018, the Association was operating under three Supervisory Letters issued by the Farm Credit Administration (FCA) dated March 15, 2018, March 29, 2018 and April 3, 2018. The Supervisory Letters, and related FCA correspondence, addressed issues related to Association governance, business operations and strategic direction. Related to the Supervisory Letters, the Association was operating under notices of potential defaults under its General Financing Agreement with CoBank, but the Association was not in default of the General Financing Agreement with CoBank at December 31, 2018 and as of March 15, 2019. Under forbearance relief provided by both FCA and

CoBank, the Association is making significant progress and is taking appropriate corrective actions to address these issues and the notices of potential default as strategic direction alternatives are pursued.

Governance

Board of Directors

We are governed by a five member board that provides direction and oversees our management. Of these directors, four are elected by the shareholders and one is appointed by the elected directors. Our Board of Directors represents the interests of our shareholders. The Board of Directors meets regularly to perform the following functions, among others:

- Selects, evaluates and compensates the chief executive officer;
- Approves the strategic plan, capital plan, financial plan and the annual operating budget;
- Oversees the lending operations;
- Directs management on significant issues; and,
- Oversees the financial reporting process, communications with shareholders and our legal and regulatory compliance.

Director Independence

All directors must exercise sound judgment in deciding matters in our interest. All our directors are independent from the perspective that none of our management or staff serves as Board members. However, we are a financial services cooperative, and the Farm Credit Act and FCA Regulations require our elected directors to have a loan relationship with us.

The elected directors, as borrowers, have a vested interest in ensuring our Association remains strong and successful. However, our borrowing relationship could be viewed as having the potential to compromise the independence of an elected director. For this reason, the Board has established independence criteria to ensure that a loan relationship does not compromise the independence of our Board. Annually, in conjunction with our independence analysis and reporting on our loans to directors, each director provides financial information and any other documentation and/or assertions needed for the Board to determine the independence of each Board member. If the percentage of the independent directors of the Board falls below 75%, the Board will notify the Nominating Committee of the need and desire of the Board to elect shareholders which meet our independence criteria.

Audit Committee

The Audit Committee reports to the Board of Directors. The Audit Committee is composed of the entire Board of Directors. During 2018, fourteen meetings were held. The Audit Committee responsibilities generally include, but are not limited to:

- Oversight of the financial reporting risk and the accuracy of the quarterly and annual shareholder reports;
- The oversight of the system of internal controls related to the preparation of quarterly and annual shareholder reports;
- The review and assessment of the impact of accounting and auditing developments on the consolidated financial statements; and,
- The establishment and maintenance of procedures for the receipt, retention and treatment of confidential and anonymous submission of concerns, regarding accounting, internal accounting controls or auditing matters.
- Oversight of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities.

Compensation Committee

The Compensation Committee is responsible for the oversight of employee and director compensation. The Compensation Committee is composed of the full Board of Directors. The Committee annually reviews, evaluates and approves the compensation policies, programs and plans for senior officers and employees including benefits programs.

Other Governance

The Board has monitored the requirements of public companies under the Sarbanes-Oxley Act. While we are not subject to the requirements of this law, we are striving to implement steps to strengthen governance and financial reporting. We strive to maintain strong governance and financial reporting through the following actions:

- A system for the receipt and treatment of whistleblower complaints;
- A code of ethics for our President/CEO, Chief Financial Officer and Chief Credit Officer;
- Open lines of communication between the independent auditors, management, and the Audit Committee;
- "Plain English" disclosures;
- Officer certification of accuracy and completeness of the consolidated financial statements; and,
- Information disclosure through our website.

Forward-Looking Information

Our discussion contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," and "will," or other variations of these terms are intended to identify forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- Political, legal, regulatory and economic conditions and developments in the United States and abroad;
- Economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- Weather, disease, and other adverse climatic or biological conditions that periodically occur that Impact agricultural productivity and income;
- Changes in United States government support of the agricultural industry and/or the Farm Credit System; and,
- Actions taken by the Federal Reserve System in implementing monetary policy.

Critical Accounting Policies and Estimates

Our consolidated financial statements are based on accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because we have to make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2 of the accompanying consolidated financial statements. The development and selection of critical accounting policies, and the related disclosures, have been reviewed by our Audit Committee. A summary of critical policies relating to determination of the allowance for loan losses follows.

Allowance for Loan Losses

The allowance for loan losses is our best estimate of the amount of probable loan losses inherent in our loan portfolio as of the balance sheet date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. We determine the allowance for loan losses based on a regular evaluation of the loan portfolio, which generally considers recent historical charge-off experience adjusted for relevant factors.

Loans are evaluated based on the borrower's overall financial condition, resources, and payment record; the prospects for support from any financially responsible guarantor; and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses attributable to these loans is established by a process that estimates the probable loss inherent in the loans, taking into account various historical and projected factors, internal risk ratings, regulatory oversight, and geographic, industry and other factors.

Changes in the factors we consider in the evaluation of losses in the loan portfolio could occur for various credit related reasons and could result in a change in the allowance for loan losses, which would have a direct impact on the provision for loan losses and results of operations. See Notes 2 and 3 to the accompanying consolidated financial statements for detailed information regarding the allowance for loan losses.

Customer Privacy

FCA regulations require that borrower information be held in confidence by Farm Credit institutions, their directors, officers and employees. FCA regulations and our Standards of Conduct Policies specifically restrict Farm Credit institution directors and employees from disclosing information not normally contained in published reports or press releases about the institution or its borrowers or members. These regulations also provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic information.

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Report of Independent Auditors

To the Board of Directors of Farm Credit Services of Hawaii, ACA and Subsidiaries:

We have audited the accompanying consolidated financial statements of Farm Credit Services of Hawaii, ACA and its subsidiaries (the "Association"), which comprise the consolidated statements of condition as of December 31, 2018, 2017 and 2016, and the related consolidated statements of comprehensive income, of changes in members' equity, and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Association's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Farm Credit Services of Hawaii, ACA and its subsidiaries as of December 31, 2018, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 15, 2019

PricewaterhouseCoopers LLP, 1100 Walnut Street, Suite 1300, Kansas City, MO 64106
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Farm Credit Services of Hawaii, ACA
Consolidated Statements of Condition
December 31, 2018, 2017 and 2016

(in thousands)	2018	2017	2016
Assets			
Loans	$ 79,453	$ 78,435	$ 77,151
Less: Allowance for loan losses	(1,400)	(1,400)	(1,400)
Net loans	78,053	77,035	75,751
Cash	450	917	1,182
Accrued interest receivable	437	338	314
Investment in CoBank	6,064	6,064	6,064
Other property owned	-	-	789
Premises and equipment, net	409	450	477
Other assets	3,217	1,975	1,380
Total assets	$ 88,630	$ 86,779	$ 85,957
Liabilities			
Notes payable to CoBank	$ 58,778	$ 57,304	$ 56,550
Advance conditional payments	316	324	318
Accrued interest payable	133	81	48
Deferred tax liability	125	91	110
Other liabilities	494	1,703	633
Total liabilities	59,846	59,503	57,659
Commitments and contingencies (Note 14)			
Members' equity			
Capital stock and participation certificates	309	326	323
Unallocated retained earnings	28,475	28,035	27,975
Accumulated other comprehensive loss	-	(1,085)	-
Total members' equity	28,784	27,276	28,298
Total liabilities and members' equity	$ 88,630	$ 86,779	$ 85,957

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

Farm Credit Services of Hawaii, ACA
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2018, 2017 and 2016

(in thousands)	2018	2017	2016
Interest income			
Loans	$ 4,682	$ 3,989	$ 4,009
Interest expense			
Notes payable to CoBank	1,262	705	422
Advance conditional payments	14	7	5
Total interest expense	1,276	712	427
Net interest income	3,406	3,277	3,582
Provision for loan losses	-	-	-
Net interest income after provision for loan losses	3,406	3,277	3,582
Noninterest income			
Patronage distribution from Farm Credit Institutions	303	248	260
Gain on other property owned, net	-	5	-
Other noninterest income	62	32	64
Total noninterest income	365	285	324
Noninterest expense			
Salaries and employee benefits	1,864	1,911	1,855
Occupancy and equipment	197	211	202
Farm Credit Insurance Fund premiums	39	57	70
Supervisory and examination expense	42	37	35
Loss on other property owned, net	-	5	51
Other operating expense	1,155	1,175	1,317
Total noninterest expense	3,297	3,396	3,530
Income before income taxes	474	166	376
Benefit from/(Provision for) income taxes	(34)	19	(20)
Net income	$ 440	$ 185	$ 356
Comprehensive (Loss)/Income			
Actuarial loss in retirement obligation	1,085	(1,085)	-
Total comprehensive (loss)/income	$ 1,525	$ (900)	$ 356

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

Farm Credit Services of Hawaii, ACA
Consolidated Statements of Changes in Members' Equity
Years Ended December 31, 2018, 2017 and 2016

(in thousands)	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Loss	Total Members' Equity
Balances at December 31, 2015	$ 330	$ 27,744	$ -	$ 28,074
Net income	-	356	-	356
Capital stock and participation certificates issued	28	-	-	28
Capital stock and participation certificates retired	(35)	-	-	(35)
Dividends paid		(125)	-	(125)
Balances at December 31, 2016	323	27,975	-	28,298
Net income	-	185	(1,085)	(900)
Capital stock and participation certificates issued	34	-	-	34
Capital stock and participation certificates retired	(31)	-	-	(31)
Dividends paid	-	(125)	-	(125)
Balances at December 31, 2017	326	28,035	(1,085)	27,276
Comprehensive income/(loss)		440	1,085	1,525
Capital stock and participation certificates issued	34		-	34
Capital stock and participation certificates retired	(51)		-	(51)
Dividends paid			-	-
Balances at December 31, 2018	$ 309	$ 28,475	$ -	$ 28,784

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

Farm Credit Services of Hawaii, ACA
Consolidated Statements of Cash Flows
December 31, 2018, 2017, and 2016

(in thousands)	2018	2017	2016
Cash flows from operating activities			
Net income	$ 440	$ 185	$ 356
Adjustments to reconcile net income to net cash used in operating activities			
Loss (gain) on sale of OPO	-	(5)	5
Depreciation	47	53	53
Change in assets and liabilities			
(Increase) decrease in patronage receivable from CoBank	(11)	(11)	2
(Increase) decrease in accrued interest receivable	(99)	(24)	(9)
Increase in other assets	(1,231)	(584)	(545)
Increase in accrued interest payable	52	33	17
Increase (decrease) in deferred tax liabilities	34	(19)	20
(Decrease) increase in other liabilities	(124)	(15)	99
Net cash used in operating activities	(892)	(387)	(2)
Cash flows from investing activities			
(Increase) decrease in loans, net	(1,018)	(634)	717
Acquisition of premises and equipment, net	(6)	(26)	(18)
Proceeds of sales from OPO	-	144	233
Net cash provided by (used in) investing activities	(1,024)	(516)	932
Cash flows from financing activities			
Net draw/(repayment) on note payable to CoBank	1,474	754	(632)
(Decrease) increase in advance conditional payments	(8)	6	83
Dividends paid to stockholders	-	(125)	(125)
Net (retirements)/issuances of capital stock and participation certificates	(17)	3	(7)
Net cash provided by (used in) financing activities	1,449	638	(681)
Net increase (decrease) in cash	(467)	(265)	249
Cash			
Beginning of year	917	1,182	933
End of year	$ 450	$ 917	$ 1,182
Supplemental cash information			
Cash paid during the year for interest	$ 1,224	$ 679	$ 410
Supplemental schedule of noncash investing and financing activities			
Financed sales of other property owned	$ -	$ 650	$ -

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

1. Organization and Operations

Organization

Farm Credit Services of Hawaii, ACA and its subsidiaries, Federal Land Bank Association of Hawaii, (FLBA) and Hawaii Production Credit Association (PCA), (collectively called "the Association") are member-owned cooperatives which provide credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified agricultural purposes in the counties of Honolulu, Hawaii, Maui, and Kauai in the state of Hawaii.

The Association is a lending institution of the Farm Credit System (the System), a nationwide system of cooperatively owned Banks and Associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act). The System is comprised of three Farm Credit Banks, one Agricultural Credit Bank and 69 associations.

CoBank, ACB (funding bank or the "Bank"), its related associations and AgVantis, Inc. (AgVantis) are collectively referred to as the District. CoBank provides the funding to associations within the District and is responsible for supervising certain activities of the District Associations. AgVantis, which is owned by the entities it serves, provides technology and other operational services to certain associations and to CoBank. The CoBank District consists of CoBank, 22 Agricultural Credit Associations (ACA), which each have two wholly owned subsidiaries, (a FLCA and a PCA), and AgVantis.

ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. Generally, the FLCA makes secured long-term agricultural real estate and rural home mortgage loans and the PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System Banks and Associations. The FCA examines the activities of System institutions to ensure their compliance with the Farm Credit Act, FCA regulations and safe and sound banking practices.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). By law, the Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on System wide debt obligations (Insured Debt), (2) to ensure the retirement of protected stock at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary use by the Insurance Corporation in providing assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System Bank is required to pay premiums, which may be passed on to the Associations, into the Insurance Fund based on its annual average outstanding insured debt adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments until the assets in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2% of the aggregate Insured Debt or such other percentage of the Insured Debt as the Insurance Corporation, in its sole discretion, determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, as necessary to maintain the Insurance Fund at the 2% level. As required by the Farm Credit Act, as amended, the Insurance Corporation may return excess funds above the secure base amount to System institutions. The Bank passes this premium expense and the return of excess funds as applicable through to each Association based on the Association's average adjusted note payable with the Bank.

Operations
The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be provided by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, rural residents and farm-related businesses.

The Association also serves as an intermediary in offering various insurance programs.

The Association's financial condition may be impacted by factors affecting CoBank. The CoBank Annual Report is available free of charge on CoBank's website, www.cobank.com; or may be obtained at no charge by contacting Farm Credit Services of Hawaii, ACA, 99-860 Iwaena Street, Suite A; Aiea, HI 96701 or by calling (800) 894-4996. Upon request, Association shareholders will be provided with a copy of the CoBank Annual Report. The CoBank Annual Report discusses the material aspects of the Bank's financial condition, changes in financial condition, and results of operations.

Plan of Combination and Interim CEO Appointment
On February 14, 2019, the Association's board of directors approved an Agreement and Plan of Combination between the Association and American AgCredit, ACA ("Plan of Combination"). Under the Plan of Combination, American AgCredit would acquire the entirety of the Association's operations, Association stockholders would become stockholders of American AgCredit, and American AgCredit would become the System institution chartered to serve the state of Hawaii. The Plan of Combination must receive the approval of FCA and then the Association's voting stockholders. The FCA regulatory review process is currently underway.

Also on February 14, 2019, the Board approved the appointment of Fred Dixon as interim CEO commencing March 29, 2019. Mr. Dixon will replace Daniel Key, who was contracted to serve as interim CEO following Ted Tokunaga's retirement in October 2018 and through the month of March 2019. Mr. Dixon is currently a vice president with American AgCredit. Mr. Dixon will retain this position while serving as the Association's interim CEO pursuant to an Interim Staffing Service Agreement by and between the Association and American AgCredit.

2. Summary of Significant Accounting Policies

The accounting and reporting policies of the Association conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires Association management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from these estimates. Significant estimates are discussed in these footnotes as applicable.

The consolidated financial statements include the accounts of Farm Credit Services of Hawaii, ACA; Federal Land Bank Association of Hawaii, FLCA; and Hawaii Production Credit Association, PCA. All significant inter-company transactions have been eliminated in consolidation. Recently issued accounting pronouncements follow.

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 March 2017, the FASB issued guidance entitled "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost." The guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This guidance became effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not materially to impact the Association's financial condition and did not change the classification of certain items in the results of operations as the practical expedient was used to disclose the prior period amounts in Note 11 Employee Benefit Plans.

In August 2016, the FASB issued guidance entitled "Classification of Certain Cash Receipts and Cash Payments." The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. This guidance became effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not impact the Association's financial condition or its results of operations nor change the classification of certain items in the statement of cash flows.

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." The guidance affects, among other things, the presentation and disclosure requirements for financial instruments. For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance became effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not impact the Association's financial condition or its 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. As a result of the adoption of this guidance, the Association recorded a right of use asset and lease liability of approximately $400,000 at January 1, 2019.

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. The guidance sets forth the requirement for new and enhanced disclosures. The Association adopted the new standard effective January 1, 2018, using the modified retrospective approach. As the majority of the Association's revenues are not subject to the new guidance, the adoption of the guidance did not have a material impact on the financial position, results of operations, equity or cash flows.

Below is a summary of significant accounting policies.

Loans and Allowance for Loan Losses

Long-term real estate mortgage loans generally have original maturities ranging from five to 40 years. Substantially all short- and intermediate-term loans made for agricultural production or operating purposes have maturities of ten years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Loan origination fees and direct loan origination costs are capitalized and the net fee or cost is amortized over the life of the related loan as an adjustment to yield.

Impaired loans are loans for which it is probable that principal and interest will not be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan contract is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest and penalty interest incurred is collected in full or otherwise discharged.

Impaired loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless adequately collateralized and in the process of collection) or when circumstances indicate that collection of principal and/or interest is in doubt. Additionally, all loans over 180 days past due are placed in nonaccrual status. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) and/or included in the recorded nonaccrual balance (if accrued in prior years). Loans are charged-off at the time they are determined to be uncollectible.

A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider.

When loans are in nonaccrual status, loan payments are generally applied against the recorded nonaccrual balance. A nonaccrual loan may, at times, be maintained on a cash basis. As a cash basis nonaccrual loan, the recognition of interest income from cash payments received is allowed when the collectability of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered charge-off associated with it. Nonaccrual loans may be returned to accrual status when all contractual principal and interest is current, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual term of the loan, the loan is classified as a restructured loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

The Association purchases loan participations from other System entities to generate additional earnings and diversify risk- related to existing commodities financed and the geographic area served. Additionally, the Association sells a portion of certain large loans to other System and non-System entities to reduce risk and comply with established lending limits. When loans are sold the sale terms comply with requirements under ASC 860 "Transfers and Servicing".

The Association uses a two-dimensional loan rating model based on internally generated combined System risk rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

The credit risk rating methodology is generally incorporated into its loan underwriting standards. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is increased through provision for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, environmental conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and prior loan loss experience. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty, imprecision and variability. Changes in the agricultural economy and environment and their impact on borrower repayment capacity will cause various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the Association's expectations and predictions of those circumstances. Management considers the following macro-economic factors in determining and supporting the level of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.

The allowance for loan losses includes components for loans individually evaluated for impairment, loans collectively evaluated for impairment and loans acquired with deteriorated credit quality. Generally, for loans individually evaluated the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, if the loan is collateral dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model as previously discussed.

Cash

Cash, as included in the consolidated financial statements, represents cash on hand and on deposit at financial institutions. At times, cash deposits may be in excess of federally insured limits.

Investment in CoBank

The Association's required investment in CoBank is in the form of Class A Stock. The minimum required investment is 4% of the prior year's average direct loan volume. The investment in CoBank is comprised of patronage based stock and purchased stock.

Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Useful lives for buildings is 40 years and range from 5 to 10 years for furniture, equipment and automobiles. Gains and losses on dispositions are reflected in current operating results. Maintenance and repairs are expensed and improvements above certain thresholds are capitalized.

Other Property Owned

Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at fair value less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in net gains/(losses) on other property owned in the Consolidated Statements of Comprehensive Income.

Other Assets and Other Liabilities

Other assets are comprised primarily of patronage receivable, accounts receivable, prepaid expenses, and prepaid pension funding. Significant components of other liabilities primarily include accounts payable and employee benefits.

Advance Conditional Payments

The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advance conditional payments are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in liabilities. Restricted advance conditional payments are primarily associated with mortgage loans, while non-restricted are related to production and intermediate-term loans and mortgage loans. Advance conditional payments are not insured. Interest is generally paid by the Association on advance conditional payments.

Employee Benefit Plans
Certain employees of the Association participate in the Eleventh District Defined Benefit Retirement Plan (Defined Benefit Plan) and/or the Farm Credit Foundations Defined Contribution/401(k) Plan (Defined Contribution Plan). The Defined Benefit Plan is a noncontributory plan. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. The Defined Benefit Plan was closed to employees hired after December 31, 1997.

The Defined Contribution Plan has two components. Employees who do not participate in the Defined Benefit Plan may receive benefits through the Employer Contribution portion of the Defined Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions. Employees hired on or after January 1, 1998 are eligible to participate only in the Defined Contribution Plan and Salary Deferral plan. All defined contribution costs are expensed in the same period that participants earn employer contributions.

The Association also provides certain health and life insurance benefits to eligible current and retired employees through the Farm Credit Foundations Retiree Medical and Retiree Life Plans. Substantially all employees may become eligible for those benefits if they reach normal retirement age while working for the Association. The anticipated costs of these benefits are accrued during the period of the employee's active service. The authoritative accounting guidance requires the accrual of the expected cost of providing postretirement benefits during the years that the employee renders service necessary to become eligible for these benefits.

Certain eligible employees may also participate in a nonqualified deferred compensation plan where they are able to defer a portion of their compensation. The Association matches a certain percentage of employee contributions to the plan.

The Association also participates in the Eleventh District nonqualified defined benefit Pension Restoration Plan. This plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under this plan are offset by the benefits payable from the pension plan.

Patronage Distribution from CoBank
Patronage distributions from CoBank are accrued by the Association in the year earned.

Income Taxes
As previously described, the ACA holding company conducts its business activities through two wholly owned subsidiaries. Long-term mortgage lending activities are operated through a wholly owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through a wholly owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated relative service. The ACA, along with the PCA subsidiary, is subject to income taxes. The Association accounts for income taxes under the liability method. Accordingly, deferred taxes are recognized for estimated taxes ultimately payable or recoverable based on federal, state or local laws.

Deferred income taxes have not been recorded by the Association on stock patronage distributions received from the Bank prior to January 1, 1993, the adoption date of accounting guidance on income taxes. Association management's intent is to permanently invest these and other undistributed earnings in the Bank, or if converted to cash, to pass through any such earnings to Association borrowers through qualified patronage allocations.

The Association has not provided deferred income taxes on amounts allocated to the Association which relate to the Bank's post-1992 earnings to the extent that such earnings will be passed through to Association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on the Bank's post-1992 unallocated earnings.

At December 31, 2018 deferred taxes have been provided on approximately $645 thousand of patronage refunds distributed by the Bank after December 31, 1992.

Other Comprehensive Income/Loss
Other comprehensive income refers to revenue, expenses, gains and losses that under GAAP are recorded as an element of shareholders' equity and comprehensive income but are excluded from net income. Accumulated other comprehensive income/loss refers to the balance of these transactions. The Association records other comprehensive income/loss associated with the liability under the Pension Restoration Plan.

Fair Value Measurement
Accounting guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets include assets held in trust funds which relate to the Association's deferred compensation plan and supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Level 2 Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and, (d) inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Unobservable inputs are those that are supported by little or no market activity and that are significant to the determination of the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions about factors that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. Level 3 assets include other property owned.

The fair value disclosures are presented in Note 15.

Off-Balance-Sheet Credit Exposures
Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Standby letters of credit are irrevocable agreements to guarantee payments of specified financial obligations of

customers to a third party. The credit risk associated with commitments to extend credit and standby letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

3. Loans and Allowance for Loan Losses

A summary of loan principal outstanding follows:

(in thousands of dollars)	December 31, 2018	2017	2016
Real estate mortgage	$ 75,546	$ 74,671	$ 73,246
Production and intermediate term	3,907	3,764	3,905
Rural residential real estate			
Total loans	$ 79,453	$ 78,435	$ 77,151

The Association purchases or sells loan participations with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. The following table presents information regarding participations purchased and sold as of December 31, 2018:

(in thousands of dollars)	Total Purchased	Sold
Real estate mortgage	$ 5,536	$ 1,119
Production and intermediate term	1,500	635
Total loans	$ 7,036	$ 1,754

The Association's concentration of credit risk in various agricultural commodities is shown in the following table:

(in thousands of dollars)	December 31, 2018		2017		2016	
SIC Category	**Amount**	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**
Fruits and nuts	$ 24,055	30.27%	$ 23,552	30.03%	$ 23,503	30.46%
Cattle and dairy	20,679	26.03%	20,659	26.34%	20,273	26.28%
Flowers and foliage	8,700	10.95%	7,613	9.70%	7,730	10.02%
Vegetables	8,587	10.81%	8,220	10.48%	8,391	10.88%
Other	17,432	21.94%	18,391	23.45%	17,254	22.36%
	$ 79,453	100.00%	$ 78,435	100.00%	$ 77,151	100.00%

While the percentages shown in the previous table represent the relative amounts of the Association's potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's loans are collateralized. Accordingly, the Association's exposure to credit loss associated with lending activities is considerably less than the recorded loan balances. An estimate of the Association's current loss exposure is indicated in the consolidated financial statements in the allowance for loan losses.

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are secured by first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85% (97% if guaranteed or enhanced by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in loan to value ratios in excess of the regulatory maximum.

Credit enhancements with federal government agencies of $10.7 million, $11.2 million, $10.9 million, at December 31, 2018, 2017, and 2016 respectively were outstanding.

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 classified under the FCA Uniform Loan Classification system as a percentage of total loans and related accrued interest receivable by loan type as of December 31.

	2018	2017	2016
Real estate mortgage			
Acceptable	96.00%	96.64%	96.16%
OAEM	1.56%	0.79%	1.55%
Substandard	2.44%	2.57%	2.29%
	100.00%	100.00%	100.00%
Production and intermediate-term			
Acceptable	99.62%	99.60%	100.00%
Substandard	0.38%	0.40%	0.00%
	100.00%	100.00%	100.00%
Rural residential real estate			
Acceptable	0.00%	0.00%	0.00%
	0.00%	0.00%	0.00%
Total Loans			
Acceptable	96.17%	96.78%	96.35%
OAEM	1.49%	0.75%	1.48%
Substandard	2.34%	2.47%	2.17%
	100.00%	100.00%	100.00%

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms. The following table presents information relating to impaired loans including accrued interest.

	December 31		
(in thousands of dollars)	2018	2017	2016
Nonaccrual loans			
Current as to principal and interest	$ -	$ -	$ -
Past due	648	697	
Total nonaccrual loans	648	697	-
Impaired accrual loans			
Restructured	1,059	745	225
90 days or more past due	-	-	712
Total impaired accrual loans	1,059	745	937
Total impaired loans	$ 1,707	$ 1,442	$ 937

There were no material commitments to lend additional funds to debtors whose loans were classified impaired for the years presented.

High risk assets consist of impaired loans and other property owned. The following table presents these in a more detailed manner than the previous table. These nonperforming assets (including related accrued interest) are as follows:

	December 31,		
(in thousands of dollars)	**2018**	**2017**	**2016**
Nonaccrual loans			
Real estate mortgage	$ 648	$ 697	$ -
Total nonaccrual loans	648	697	-
Accruing restructured loans			
Real estate mortgage	1,059	745	225
Total accruing restructured loans	1,059	745	225
Accruing loans 90 days past due			
Real estate mortgage	-	-	712
Total accruing loans 90 days past due	-	-	712
Total impaired loans	1,707	1,442	937
Other property owned	-	-	789
Total high risk assets	$ 1,707	$ 1,442	$ 1,726

Additional impaired loan information is as follows:

(in thousands of dollars)	**Recorded Investment at December 31, 2018**	**Unpaid Principal Balance***	**Average Impaired Loans**	**Interest Income Recognized**
Impaired loans with no related allowance for credit losses				
Real estate mortgage	1,707	1,790	1,842	60
	$ 1,707	$ 1,790	$ 1,842	$ 60

(in thousands of dollars)	**Recorded Investment at December 31, 2017**	**Unpaid Principal Balance***	**Average Impaired Loans**	**Interest Income Recognized**
Impaired loans with no related allowance for credit losses				
Real estate mortgage	1,442	1,452	1,228	38
	$ 1,442	$ 1,452	$ 1,228	$ 38

(in thousands of dollars)	**Recorded Investment at December 31, 2016**	**Unpaid Principal Balance***	**Average Impaired Loans**	**Interest Income Recognized**
Impaired loans with no related allowance for credit losses				
Real estate mortgage	937	940	455	56
	$ 937	$ 940	$ 455	$ 56

* Unpaid principal balance represents the recorded principal balance of the loan.

There were no impaired loans with a related allowance for credit losses at December 31, 2018, 2017, and 2016.

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2018, 2017, and 2016.

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2. The following table presents interest income recognized on impaired loans.

(in thousands of dollars)	December 31, 2018	2017	2016
Interest income recognized on			
Nonaccrual loans	$ -	$ 20	$ 40
Restructured accrual loans	49	18	7
Accrual loans 90 days or more past due	11	-	9
Interest income recognized on impaired loans	$ 60	$ 38	$ 56

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans follows:

(in thousands of dollars)	December 31, 2018	2017	2016
Interest income which would have been recognized under the original loan terms	$ 85	$ 37	$ 12
Less: Interest income recognized	60	38	47
(Recovered)/foregone interest income	$ 25	$ (1)	$ (35)

The following table provides an age analysis of past due loans (including accrued interest):

	December 31, 2018					
(in thousands of dollars)	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	$ 1,412	$ -	$ 1,412	$ 74,555	$ 75,967	$ -
Production and intermediate-term	139	-	139	3,784	3,923	-
	$ 1,551	$ -	$ 1,551	$ 78,339	$ 79,890	$ -

	December 31, 2017					
(in thousands of dollars)	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	$ 2,990	$ -	$ 2,990	$ 72,003	$ 74,993	$ -
Production and intermediate-term	-	-	-	3,780	3,780	-
	$ 2,990	$ -	$ 2,990	$ 75,783	$ 78,773	$ -

	December 31, 2016					
(in thousands of dollars)	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	$ 1,400	$ 712	$ 2,112	$ 71,432	$ 73,544	$ 712
Production and intermediate-term	140	-	140	3,781	3,921	-
	$ 1,540	$ 712	$ 2,252	$ 75,213	$ 77,465	$ 712

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 acquisitions costs and may also reflect a previous direct write-down of the loan receivable.

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.

The following table presents additional information regarding troubled debt restructurings (whether accrual or nonaccrual) that occurred during the year ended December 31, 2018 and 2017. There were none that occurred during the year ended December 31, 2016.

	Year Ended December 31, 2018	
	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings		
Real estate mortgage	$ 539	$ 540
	$ 539	$ 540

	Year Ended December 31, 2017	
	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings		
Real estate mortgage	$ 1,228	$ 1,228
	$ 1,228	$ 1,228

* Pre-modification represents the recorded investment in the loan receivable just prior to restructuring and post-modification represents the recorded investment in the loan receivable immediately following the restructuring. The recorded investment is the face amount of the loan receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the loan receivable.

There were three real estate troubled debt restructurings that occurred within the previous 12 months of the year ended December 31, 2018, and none for which there was a subsequent payment default during the period. There was one troubled debt restructurings that occurred within the previous 12 months of the year ended December 31, 2017, and for which there was a payment default during the period.

There were no additional commitments to lend to borrowers whose loans have been modified in TDRs at December 31, 2018, December 31, 2017, and December 31, 2016.

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*		
	December 31,			December 31,		
(in thousands of dollars)	2018	2017	2016	2018	2017	2016
Troubled debt restructurings						
Real estate mortgage	$ 1,707	$ 1,442	$ 225	$ 648	$ 697	$ -
	$ 1,707	$ 1,442	$ 225	$ 648	$ 697	$ -

* Represents the portion of loans modified as TDRs that are in nonaccrual status.

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

(in thousands of dollars)	Balance at December 31, 2017	Charge-offs	Recoveries	Provision for Loan Losses (Loan Loss Reversals)	Balance at December 31, 2018
Real estate mortgage	$ 918	$ -	$ -	$ -	$ 918
Production and intermediate-term	482				482
	$ 1,400	$ -	$ -	$ -	$ 1,400

(in thousands of dollars)	Balance at December 31, 2016	Charge-offs	Recoveries	Provision for Loan Losses (Loan Loss Reversals)	Balance at December 31, 2017
Real estate mortgage	$ 918	$ -	$ -	$ -	$ 918
Production and intermediate-term	482				482
	$ 1,400	$ -	$ -	$ -	$ 1,400

(in thousands of dollars)	Balance at December 31, 2015	Charge-offs	Recoveries	Provision for Loan Losses (Loan Loss Reversals)	Balance at December 31, 2016
Real estate mortgage	$ 918	$ -	$ -	$ -	$ 918
Production and intermediate-term	482				482
	$ 1,400	$ -	$ -	$ -	$ 1,400

The following tables contain summaries of the recorded investment in loans by loan type and the allowance for loan losses by loan type.

	Ending Balance at December 31, 2018			
	Allowance for Credit Losses		Recorded Investments in Loans Outstanding	
(in thousands of dollars)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate mortgage	$ -	$ 918	$ 648	$ 75,319
Production and intermediate-term		482		3,923
	$ -	$ 1,400	$ 648	$ 79,242

	Ending Balance at December 31, 2017			
	Allowance for Credit Losses		Recorded Investments in Loans Outstanding	
(in thousands of dollars)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate mortgage	$ -	$ 918	$ 697	$ 74,296
Production and intermediate-term		482		3,780
	$ -	$ 1,400	$ 697	$ 78,076

	Ending Balance at December 31, 2016			
	Allowance for Credit Losses		Recorded Investments in Loans Outstanding	
(in thousands of dollars)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate mortgage	$ -	$ 918	$ -	$ 73,544
Production and intermediate-term		482		3,921
	$ -	$ 1,400	$ -	$ 77,465

4. Investment in the CoBank

At December 31, 2018, the Association's investment in CoBank is in the form of Class A stock with a par value of $100 per share. The Association is required to own stock in CoBank to capitalize its direct loan balance and participation loans sold to CoBank. The current requirement for capitalizing its direct loan from CoBank is 4.0% of the Association's prior year average direct loan balance.

CoBank may require the holders of its equities to subscribe for such additional capital as may be needed to meet its capital requirements for its joint and several liability under the Farm Credit Act and regulations. In making such a capital call, CoBank shall take into account the financial condition of each such holder and such other considerations, as it deems appropriate.

The Association owned approximately 0.18% of the outstanding common stock of CoBank at December 31, 2018.

5. Premises and Equipment

Premises and equipment consisted of the following:

	December 31		
(in thousands of dollars)	**2018**	**2017**	**2016**
Land and buildings	$ 619	$ 615	$ 615
Furniture and equipment	436	455	429
	1,055	1,070	1,044
Less: Accumulated depreciation	(646)	(620)	(567)
Total premises and equipment	$ 409	$ 450	$ 477

The following is a schedule by year of future minimum lease payments on noncancelable operating leases as of December 31, 2018.

(in thousands of dollars)	
2019	$ 103
2020	98
2021	97
2022	97
2023 and thereafter	41
Total minimum lease payments	$ 436

6. Other Property Owned

Losses on other property owned, net as reflected on the Consolidated Statements of Comprehensive Income consisted of the following:

(in thousands of dollars)	2018	2017	2016
(Gains)/Losses on sale, net	$ -	$ (5)	$ 5
Carrying value adjustments			
Operating expense, net	-	5	46
Losses on other property owned, net	$ -	$ -	$ 51

7. Notes Payable to Bank

The Association's indebtedness to CoBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a General Financing Agreement (GFA). The GFA and promissory note are subject to periodic renewals in the normal course of business. Effective January 1, 2018, the GFA was amended and the maturity date extended to December 31, 2022. The Association was in compliance with the terms and conditions of the GFA as of December 31, 2018. Substantially all borrower loans are match-funded with CoBank. Payments and disbursements are made on the note payable to CoBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by CoBank based on the terms and conditions of the borrowing. The weighted average interest rate was 2.2% for the year ended December 31, 2018, compared with 1.3% for the year ended December 31, 2017, and 0.8% at December 31, 2016.

Under the Farm Credit Act, the Association is obligated to borrow only from CoBank, unless CoBank gives approval to borrow elsewhere. CoBank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2018, the Association's notes payable was within the specified limitations.

8. Members' Equity

Descriptions of the Association's capitalization, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

Capital Stock and Participation Certificates
In accordance with the Farm Credit Act, each borrower is required to invest in the Association as a condition of borrowing. The borrower normally acquires ownership of the stock or participation certificates at the time the loan is made, but usually does not make a cash investment. Generally, the aggregate par value of the stock is added to the principal amount of the related loan obligation. The Association has a first lien on the stock or participation certificates owned by its borrowers. At the discretion of the Board of Directors, retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

Capitalization bylaws allow stock requirements to range from the lesser of one thousand dollars or 2.0% of the amount of the loan to 10.0% percent of the loan. The Board of Directors has the authority to change the minimum required stock level of a shareholder as long as the change is within this range. Currently, the Association has a stock requirement of the lesser of one thousand dollars or 2% of the amount of the loan/the borrower's combined loan volume.

Regulatory Capitalization Requirements and Restrictions
The Farm Credit Administration sets minimum regulatory capital requirements for Banks and Associations. Effective January 1, 2017, new regulatory capital requirements for Banks and Associations were adopted. These new requirements replaced the core surplus and total surplus requirements with Common Equity Tier 1, Tier 1 Capital and Total Capital risk-based capital ratio requirements. The new requirements also replaced the existing net collateral ratio for System Banks with a Tier 1 Leverage ratio and an Unallocated Retained Earnings (URE) and URE Equivalents Leverage ratio that are applicable to both the Banks and Associations. The Permanent Capital Ratio continues to remain in effect; however, the risk-adjusted assets are calculated differently than in the past.

The following sets forth the regulatory capital ratio requirements and ratios at December 31, 2018:

Ratio	Primary Components of Numerator	Denominator	Ratios as of 12/31/18	Ratios as of 12/31/17	Minimum with Buffer*	Minimum Requirement
Common equity tier 1 (CET 1)	Unallocated retained earnings (URE) common cooperative equities common cooperative equities (qualifying) capital stock and allocated equity)[1]	Risk-adjusted assets	28.58%	29.80%	7.00%	4.50%
Tier 1 capital (T1)	CET1 Capital, non-cumulative perpetual preferred stock	Risk-adjusted assets	28.58%	29.80%	8.50%	6.00%
Total (regulatory) capital ratio	Tier 1 Capital, allowance for loan losses[2], common cooperative equities[3], and term preferred stock and subordinated debt[4]	Risk-adjusted assets	29.84%	31.06%	10.50%	8.00%
Tier 1 leverage **	Tier 1 Capital	Total assets	27.47%	27.73%		4.00%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	URE and URE Equivalents Retained earnings, common	Total assets	27.09%	27.32%		1.50%
Permanent capital	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	Risk-adjusted assets	32.30%	33.66%		7.00%

* The new capital requirements have a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. There is no phase-in of the leverage buffer. Amounts shown reflect the full capital conservation buffer.

** Must include the regulatory minimum requirement for the URE and UREE Leverage ratio.
1 Equities outstanding 7 or more years
2 Capped at 1.25% of risk-adjusted assets
3 Outstanding 5 or more years, but less than 7 years
4 Outstanding 5 or more years

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

	2016	Regulatory Minimum
Permanent capital ratio	36.60%	7.00%
Total surplus ratio	36.15%	7.00%
Core surplus ratio	31.18%	3.50%

An existing regulation empowers FCA to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. This regulation has not been utilized to date. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

Description of Equities
Each owner of Class C capital stock is entitled to a single vote. Other classes of borrower equities do not provide voting rights to their owners. Voting stock may not be transferred to another person unless such person is eligible to hold voting stock.

At December 31, 2018, the Association had 61,764 shares outstanding of Class C capital stock at a par value of $5 per share.

The Association has the authority to issue other classes of stock, no shares of which are outstanding. The voting rights, duties and liabilities of such classes of stock are similar to the classes of stock discussed above.

Losses that result in impairment of capital stock and participation certificates will be allocated to the classes of equity described above on a pro-rata basis. Upon liquidation of the Association, any assets remaining after the settlement of all liabilities will be distributed first to redeem the par value of protected equities. Any assets remaining after such distribution will be shared, pro-rata, by all stock and certificate holders of record immediately before the liquidation distribution.

Patronage and/or Dividends
No dividends were declared or paid in 2018. $125 thousand in dividends were paid for each of the years ended December 31, 2017 and 2016 based on the prior years income.

9. Patronage Distribution From Farm Credit Institutions

Patronage income recognized from Farm Credit Institutions to the Association follows.

(in thousands of dollars)	2018	2017	2016
CoBank	$ 298	$ 243	$ 254
Other	5	5	6
	$ 303	$ 248	$ 260

Patronage distributed from CoBank was in cash. The amount earned in 2018 was accrued and will be paid by CoBank in March 2019. The amount earned and accrued in 2017 was paid by CoBank in March 2018. The amount earned and accrued in 2016 was paid by CoBank in March 2017.

10. Income Taxes

The provision for income taxes follows:

	December 31,		
(in thousands of dollars)	**2018**	**2017**	**2016**
Current			
Federal	$ -	$ -	$ -
State			
Deferred			
Federal	26	(23)	17
State	8	4	3
(Benefit from)/Provision for income taxes	$ 34	$ (19)	$ 20

The (benefit from)/provision for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

	Years Ended December 31,		
(in thousands of dollars)	**2018**	**2017**	**2016**
Federal tax at statutory rate	$ 100	$ 56	$ 128
Effect of non-taxable FLCA Subsidiary	(133)	(116)	(180)
Changes in tax law/rates		118	
State tax, net	8	4	3
Adjustment to federal deferred tax asset valuation allowance	57	(84)	67
Other	2	3	2
(Benefit from)/Provision for income taxes	$ 34	$ (19)	$ 20

The Tax Cuts and Jobs Act of 2017 (TCJA) was enacted in late 2017, which among other things, lowered the federal corporate tax rate from 35% to 21% beginning in 2018. In accordance with GAAP, the change to lower corporate tax rate led to a revaluation of our deferred tax liabilities and deferred tax assets in the period of enactment (2017).

The decrease in tax expense in 2017 included the benefit of $84 thousand in net deferred tax adjustments primarily resulting from the enactment of TCJA.

Deferred tax assets and liabilities are comprised of the following.

(in thousands of dollars)	December 31, 2018	2017	2016
Deferred tax assets			
Allowance for loan losses	$ 126	$ 126	$ 184
Operating loss carryforward	413	338	404
Other	12	14	21
Gross deferred tax asset	551	478	609
Less: Valuation allowance	(420)	(345)	(414)
Deferred tax assets, net of valuation allowance	131	133	195
Deferred tax liability			
Patronage receivable			
CoBank patronage distributions	(168)	(168)	(247)
Pension asset	(88)	(56)	(58)
Deferred tax liability	(256)	(224)	(305)
Net deferred tax liability	$ (125)	$ (91)	$ (110)

The calculation of deferred tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings. The expected future tax rates are based upon enacted tax laws.

The Association recorded a valuation allowance of $75 thousand in 2018, $69 thousand in 2017 and $80 thousand in 2016. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly. At December 31, 2018, the Association had federal and state net operating loss carryforwards of $1.58 million and 1.62 million, respectively, expiring in various years.

The Association did not have any positions for which it is reasonably possible that the total amounts of unrecognized tax positions will significantly increase or decrease within the next 12 months.

The Association accounts for income taxes in accordance with ASC 740, which provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Association's tax returns to determine whether the tax positions are more likely than not of being sustained upon examination by the applicable tax authority, based on the technical merits of the tax position, and then measuring the tax benefit that is more-likely-than-not to be realized. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense in the current reporting period. The Association has no uncertain tax positions to be recognized as of December 2018, 2017 or 2016. The tax years that remain open for federal and major state income tax jurisdictions are 2014 and forward.

11. Employee Benefit Plans

Certain employees participate in the Eleventh Retirement Plan, a multi-employer defined benefit retirement plan. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan's termination is contingent on the sufficiency of the plan's net assets to provide benefits at that time. This Plan is noncontributory and covers eligible employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if the Association chooses to stop participating in the plan, it may be required to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Because of the multi-employer nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee moves to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

The defined benefit pension plan reflects an unfunded liability totaling $61.9 million at December 31, 2018. The pension benefits funding status reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these consolidated financial statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The projected benefit obligation of the plan was $253.9 million at December 31, 2018, $271.1 million at December 31, 2017 and $257.9 million at December 31, 2016. The fair value of the plan assets was $192.0 million at December, 2018, $200.7 million at December 31, 2017 and $172.2 million at December 31, 2016. The amount of the pension benefits funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to its current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. The Association recognizes its proportional share of expense and contributes a proportional share of funding. Total plan expense for participating employers was $1.9 million in 2018, $3.6 million in 2017 and $5.9 million in 2016. The Association's allocated share of plan expenses included in salaries and employee benefits was $163 thousand in 2018, $180 thousand in 2017 and $190 thousand in 2016. Participating employers contributed $16.0 million in 2018, $16.0 million in 2017 and $17.5 million in 2016 to the plan. The Association's allocated share of these pension contributions was $1.4 million in 2018, $791 thousand in 2017 and $752 thousand in 2016. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total employer contributions expected to be paid into the pension plans during 2019 is $16.0 million. The Association's allocated share of these pension contributions is expected to be $1 million. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than anticipated.

Postretirement benefits other than pensions are also provided through the Farm Credit Foundations Retiree Medical and Retiree Life Plans to eligible current and retired employees of the Association. Benefits provided are determined on a graduated scale, based on years of service. The anticipated costs of these benefits are accrued during the period of the employee's active service. Postretirement benefits expense (primarily health care benefits and life insurance) included in salaries and employee benefits were less than a thousand in 2018, $10 thousand in 2017 and $6 thousand in 2016.

The Association participates in a non-qualified defined benefit Pension Restoration Plan that is unfunded. The plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under the Pension Restoration Plan are offset by the benefits payable from the Pension Plan. There were no Pension Restoration Plan expenses included in salaries and employee benefits in 2017, the initial year that the Association participated and had employees eligible to participate in the plan.

The funding status and the amounts recognized in the Consolidated Statements of Condition for the Association's Pension Restoration Plan follows:

	Nonqualified Pension Restoration Benefits		
	2018	**2017**	**2016**
Change in benefit obligation			
Benefit obligation at the beginning of the period	$ 1,085	$ -	$ -
Actuarial loss		$ 1,085	
Settlement	(1,085)		
Benefit obligation at the end of the period	$ -	$ 1,085	$ -
Funded status	$ -	$ (1,085)	$ -
Net amount recognized	$ -	$ (1,085)	$ -

Amounts recognized in the Consolidated Statements of Condition consist of:

Prepaid benefit costs	$ -	N/A	$ -
Accrued benefit liability	$ -	$ (1,085)	
Net amount recognized	$ -	$ (1,085)	$ -

The following table represents the amounts included in accumulated other comprehensive income/loss for the Pension Restoration Plan at December 31:

	2018	**2017**	**2016**
Net gain (loss)			
Actuarial loss		$ (1,085)	
Settlement	1,085		$ -
Total amount recognized in AOCI/(loss)	$ 1,085	$ (1,085)	$ -

No estimated net actuarial loss for the Pension Restoration Plan will be amortized into income over the next year.

The projected and accumulated benefit obligation for the Pension Restoration Plan at December 31 was:

	2018	**2017**	**2016**
Projected benefit obligation	$ -	$ (1,085)	$ -
Accumulated benefit obligation	$ -	$ (1,085)	
Fair value of plan assets	N/A	N/A	N/A

There is no net periodic pension expense for the Pension Restoration Plan included in the Consolidated Statements of Comprehensive Income at December 31, 2018, 2017, and 2016.

Changes in benefit obligation recognized in accumulated other comprehensive income are included in the following table.

	2018	2017	2016
Current year net actuarial loss		$ (1,085)	$ -
Settlement	$ 1,085	$ -	$ -
Total amount recognized in AOCI/(loss)	$ 1,085	$ (1,085)	$ -

Weighted average assumptions used to determine benefit obligation at December 31:

Nonqualified Pension Restoration Benefits		
	2018	**2017**
Discount rate	N/A	2.99 %
Rate of compensation increase	N/A	5.50 %

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:

Nonqualified Pension Restoration Benefits		
	2018	**2017**
Discount rate	N/A	3.20 %
Rate of compensation increase	N/A	5.50 %

The Association expects no contributions or benefit payments which reflect expected future service to be paid to the Pension Restoration Plan in the future.

The Association also participates in the Farm Credit Foundations Defined Contribution/401(k) Plan (Contribution Plan). The Contribution Plan has two components. Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions. Employer contributions to the Contribution Plan were $84 thousand in 2018, $107 thousand in 2017 and $105 thousand in 2016.

12. Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedules and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

The Association has a policy that loans to directors and senior officers must be maintained at an Acceptable or Other Assets Especially Mentioned (OAEM) credit classification. If the loan falls below the OAEM credit classification, corrective action must be taken and the loan brought back to either Acceptable or OAEM within a year. If not, the director or senior officer must resign from the Board or employment.

Loan information to related parties for the years ended December 31 is shown below.

(in thousands of dollars)	December 31, 2018	2017	2016
Beginning balance	$ 731	$ 1,090	$ 1,124
New loans	1,243	198	25
Less Repayments	(469)	(170)	(94)
Other	-	(387)	35
Ending balance	$ 1,505	$ 731	$ 1,090

In the opinion of management, none of the loans outstanding to officers and directors at December 31, 2018 involved more than a normal risk of collectability.

The Association also has business relationships with certain other System entities. The Association paid $96 thousand in 2018, $76 thousand in 2017, and $81 thousand in 2016 to Foundations for human resource services.

13. Regulatory Enforcement Matters

As of December 31, 2018, the Association was operating under three Supervisory Letters issued by the Farm Credit Administration (FCA) dated March 15, 2018, March 29, 2018 and April 3, 2018. The Supervisory Letters, and related FCA correspondence, addressed issues related to Association governance, business operations and strategic direction. Related to the Supervisory Letters, the Association was operating under notices of potential defaults under its General Financing Agreement with CoBank, but the Association was not in default of the General Financing Agreement with CoBank at December 31, 2018 and as of March 15, 2019. Under forbearance relief provided by both FCA and CoBank, the Association is making significant progress and is taking appropriate corrective actions to address these issues and the notices of potential default as strategic direction alternatives are pursued.

14. Commitments and Contingencies

The Association has various commitments outstanding and contingent liabilities. With regard to contingent liabilities, there are no actions pending against the Association in which claims for monetary damages are asserted.

The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2018, $7.9 million of commitments to extend credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Statements of Condition until funded or drawn upon. The credit risk associated with issuing commitments is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

The Association also participates in standby letters of credits to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2018, $0.2 million of standby letters of credit were outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2020 to 2021. The maximum potential amount of future payments the Association is required to make under the guarantees is $0.2 million. The beneficiary will draw on these letters of credits should the borrower become delinquent on lease rent or fire insurance or liability insurance coverage.

15. 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 an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. The fair value measurement is not an indication of liquidity. See Note 2 for additional information.

The Association has no assets and liabilities measured at fair value on a recurring basis for the periods presented.

Quantitative Information about Nonrecurring Level 3 Fair Value Measurements

Valuation Techniques

As more fully discussed in Note 2, 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 measurements. During the three years presented the Association recorded no transfers in or out of Levels 1, 2, or 3.

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. The Association utilizes 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.

Assets measured at fair value on a nonrecurring basis for the period ended December 31 for each of the fair value hierarchy value types are summarized below:

(in thousands of dollars)	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)	Total Fair Value	Total Losses Incurred During the Year
Assets			
Other property owned, appraised value			
December 31, 2018	$ -	$ -	$ -
December 31, 2017	$ -	$ -	$ -
December 31, 2016	$ 789	$ 789	$ 5

Valuation Techniques

Loans

For certain loans evaluated for impairment, the fair value was based on the underlying collateral for collateral-dependent loans. The fair value measurement process uses appraisals performed by independent licensed appraisers 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 in order to recognize the fair value. Impaired loans are reviewed and evaluated periodically for additional impairment, and reserves are adjusted accordingly.

Other Property Owned

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

The Association had no asset measured at fair value categorized as Level 1 or Level 2.

16. Subsequent Events

The Association has evaluated subsequent events through March 15, 2019, the date which the financial statements were available to be issued. As previously described in Note 1, the Association's board of directors approved an Agreement and Plan of Combination between the Association and American AgCredit, ACA.

Description of Business

The description of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered, and related Farm Credit organizations required to be disclosed in this section is incorporated herein by reference from Note 1 to the consolidated financial statements, "Organization and Operations" included in this annual report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conduct of the business, seasonal characteristics, and concentrations of assets, if any, required to be disclosed in this section is incorporated herein by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations", included in this annual report to shareholders.

Description of Property

The following sets forth certain information regarding properties of the Association:

Location	*Description*
99-860 Iwaena Street Ste A Aiea, HI 96701 Tel: (808) 836-8009 Fax: (808) 836-8610	Principal Office Leased facility
988 Kinoole Street Hilo, HI 96720 Tel: (800) 894-4996 Fax: (808) 961-5494	Hawaii Island Branch Owned facility

Legal Proceedings and Enforcement Actions

Information required to be disclosed in this section is incorporated herein by reference from Note 13 to the financial statements, "Regulatory Enforcement Matters," included in this annual report to shareholders.

Description of Capital Structure

Information required to be disclosed in this section is incorporated herein by reference from Note 8 to the financial statements, "Members' Equity," included in this annual report to shareholders.

Description of Liabilities

The description of debt outstanding required to be disclosed in this section is incorporated herein by reference from Note 7 to the financial statements, "Notes Payable to Bank," included in this annual report to shareholders.

The description of contingent liabilities and intra-system financial assistance rights and obligations required to be disclosed in this section is incorporated herein by reference from Notes 2, and 14 of the consolidated financial statements, "Summary of Significant Accounting Policies," and "Commitments and Contingencies," included in this annual report to shareholders.

Selected Financial Data

The selected financial data for the five years ended December 31, 2018 required to be disclosed in this section is incorporated herein by reference from the "Five-Year Summary of Selected Financial Data" included in this annual report to shareholders.

Management's Discussion and Analysis

"Management's Discussion and Analysis," which appears in this annual report to shareholders and is required to be disclosed in this section, is incorporated herein by reference.

Directors and Senior Officers

Farm Credit Administration (FCA) regulations require the disclosure of each director's business experience for the last five years, other entities on whose board the director serves, compensation and reimbursement received as an Association director, and certain other information. The following represents these disclosures for the directors of the Farm Credit Services of Hawaii, ACA and its subsidiaries.

Gary J. Ash, *Outside Director*
Mr. Ash is a retired CEO of 1st Farm Credit Services, with over 39 years of Farm Credit Service, the last eleven as CEO. He currently also serves as a board member for the Heartland Community College Foundation and he has served on other advisory boards in his home community throughout his career. Mr. Ash has a Finance degree from the University of Illinois, and a Graduate School of banking degree from Stonier. Mr. Ash was appointed as the Outside Director by the Board of Directors. During 2018, he served at 8 board meetings, 11 committee meetings, and 14 other official activities on the Board's behalf for which he was compensated $20,620.

Michelle M. Galimba, *Director*
Term of Office: 2016-2019
Ms. Galimba, a cattle rancher on the island of Hawaii for the past five years, is a director of Kuahiwi Contractors (cattle ranch), Kuahiwi Ranch Beef (beef sales), HEMIC (workers compensation insurance), USDA Farm Service Agency (county committee), USDA Regional Sustainable Agriculture Research and Administrative Council (administrative committee), Agricultural Leadership Foundation of Hawaii (education and leadership development), Hawaii Island Meat Co-op (meat processing cooperative), Hawaii County 4-H Livestock Association (agricultural education), Big Island Resources Conservation and Development Council (resource conservation and community development) and Hawaii County Charter Commission (island wide planning). Ms. Galimba attended 16 board meetings, 20 committee meetings, and served in 24 other official activities in 2018. Ms. Galimba's compensation totaled $26,416 for 2018.

Rodney M. Haraguchi, *Director*
Term of Office: 2018-2021
Mr. Haraguchi has been a taro farmer in Hanalei Valley, Kauai since 1973. He is currently the president and a director of W.T. Haraguchi Farm, Inc. (a taro farm supplying taro to millers throughout the state), a director of Ho'opulapula Haraguchi Rice Mill (a National and State Historic Building nonprofit that preserves the agrarian history of the valley and provides free tours to public and private groups), director of Hanalei Taro and Juice Company, and a director of the Kauai Farm Bureau. He is also active with the Kauai Taro Growers' Association. During 2018, he served at 16 board meetings, 13 committee meetings, and 12 other official activities on the Board's behalf for which he was compensated $21,036.

***David D Nobriga,** Director and Vice Chairman of the Board*
Term of Office: 2018-2021
For the past five years, Mr. Nobriga, has been the manager and a director for Nobriga's Ranch, Inc., a beef cattle ranch and feedlot operation, and the president and a director of Wailena Farms, Inc, a hauling service operation. His compensation in 2018 was $28,376. During 2018, he attended 16 board meetings, 21 committee meetings, and served in 16 other official activities.

***Faith Okabe,** Director and Chairman of the Board*
Term of Office: 2017-2020
Ms. Okabe, a sole proprietor, has been engaged as a cut flower and fresh herb grower on Oahu for the past five years and is active with the Hawaii Farm Bureau (a trade association). Her compensation in 2018 was $30,176. During 2018, she attended 16 board meetings, 20 committee meetings, and served in 21 other official activities.

Directors were compensated for their services based on a daily honorarium of $200 to $2,500. Directors are also reimbursed for mileage, as well as documented business expenses while serving in an official capacity. A copy of the policy addressing reimbursements to directors for travel, subsistence, and other related expenses is available to shareholders upon request. The total compensation paid to directors for 2018, as described above, amounted to $126,624. The aggregate amount of reimbursement for travel, subsistence, and other related expenses paid to all directors for the years ended December 31, 2018, 2017 and 2016 were $38,329, $19,417, and $31,624 respectively. Directors are not separately compensated for attending committee meetings held on days on which there is also a regular board meeting. All except one of the committee meetings in 2018 were on days with regular board meetings.

FCA regulations also require the following disclosure of the business experience for the last five years for each senior officer, as well as the aggregate amount of compensation paid to officers as a group:

Daniel L. Key
Mr. Key currently serves as the Interim CEO, President, and Secretary of the Association. He retired as Chief Credit Officer of CoBank, ACB in March, 2017, with 38 years of Farm Credit experience.

Gary F. Hanson
Mr. Hanson serves as Executive Vice President & Chief Credit Officer. He has forty-five years of lending experience, the first twelve with Bank of America and the next thirty three with the Farm Credit System. He has also served as the Regional Vice President of Review for the Western Farm Credit Bank.

Linus P. Tavares
Mr. Tavares has been an employee in the Farm Credit System in Credit Operations since 1982. He serves as Executive Vice President and the Branch Manager of the Hilo office.

Robert Yahiku
Mr. Yahiku has been an employee in the Farm Credit System since 1989 in Fiscal and Accounting Operations. He serves as CFO and Treasurer.

Summary Compensation Table

Compensation earned by our President and CEO and aggregate compensation of other senior officers and highly compensated employees for the years ended December 31, 2018, 2017 and 2016 is disclosed in the accompanying table. Our current Board policy regarding reimbursements for travel, subsistence and other related expenses states that all employees, including senior officers, shall be reimbursed for actual reasonable travel and related expenses that are necessary and that support our business interests. A copy of our policy is available to shareholders upon request.

Summary Compensation Table[1] ($ in Thousands)

Name of Individual or Number in Group[2]	Year	Salary	Annual Incentive Compensation[3]	Long-Term Incentive Compensation[3]	Change in Pension Value[4]	Deferred/ Perquisites[5]	Other	Total
Daniel L. Key Preaident and CEO								
	2018	$ 81				$ 5		$ 86
Theodore M. Tokunaga, Jr. President and CEO								
	2018	$ 402			$ (103)	$ 26		$ 325
	2017	$ 420			$ 654	$ 26		$ 1,100
	2016	$ 420			$ 470	$ 27		$ 917
Aggregate number of senior officers and highly compensated employees (excluding CEO)								
5	2018	$ 654	$ -		$ (46)	$ 40		$ 648
5	2017	$ 635	$ -		$ 183	$ 50		$ 868
5	2016	$ 587	$ 13		$ 237	$ 34		$ 871

1. Disclosure of the total compensation paid during 2018 to any designated senior officer or highly compensated employee is available to our shareholders upon request. Compensation amounts do not include earnings on nonqualified deferred compensation, as such earnings are not considered above-market or preferential.
2. The senior officers and highly compensated employees included above are those officers defined by FCA regulations Section 619.9310 and Section 620.6.
3. Incentive compensation amounts represent amounts earned in the reported fiscal year, all of which are paid in current year. The annual incentive compensation amounts are calculated based on relevant performance factors for the reported fiscal year. The Association did not have a Long-Term Incentive for any of the years shown.
4. The Change in Pension Value increased in 2018 primarily due to the increase in years of service and age and changes in actuarial assumptions such as the discount rate.
5. Amounts are for automobile income, employee awards, gift card, group term life and long term disability insurance.

The Salary, Annual Incentive Compensation, and Long-Term Incentive Compensation columns of the Summary Compensation Table include all amounts earned during 2018, 2017 and 2016 regardless of whether a portion of such compensation has been deferred by the CEO or other Senior Officers' elections pursuant to the Farm Credit Foundations Defined Contribution /401(k) Plan (401(k) Plan). Individual compensation for any Senior Officer included here in the aggregate is available to shareholders upon written request.

All full or permanent part-time Association employees, except the President, participate in an Incentive Compensation Program that is approved annually by the Board of Directors. Incentive Compensation, based on actual performance versus Association and employee performance goals are approved by the Board of Directors in December. These amounts are accrued in the current year, and paid in either December of the current year or January of the following year.

Pension Benefits

The table below shows certain pension benefit information by plan for the President and CEO and the senior officer group, including highly compensated employees, as of December 31, 2018.

Pension Benefits Table ($ in Thousands)

Name of Individual or Number in Group[1]	Plan Name	Number of Years of Credited Service[2]	Actuarial Present Value of Accumulated Benefits	Payments During Last Fiscal Year
President & CEO Theodore M. Tokunaga, Jr.	11th Farm Credit District Employees' Retirement Plan	36.99	3,993	
	Former 9th and 11th District Pension Restoration Plan	36.99	0	
Aggregate Number of Senior Officers and Highly Compensated Employees	11th Farm Credit District Employees' Retirement Plan	34.13	2,160	

1. The senior officers and the highly compensated employees included in the pension benefits disclosure are those defined by FCA regulations Section 619.9310 and Section 620.6.
2. This represents an average for the aggregate senior officer and highly compensated employee group.

Retirement Plan Overview – The CEO and certain Senior Officers participate in the 11th Farm Credit District Employee's Retirement Plan. Additionally, substantially all employees participate in the 401(k) Plan, which has an employer matching contribution.

Qualified Pension Plan – In general, the Pension Plan provides participants with a single life annuity benefit at normal retirement that is equal to 1.95% of average monthly compensation during the 60 consecutive months in which an individual receives his highest compensation (High 60) multiplied by his years of benefit service. The benefit is actuarially adjusted if the individual chooses a different form of distribution than a single life annuity. The pension valuation was determined using a blended approach assuming 30% of the benefits would be paid as a lump sum and 70% as an annuity at the participants earliest unreduced retirement age. The Pension Plan pays benefits up to the applicable limits under the Internal Revenue Code.

Non-Qualified Pension Restoration Plan – The Former 9th and 11th District Pension Restoration Plan is unfunded and non-qualifed for tax purposes. Benefits payable under this plan are equal to the excess of the amount that would be payable under the terms of the Qualified Pension Plan, disregarding the limitations imposed under Internal Revenue Code Sections 401(a)(17) and 415, over the pension actually payable under the Qualified Pension Plan. The plan also restores any benefits attributable to non-qualified deferred compensation excluded from the benefit determined under the Qualified Pension Plan. The non-qualifed pension restoration valuation was determined using an assumption that benefits was determined using an assumption that the benefits would be paid as a lump sum at the participants earliest retirement age.

Transactions with Senior Officers and Directors

The Association's policies on loans to and transactions with its senior officers and directors, required to be disclosed in this section, are incorporated herein by reference from Note 12 to the financial statements, "Related Party Transactions," included in this annual report to shareholders. No loans to directors or senior officers, their immediate families, and affiliated organizations at December 31, 2018, involved more than a normal risk of collectability during 2018.

Involvement in Certain Legal Proceedings

There were no matters which came to the attention of management or the Board of Directors regarding involvement of current directors or senior officers in specified legal proceedings which are required to be disclosed in this section.

Relationship with Independent Public Accountant

There were no changes in independent public accountants since the last annual report to shareholders and there were no material disagreements with the independent public accountants on any matter of accounting principles or financial statement disclosure during this period.

Relationship with the CoBank, ACB

The shareholders' investment in the Association is materially affected by the financial condition and the results of operation of CoBank. The Association's 2018 annual report should be read in conjunction with CoBank's 2018 annual and quarterly reports.

- The Association's statutory obligation to borrow from the Bank is discussed in Note 7.
- The Bank's ability to access capital of the Association is discussed in Note 4.
- The Bank's role in mitigating the Association's exposure to interest rate risk is described in the Liquidity and Funding Sources section of Management's Discussion and Analysis.

Credit and Services to Young, Beginning and Small Farmers, Ranchers and Producers or Harvesters of Aquatic Products

Information required to be disclosed in this section is incorporated herein by reference to pages 14 through 16 of the "Management's Discussion and Analysis", included in this annual report to shareholders.

Borrower Privacy

Your privacy is important to us. We want you to know that we hold your financial and other personal information in strict confidence. Since 1972, Farm Credit Administration regulations have forbidden the directors and employees of Farm Credit institutions from disclosing personal borrower information to others without your consent. We do not sell or trade our customers' personal information to marketing companies or information brokers.
FCA rules allow us to disclose customer information to others only in these situations:

- We may give it to another Farm Credit institution that you do business with.
- We can be a credit reference for you with other lenders and provide information to a credit bureau or other consumer reporting agency.
- We can provide information in certain types of legal or law enforcement proceedings.

- FCA examiners may review loan files during regular examinations of our association.
- If one of our employees applies to become a licensed real estate appraiser, we may give copies of real estate appraiser reports to the State agency that licenses appraisers when required. We will first remove as much personal information from the appraisal report as possible.

As a member and owner of this institution, your privacy and the security of your personal information are vital to our continued ability to serve your ongoing credit needs.

Financial Statements
The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 15, 2019 and the Audit Committee Report appearing in this annual report to shareholders are incorporated herein by reference.