Financing Rural OKLAHOMA

2018 Second Quarter Financial Report

OKLAHOMA AGCREDIT

NOTICE

The shareholders' investment in Oklahoma AgCredit, ACA is materially affected by the financial condition and results of operations of CoBank, ACB, (CoBank). The 2017 CoBank Annual Report to Shareholders and the CoBank quarterly shareholders' reports are available free of charge by accessing CoBank's website, www.cobank.com, or may be obtained at no charge by contacting us at:

Oklahoma AgCredit, ACA
601 East Kenosha St.
Broken Arrow, Oklahoma 74012
918-251-8596

OKLAHOMA AGCREDIT

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

(Unaudited)

The following discussion summarizes the financial position and results of operations of Oklahoma AgCredit, ACA for the six months ended June 30, 2018, with comparisons to prior periods. You should read these comments along with the accompanying financial statements and footnotes and the 2017 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

Significant rains toward the end of the quarter have been a blessing for crops and forages but have left the state with higher than normal humidity levels. The higher than normal humidity levels have resulted in increased heat index and can cause negative effects and stress for cattle. This additional moisture has eliminated exceptional and extreme drought levels within our trade area.

Steady to strong demand for domestic beef has been met with increasing supply during the first half of the year. Global export demand for beef has been exceptional at a 21% increase on a year over year basis for the month of May. Global export numbers have not been as strong for pork and poultry. Concerns exist surrounding global trade and tariffs that may impact prices either directly or indirectly through tariffs on other items used in the production process such as steel.

Wheat harvest has wrapped up throughout most of the state with yields and test weights above expectations for this crop. Averages hovered near 59 pounds test weights and above 12% protein levels. Protein premiums are holding strong while basis has slipped slightly near the end of the quarter. While the corn and soybean crops are in sound condition, prices remain volatile due to higher corn yield expectations coupled with increased risk associated with a potential global trade war.

Crude oil prices ranged steady to higher during the second quarter of 2018 with prices nearing $74 per barrel. Projections of up to $90 per barrel are predicted by this time next year because of a potential disruption to crude oil supplies as a result of United States sanctions with Iran. The rig count in Oklahoma increased by 20 in the first two quarters of 2018 to a total of 140 rigs while the nation's rig count increased by 52 to 1047 rigs.

LOAN PORTFOLIO

Loans outstanding at June 30, 2018, totaled $1.23 billion, an increase of $33.0 million, or 2.76%, from loans of $1.19 billion at December 31, 2017. The increase was primarily due to loan origination consisting of real estate mortgages and agribusiness loans, most notably loans to process and marketing and farm related businesses, communication, international and rural residential home loans.

RESULTS OF OPERATIONS

Net income for the six months ended June 30, 2018, was $11.28 million, an increase of $667 thousand, or 6.29%, from the same period ended one year ago. The increase can be primarily attributed to increased noninterest income of 38.18%.

Net interest income for the six months ended June 30, 2018, was $17.1 million, an increase of $10 thousand, or 0.06%, compared with June 30, 2017. Net interest income increased as a result of increased loan origination but was offset by a dramatic increase in interest expense.

The provision for credit losses for the six months ended June 30, 2018, was $274 thousand, an increase of $336 thousand compared with credit loss reversals of $62 thousand for the same period ended one year ago. The provision for credit losses increased as a result of increased unrecognized risk in the management subjective analysis of retail/producer loans and capital markets loans.

Noninterest income increased $1.1 million during the first six months of 2018 compared with the first six months in 2017 primarily due to a refund of $765 thousand from Farm Credit System Insurance Corporation (FCSIC). This is our portion of excess funds above the secure base amount in the FCSIC Allocated Insurance Reserve Accounts. Refer to the 2017 Annual Report to Shareholders for additional information. We also received $217 thousand from participation loan warrants.

Mineral income of $275 thousand was recognized during the first six months of 2018. Of this amount, $260 thousand was received from CoBank.

During the first six months of 2018, noninterest expense increased $144 thousand to $9.6 million, primarily due to increases in salaries and benefits partially offset by a decrease in FCSIC premiums and other noninterest expense.

CAPITAL RESOURCES

Our shareholders' equity at June 30, 2018, was $267.1 million, an increase from $255.8 million at December 31, 2017. This increase is due to net income, net stock issuances and the amortization of pension costs included in the net periodic benefit cost.

During July 2018, Patrick Zeka, who was previously the Executive Vice President/Chief Operating Officer/Chief Financial Officer was appointed Executive Vice President/Chief Operating Officer. Malinda Thimmesch was hired as the Chief Financial Officer effective July 16, 2018.

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

Dale McDaniel
Dale McDaniel
Chairman of the Audit Committee
August 3, 2018

Butch McComas
President/CEO
August 3, 2018

Malinda Thimmesch
Malinda Thimmesch
CFO
August 3, 2018

OKLAHOMA AGCREDIT

Consolidated Statement of Condition

(Dollars in Thousands)

	June 30 2018 UNAUDITED	December 31 2017 AUDITED
ASSETS		
Loans	**$ 1,226,426**	$ 1,193,439
Less allowance for loan losses	**3,676**	3,408
Net loans	**1,222,750**	1,190,031
Cash	**2,424**	3,075
Accrued interest receivable	**15,156**	11,754
Investment in CoBank, ACB	**38,485**	38,475
Investment in AgDirect	**2,718**	2,757
Premises and equipment, net	**6,954**	6,917
Prepaid benefit expense	**2,838**	2,533
Other assets	**4,674**	7,008
Total assets	**$ 1,295,999**	$ 1,262,550
LIABILITIES		
Note payable to CoBank, ACB	**$ 1,018,815**	$ 991,513
Advance conditional payments	**4,779**	2,917
Accrued interest payable	**1,627**	1,410
Patronage distributions payable	**-**	5,000
Accrued benefits liability	**554**	658
Deferred tax liability	**8**	8
Reserve for unfunded commitments	**218**	210
Other liabilities	**2,850**	5,018
Total liabilities	**1,028,851**	1,006,734
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Capital stock	**3,317**	3,299
Additional paid-in capital	**55,558**	55,558
Unallocated retained earnings	**208,476**	197,200
Accumulated other comprehensive (loss)/income	**(203)**	(241)
Total shareholders' equity	**267,148**	255,816
Total liabilities and shareholders' equity	**$ 1,295,999**	$ 1,262,550

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

OKLAHOMA AGCREDIT

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

	For the three months ended June 30		For the six months ended June 30	
UNAUDITED	**2018**	2017	**2018**	2017
INTEREST INCOME				
Loans	**$ 14,772**	$ 14,017	**$ 28,838**	$ 26,086
Total interest income	**14,772**	14,017	**28,838**	26,086
INTEREST EXPENSE				
Note payable to CoBank	**6,221**	4,674	**11,744**	9,011
Other	**10**	4	**15**	6
Total interest expense	**6,231**	4,678	**11,759**	9,017
Net interest income	**8,541**	9,339	**17,079**	17,069
Provision for credit losses/(credit loss reversal)	**376**	(374)	**274**	(62)
Net interest income after provision for credit losses/(credit loss reversal)	**8,165**	9,713	**16,805**	17,131
NONINTEREST INCOME				
Financially related services income	**8**	8	**12**	16
Loan fees	**196**	162	**385**	327
Patronage refund from Farm Credit Institutions	**1,146**	1,084	**2,279**	2,170
Farm Credit Insurance Fund distribution	**-**	-	**765**	-
Mineral income	**137**	170	**275**	334
Other noninterest income	**355**	45	**406**	136
Total noninterest income	**1,842**	1,469	**4,122**	2,983
NONINTEREST EXPENSE				
Salaries and employee benefits	**2,660**	2,660	**5,581**	5,436
Occupancy and equipment	**206**	183	**426**	360
Purchased services from AgVantis, Inc.	**619**	579	**1,236**	1,158
Farm Credit Insurance Fund premium	**214**	339	**426**	679
Supervisory and examination costs	**87**	83	**298**	286
Other noninterest expense	**827**	671	**1,674**	1,578
Total noninterest expense	**4,613**	4,515	**9,641**	9,497
Income before income taxes	**5,394**	6,667	**11,286**	10,617
Provision for income taxes	**10**	6	**10**	8
Net income	**5,384**	6,661	**11,276**	10,609
OTHER COMPREHENSIVE INCOME				
Amortization of retirement costs	**19**	10	**38**	21
Comprehensive income	**$ 5,403**	$ 6,671	**$ 11,314**	$ 10,630

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

UNAUDITED	Capital Stock	Additional Paid-In Capital	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2016	$ 3,273	$ 55,558	$ 182,042	$ (163)	$ 240,710
Comprehensive income			10,609	21	10,630
Stock issued	183		-		183
Stock retired	(146)				(146)
Patronage reversed			4		4
Balance at June 30, 2017	$ 3,310	$ 55,558	$ 192,655	$ (142)	$ 251,381
Balance at December 31, 2017	$ 3,299	$ 55,558	$ 197,200	$ (241)	$ 255,816
Comprehensive income			11,276	38	11,314
Stock issued	165				165
Stock retired	(147)				(147)
Balance at June 30, 2018	**$ 3,317**	**$ 55,558**	**$ 208,476**	**$ (203)**	**$ 267,148**

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

OKLAHOMA AGCREDIT

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

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of Oklahoma AgCredit, ACA (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2017, are contained in the 2017 Annual Report to Shareholders. These unaudited second quarter 2018 financial statements should be read in conjunction with the 2017 Annual Report to Shareholders.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2017, as contained in the 2017 Annual Report to Shareholders.

In the opinion of management, the unaudited financial information is complete and reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2018. Descriptions of the significant accounting policies are included in the 2017 Annual Report to Shareholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In February 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled “Income Statement — Reporting Comprehensive Income — Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” This guidance allows for the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the recently issued tax legislation, Tax Cuts and Jobs Act (TCJA) that lowered the federal corporate tax rate from 35 percent to 21 percent. The amount of the reclassification shall include the effect of the change in the tax rate on gross deferred tax amounts and related valuation allowances at the date of enactment of the TCJA related to items remaining in accumulated other comprehensive income. The guidance becomes effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Association has early adopted this standard during the first quarter of 2018, and there was no impact on the Association’s financial condition or results of operations.

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 becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not materially impact the Association’s financial condition or results of operations.

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

In February 2016, the FASB issued guidance entitled “Leases.” The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

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 but did impact the Association’s fair value disclosures.

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.

NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

	June 30, 2018	December 31, 2017
Real estate mortgage	**$ 837,332**	$ 813,113
Production and intermediate-term	**194,701**	207,742
Agribusiness	**133,001**	118,702
Rural infrastructure	**52,297**	47,054
Rural residential real estate	**2,484**	1,911
Agricultural export finance	**6,611**	4,917
Total loans	**$ 1,226,426**	$ 1,193,439

The Association purchases and sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at June 30, 2018:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ 33,417	$ 17,557	$ 1,322	$ --	$ 34,739	$ 17,557
Production and intermediate-term	28,760	4,367	--	--	28,760	4,367
Agribusiness	129,372	--	--	--	129,372	--
Rural infrastructure	52,297	--	--	--	52,297	--
Agricultural export finance	6,611	--	--	--	6,611	--
Total	$ 250,457	$ 21,924	$ 1,322	$ --	$ 251,779	$ 21,924

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

	June 30, 2018	December 31, 2017
Real estate mortgage		
Acceptable	**97.28%**	97.67%
OAEM	**1.99%**	1.74%
Substandard	**0.73%**	0.59%
Total	**100.00%**	100.00%
Production and intermediate-term		
Acceptable	**93.23%**	93.85%
OAEM	**3.20%**	4.45%
Substandard	**3.57%**	1.70%
Total	**100.00%**	100.00%
Agribusiness		
Acceptable	**99.35%**	99.50%
OAEM	**0.65%**	0.17%
Substandard	**0.00%**	0.33%
Total	**100.00%**	100.00%
Rural infrastructure		
Acceptable	**98.39%**	100.00%
OAEM	**1.61%**	0.00%
Total	**100.00%**	100.00%
Rural residential real estate		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%
Agricultural export finance		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%
Total Loans		
Acceptable	**96.92%**	97.29%
OAEM	**2.01%**	1.98%
Substandard	**1.07%**	0.73%
Total	**100.00%**	100.00%

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

(dollars in thousands)	**June 30, 2018**	December 31, 2017
Nonaccrual loans		
Real estate mortgage	**$ 1,989**	$ 1,871
Production and intermediate-term	**4,718**	3,056
Total nonaccrual loans	**$ 6,707**	$ 4,927
Accruing restructured loans		
Real estate mortgage	**$ 340**	$ 345
Total accruing restructured loans	**$ 340**	$ 345
Accruing loans 90 days past due		
Real estate mortgage	**$ 173**	$ --
Production and intermediate-term	**29**	--
Total accruing loans 90 days past due	**$ 202**	$ --
Total high risk assets	**$ 7,249**	$ 5,272

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

Additional impaired loan information is as follows:

	June 30, 2018			December 31, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	**$ 385**	**$ 664**	**$ 76**	$ 385	$ 664	$ 76
Production and intermediate-term	**319**	**349**	**50**	474	524	84
Total	**$ 704**	**$ 1,013**	**$ 126**	$ 859	$ 1,188	$ 160
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 2,118**	**$ 2,315**		$ 1,831	$ 2,035	
Production and intermediate-term	**4,427**	**4,607**		2,582	2,677	
Total	**$ 6,545**	**$ 6,922**		$ 4,413	$ 4,712	
Total impaired loans:						
Real estate mortgage	**$ 2,503**	**$ 2,979**	**$ 76**	$ 2,216	$ 2,699	$ 76
Production and intermediate-term	**4,746**	**4,956**	**50**	3,056	3,201	84
Total	**$ 7,249**	**$ 7,935**	**$ 126**	$ 5,272	$ 5,900	$ 160

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

	For the Three Months Ended June 30, 2018		For the Three Months Ended June 30, 2017	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	**$ 383**	**$ --**	$ 396	$ --
Production and intermediate-term	**327**	**--**	642	--
Total	**$ 710**	**$ --**	$ 1,038	$ --
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 2,222**	**$ 42**	$ 6,132	$ 635
Production and intermediate-term	**3,725**	**1**	1,050	--
Total	**$ 5,947**	**$ 43**	$ 7,182	$ 635
Total impaired loans:				
Real estate mortgage	**$ 2,605**	**$ 42**	$ 6,528	$ 635
Production and intermediate-term	**4,052**	**1**	1,692	--
Total	**$ 6,657**	**$ 43**	$ 8,220	$ 635

	For the Six Months Ended June 30, 2018		For the Six Months Ended June 30, 2017	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	**$ 383**	**$ --**	$ 1,435	$ --
Production and intermediate-term	**397**	**--**	775	--
Total	**$ 780**	**$ --**	$ 2,210	$ --
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 2,182**	**$ 49**	$ 8,159	$ 640
Production and intermediate-term	**3,125**	**2**	952	1
Total	**$ 5,307**	**$ 51**	$ 9,111	$ 641
Total impaired loans:				
Real estate mortgage	**$ 2,565**	**$ 49**	$ 9,595	$ 640
Production and intermediate-term	**3,522**	**2**	1,727	1
Total	**$ 6,087**	**$ 51**	$ 11,321	$ 641

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

June 30, 2018	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 2,327	$ 801	$ 3,128	$ 844,714	$ 847,842	$ 173
Production and intermediate-term	4,412	2,054	6,466	192,353	198,819	29
Agribusiness	--	--	--	133,428	133,428	--
Rural infrastructure	--	--	--	52,371	52,371	--
Rural residential real estate	--	--	--	2,497	2,497	--
Agricultural export finance	--	--	--	6,624	6,624	--
Total	$ 6,739	$ 2,855	$ 9,594	$1,231,987	$1,241,581	$ 202

December 31, 2017	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 1,876	$ 760	$ 2,636	$ 819,073	$ 821,709	$ --
Production and intermediate-term	1,176	--	1,176	209,176	210,352	--
Agribusiness	--	--	--	119,153	119,153	--
Rural infrastructure	--	--	--	47,133	47,133	--
Rural residential real estate	--	--	--	1,917	1,917	--
Agricultural export finance	--	--	--	4,929	4,929	--
Total	$ 3,052	$ 760	$ 3,812	$1,201,381	$1,205,193	$ --

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

	Balance at March 31, 2018	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2018
Real estate mortgage	$ 1,295	$ --	$ 1	$ (257)	$ 1,039
Production and intermediate-term	1,151	--	--	347	1,498
Agribusiness	778	--	--	228	1,006
Rural infrastructure	121	--	--	8	129
Rural residential real estate	--	--	--	1	1
Agricultural export finance	2	--	--	1	3
Total	$ 3,347	$ --	$ 1	$ 328	$ 3,676

	Balance at December 31, 2017	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2018
Real estate mortgage	$ 1,271	$ --	$ 2	$ (234)	$ 1,039
Production and intermediate-term	1,241	--	--	257	1,498
Agribusiness	774	--	--	232	1,006
Rural infrastructure	119	--	--	10	129
Rural residential real estate	--	--	--	1	1
Agricultural export finance	3	--	--	--	3
Total	$ 3,408	$ --	$ 2	$ 266	$ 3,676

	Balance at March 31, 2017	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2017
Real estate mortgage	$ 2,104	$ --	$ 96	$ (406)	$ 1,794
Production and intermediate-term	476	--	--	38	514
Agribusiness	193	--	--	(7)	186
Rural infrastructure	98	--	--	(8)	90
Agricultural export finance	3	--	--	(1)	2
Total	$ 2,874	$ --	$ 96	$ (384)	$ 2,586

	Balance at December 31, 2016	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2017
Real estate mortgage	$ 1,799	$ --	$ 96	$ (101)	$ 1,794
Production and intermediate-term	466	--	--	48	514
Agribusiness	189	--	--	(3)	186
Rural infrastructure	93	--	--	(3)	90
Agricultural export finance	2	--	--	--	2
Total	$ 2,549	$ --	$ 96	$ (59)	$ 2,586

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	**2018**	2017
Balance at beginning of period	**$ 170**	$ 188	**$ 210**	$ 201
Provision for unfunded commitments	**48**	10	**8**	(3)
Total	**$ 218**	$ 198	**$ 218**	$ 198

Additional information on the allowance for credit losses follows:

	Allowance for Credit Losses Ending Balance at June 30, 2018		Recorded Investments in Loans Outstanding Ending Balance at June 30, 2018	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ 76	$ 963	$ 2,503	$ 845,339
Production and intermediate-term	50	1,448	4,746	194,073
Agribusiness	--	1,006	--	133,428
Rural infrastructure	--	129	--	52,371
Rural residential real estate	--	1	--	2,497
Agricultural export finance	--	3	--	6,624
Total	$ 126	$ 3,550	$ 7,249	$ 1,234,332

	Allowance for Credit Losses Ending Balance at December 31, 2017		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2017	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ 76	$ 1,195	$ 2,216	$ 819,493
Production and intermediate-term	84	1,157	3,056	207,296
Agribusiness	--	774	--	119,153
Rural infrastructure	--	119	--	47,133
Rural residential real estate	--	--	--	1,917
Agricultural export finance	--	3	--	4,929
Total	$ 160	$ 3,248	$ 5,272	$ 1,199,921

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider.

The following table presents additional information regarding troubled debt restructurings that occurred during the periods.

	For the Three Months Ended			
	June 30, 2018		June 30, 2017	
	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings:				
Real estate mortgage	$ 327	$ 327	$ --	$ --
Total	$ 327	$ 327	$ --	$ --

	For the Six Months Ended			
	June 30, 2018		June 30, 2017	
	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings:				
Real estate mortgage	$ 327	$ 327	$ --	$ --
Total	$ 327	$ 327	$ --	$ --

* 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 investment.

The Association had no TDRs within the previous 12 months and for which there were subsequent payment defaults during the first six months of 2018 and 2017.

There were no additional commitments to lend to borrowers whose loans have been modified in troubled debt restructuring at June 30, 2018 and December 31, 2017.

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*	
	June 30, 2018	December 31, 2017	**June 30, 2018**	December 31, 2017
Real estate mortgage	**$ 653**	$ 345	**$ 312**	$ --
Production and intermediate-term	**49**	49	**49**	49
Total	**$ 702**	$ 394	**$ 361**	$ 49

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

NOTE 3 - CAPITAL

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

	As of June 30, 2018	As of December 31, 2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk Adjusted:					
Common equity tier 1 ratio	17.52%	17.59%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	17.52%	17.59%	6.0%	2.5%*	8.5%
Total capital ratio	17.80%	17.90%	8.0%	2.5%*	10.5%
Permanent capital ratio	17.57%	17.64%	7.0%	–	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	17.96%	17.99%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	19.04%	18.91%	1.5%	–	1.5%

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

If capital ratios fall below the regulatory minimum plus buffer amounts, capital distributions (equity redemptions, cash dividend payments, and cash patronage payments) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. The current regulations establish a three-year phase-in of the capital conservation buffer, which began on January 1, 2017. There will be no phase-in of the leverage buffer.

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	**2018**	2017
Pension and other benefit plans:				
Beginning balance	**$ (222)**	**$ (152)**	**$ (241)**	$ (163)
Amounts reclassified from accumulated other comprehensive loss	**19**	**10**	**38**	21
Net current period other comprehensive income/(loss)	**19**	**10**	**38**	21
Ending balance	**$ (203)**	**$ (142)**	**$ (203)**	$ (142)

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

	Amount Reclassified from Accumulated Other Comprehensive Income/(Loss) For the Three Months Ended June 30		Location of Gain/Loss Recognized in Statement of Income
	2018	2017	
Pension and other benefit plans:			
Net actuarial loss	**$ 19**	$ 10	Salaries and employee benefits
Total reclassifications	**$ 19**	$ 10	

	Amount Reclassified from Accumulated Other Comprehensive Income/(Loss) For the Six Months Ended June 30		Location of Gain/Loss Recognized in Statement of Income
	2018	2017	
Pension and other benefit plans:			
Net actuarial loss	**$ 38**	$ 21	Salaries and employee benefits
Total reclassifications	**$ 38**	$ 21	

NOTE 4 - INCOME TAXES

The Tax Cuts and Jobs Act of 2017 enacted in late 2017, among other things, lowered the federal corporate tax rate from 35 percent to 21 percent beginning in 2018. Refer to the 2017 Annual Report to Shareholders for additional information.

NOTE 5 - FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 to the 2017 Annual Report to Shareholders for a more complete description.

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

	Fair Value Measurement Using			**Total Fair Value**
	Level 1	**Level 2**	**Level 3**	
Assets held in nonqualified benefits trusts				
June 30, 2018	**$ 683**	**$ –**	**$ –**	**$ 683**
December 31, 2017	$ 813	$ –	$ –	$ 813

During the first six months of 2018, the Association recorded no transfers in or out of Levels 1, 2, or 3.

The Association had no liabilities measured at fair value on a recurring basis at June 30, 2018 or December 31, 2017.

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

	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
June 30, 2018				
Loans	**$ --**	**$ --**	**$ 579**	**$ 579**
December 31, 2017				
Loans	$ –	$ –	$ 699	$ 699

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

The Association had no liabilities measured at fair value on a non-recurring basis at June 30, 2018 or December 31, 2017.

Valuation Techniques

As more fully discussed in Note 2 to the 2017 Annual Report to Shareholders, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following presents a brief summary of the valuation techniques used by the Association for assets and liabilities, subject to fair value measurement.

Assets Held in Non-Qualified Benefits Trusts

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

Loans Evaluated for Impairment

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

NOTE 6 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through August 3, 2018, which is the date the financial statements were issued, and no material subsequent events were identified.