Farm Credit of Western Oklahoma, ACA

Quarterly Report
June 30, 2018

The shareholders' investment in Farm Credit of Western Oklahoma, 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 web site, **www.cobank.com**, or may be obtained at no charge by contacting us at Farm Credit of Western Oklahoma, ACA, 3302 Williams Avenue, Woodward, Oklahoma 73801, or by calling 580-256-3465 or toll free 1-800-299-3465.

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

(Unaudited)

The following discussion summarizes the financial position and results of operations of Farm Credit of Western Oklahoma, 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.

In early 2018, much of our lending territory experienced various levels of drought. The winter of 2017-2018 received less than adequate moisture over most of Western Oklahoma. During much of 2017, ample moisture was present and growing conditions were above average, but throughout the fall and into the winter the conditions worsened and the adequate crop moisture conditions subsided. Due to the drought conditions, wildfire activity impacted the Western and Northwestern regions of our lending territory in the spring of 2018. The wildfires primarily affected the welfare of livestock, rural structures, and rangeland. Following the wildfire activity, adequate moisture has fallen on much of the area and stimulated pasture growth and rangeland quality; although fences, infrastructure, and the loss of various structures across the region will take time to replace.

The USDA currently rates the majority of growing crop conditions throughout Oklahoma as fair to good at this time. However, cash grain commodity prices continue to be under pressure, given the current world trade uncertainties coupled with plentiful grain production, further impacted by current grain inventories. Cattle futures have remained volatile during 2018 and opportunities for profitability have been intermittent in that subset of the agricultural economy.

The total impact on the real estate market from the volatility in commodity prices, increasing interest rates and the narrowing of profitability margins in the agricultural economy has yet to be seen in totality, but the likelihood of real estate prices softening in the future remains possible. Average real estate values in Oklahoma continue to show signs of strength when compared to real estate values nation-wide, but we will continue to evaluate the sustainability of this market strength over time. USDA National Agriculture Statistics indicate that Oklahoma farm real estate values increased by 5.56% in 2017, but the continuation of Oklahoma real estate appreciation remains in question given the economic factors mentioned. Pockets of weakness in real estate prices that have been noted in recent months and both current and future land value studies will indicate to what level the current farm economy will impact land values across Western Oklahoma. Although concern over the rural economic environment persists, given the present-day commodity prices and the volatility therein over the past few years, significant equities remain across our customer base. Off-farm income has been negatively impacted by the downturn in the oil and gas economy, yet it appears that activity and profitability in the oil and gas subset of the economy has begun to gain traction. During periods of volatility, solid financial managers have the upper hand. Time dedicated to financial management is expected from our customer base in order to maintain profitability while working to control expenses and maintaining liquidity.

LOAN PORTFOLIO

Loans outstanding at June 30, 2018, totaled $756.1 million, an increase of $566 thousand, or 0.07%, from loans of $755.5 million at December 31, 2017. The increase was primarily due to new mortgage loan volume during the period, offset by a reduction in the commercial portfolio impacted primarily by seasonal repayments on operating lines of credit.

RESULTS OF OPERATIONS

Net income for the six months ended June 30, 2018, was $6.2 million, an increase of $472 thousand, or 8.26%, from the same period ended one year ago. The increase was primarily due to an increase in noninterest income and a decrease in provision for credit losses resulting in a credit loss reversal, partially offset by a decrease in net interest income and an increase in other noninterest expense.

Net interest income for the six months ended June 30, 2018, was $10.0 million, a decrease of $530 thousand, or 5.04%, compared with June 30, 2017. Net interest income decreased primarily as a result of decreased spreads on accrual loans.

The credit loss reversal for the six months ended June 30, 2018, was $24 thousand, compared with the provision for credit losses of $548 thousand for the same period one year ago. The provision for credit losses decreased as a result of reduced risk in certain loans and a reduction in the subjective allowance, partially offset by an increase in the reserve for unfunded commitment.

Noninterest income increased $416 thousand during the first six months of 2018 compared with the first six months in 2017 primarily due to a refund of $503 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. Mineral income of $191 thousand was recognized during the first six months of 2018. Of this amount, $168 thousand was received from CoBank.

During the first six months of 2018, noninterest expense decreased $14 thousand to $6.0 million, primarily due to decreased salaries and employee benefits and a reduction in FCSIC premiums, partially offset by an increase in other noninterest expenses, consisting primarily of increased public and member relations, purchased services, and other operating expenses.

CAPITAL RESOURCES

Our shareholders' equity at June 30, 2018, was $157.6 million, an increase from $151.4 million at December 31, 2017. This increase is due to net income and the amortization of pension costs included in the net periodic benefit cost.

OTHER MATTERS

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.

John Grunewald	Jamey B. Mitchell	Alan Schenk
President/CEO	CFO	Chairman of the Board
August 6th, 2018	August 6th, 2018	August 6th, 2018

Consolidated Statement of Condition

(Dollars in Thousands)

	June 30 2018	December 31 2017
	UNAUDITED	AUDITED
ASSETS		
Loans	**$ 756,081**	$ 755,515
Less allowance for loan losses	**2,246**	2,394
Net loans	**753,835**	753,121
Cash	**2,155**	4,687
Accrued interest receivable	**15,664**	12,037
Investment in CoBank, ACB	**25,467**	25,467
Premises and equipment, net	**5,211**	5,152
Prepaid benefit expense	**1,942**	1,742
Other assets	**3,001**	4,430
Total assets	**$ 807,275**	$ 806,636
LIABILITIES		
Note payable to CoBank, ACB	**$ 634,644**	$ 641,234
Advance conditional payments	**10,815**	6,144
Accrued interest payable	**1,200**	1,125
Patronage distributions payable	**-**	2,500
Accrued benefits liability	**265**	269
Reserve for unfunded commitments	**528**	407
Other liabilities	**2,271**	3,600
Total liabilities	**649,723**	655,279
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Capital stock	**1,971**	1,971
Additional paid-in capital	**33,619**	33,619
Unallocated retained earnings	**122,029**	115,842
Accumulated other comprehensive (loss)/income	**(67)**	(75)
Total shareholders' equity	**157,552**	151,357
Total liabilities and shareholders' equity	**$ 807,275**	$ 806,636

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

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

UNAUDITED	For the three months ended June 30 **2018**	2017	For the six months ended June 30 **2018**	2017
INTEREST INCOME				
Loans	**$ 9,000**	$ 8,516	**$ 17,671**	$ 17,156
Total interest income	**9,000**	8,516	**17,671**	17,156
INTEREST EXPENSE				
Note payable to CoBank	**3,989**	3,346	**7,634**	6,590
Other	**28**	27	**53**	52
Total interest expense	**4,017**	3,373	**7,687**	6,642
Net interest income	**4,983**	5,143	**9,984**	10,514
Provision for credit losses/(credit loss reversal)	**8**	76	**(24)**	548
Net interest income after provision for credit losses/(credit loss reversal)	**4,975**	5,067	**10,008**	9,966
NONINTEREST INCOME				
Financially related services income	**2**	5	**5**	9
Loan fees	**(2)**	8	**-**	12
Patronage refund from Farm Credit Institutions	**702**	708	**1,399**	1,440
Farm Credit Insurance Fund distribution	**-**	-	**503**	-
Mineral income	**106**	105	**191**	220
Other noninterest income	**6**	2	**44**	45
Total noninterest income	**814**	828	**2,142**	1,726
NONINTEREST EXPENSE				
Salaries and employee benefits	**1,321**	1,451	**2,798**	3,087
Occupancy and equipment	**138**	198	**276**	308
Purchased services from AgVantis, Inc.	**457**	435	**915**	875
Farm Credit Insurance Fund premium	**122**	211	**247**	430
Supervisory and examination costs	**72**	70	**144**	140
Other noninterest expense	**845**	551	**1,583**	1,137
Total noninterest expense	**2,955**	2,916	**5,963**	5,977
Net income	**2,834**	2,979	**6,187**	5,715
OTHER COMPREHENSIVE INCOME				
Amortization of retirement costs	**4**	4	**8**	7
Comprehensive income	**$ 2,838**	$ 2,983	**$ 6,195**	$ 5,722

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	$ 2,002	$ 33,619	$ 106,610	$ (65)	$ 142,166
Comprehensive income			5,715	7	5,722
Stock issued	65				65
Stock retired	(82)				(82)
Balance at June 30, 2017	$ 1,985	$ 33,619	$ 112,325	$ (58)	$ 147,871
Balance at December 31, 2017	$ 1,971	$ 33,619	$ 115,842	$ (75)	$ 151,357
Comprehensive income			6,187	8	6,195
Stock issued	88				88
Stock retired	(88)				(88)
Balance at June 30, 2018	**$ 1,971**	**$ 33,619**	**$ 122,029**	**$ (67)**	**$ 157,552**

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

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

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of Farm Credit of Western Oklahoma, 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	**$ 514,643**	$ 489,012
Production and intermediate-term	**228,075**	254,198
Agribusiness	**11,376**	10,032
Rural Infrastructure	**1,208**	1,256
Rural residential real estate	**779**	1,017
Total Loans	**$ 756,081**	$ 755,515

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	$ 39,043	$ 21,738	$ 843	$ -	$ 39,886	$ 21,738
Production and intermediate-term	20,117	6,052	-	-	20,117	6,052
Agribusiness	5,688	-	-	-	5,688	-
Rural infrastructure	1,208	-	-	-	1,208	-
Total	$ 66,056	$ 27,790	$ 843	$ -	$ 66,899	$ 27,790

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	**93.83%**	93.32%
OAEM	**4.30%**	2.83%
Substandard	**1.87%**	3.85%
Total	**100.00%**	100.00%
Production and intermediate-term		
Acceptable	**89.60%**	89.27%
OAEM	**6.07%**	5.39%
Substandard	**4.33%**	5.34%
Total	**100.00%**	100.00%
Agribusiness		
Acceptable	**99.93%**	99.92%
OAEM	**0.07%**	0.08%
Total	**100.00%**	100.00%
Rural infrastructure		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%
Rural residential real estate		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%
Total Loans		
Acceptable	**92.65%**	92.06%
OAEM	**4.76%**	3.65%
Substandard	**2.58%**	4.29%
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	**$ 2,156**	$ 3,006
Production and intermediate-term	**1,968**	2,234
Total nonaccrual loans	**$ 4,124**	$ 5,240
Accruing restructured loans		
Real estate mortgage	**$ 86**	$ 87
Total accruing restructured loans	**$ 86**	$ 87
Accruing loans 90 days past due		
Real estate mortgage	**$ -**	$ 132
Production and intermediate-term	**-**	10
Total accruing loans 90 days past due	**$ -**	$ 142
Total impaired loans	**$ 4,210**	$ 5,469

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:						
Production and intermediate-term	**$ 1,607**	**$ 2,155**	**$ 419**	$ 1,621	$ 1,591	$ 353
Total	**$ 1,607**	**$ 2,155**	**$ 419**	$ 1,621	$ 1,591	$ 353
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 2,242**	**$ 2,272**		$ 3,225	$ 3,200	
Production and intermediate-term	**361**	**1,710**		623	2,512	
Total	**$ 2,603**	**$ 3,982**		$ 3,848	$ 5,712	
Total impaired loans:						
Real estate mortgage	**$ 2,242**	**$ 2,272**	**$ -**	$ 3,225	$ 3,200	$ -
Production and intermediate-term	**1,968**	**3,865**	**419**	2,244	4,103	353
Total	**$ 4,210**	**$ 6,137**	**$ 419**	$ 5,469	$ 7,303	$ 353

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:				
Production and intermediate-term	**$ 1,651**	**$ -**	$ 2,671	$ -
Total	**$ 1,651**	**$ -**	$ 2,671	$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 2,938**	**$ 73**	$ 1,013	$ 2
Production and intermediate-term	**352**	**(6)**	847	-
Total	**$ 3,290**	**$ 67**	$ 1,860	$ 2
Total impaired loans:				
Real estate mortgage	**$ 2,938**	**$ 73**	$ 1,013	$ 2
Production and intermediate-term	**2,003**	**(6)**	3,518	-
Total	**$ 4,941**	**$ 67**	$ 4,531	$ 2

	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:				
Production and intermediate-term	**$ 1,693**	**$ -**	$ 2,083	$ -
Total	**$ 1,693**	**$ -**	$ 2,083	$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 3,043**	**$ 75**	$ 639	$ 2
Production and intermediate-term	**391**	**-**	484	1
Total	**$ 3,434**	**$ 75**	$ 1,123	$ 3
Total impaired loans:				
Real estate mortgage	**$ 3,043**	**$ 75**	$ 639	$ 2
Production and intermediate-term	**2,084**	**-**	2,567	1
Total	**$ 5,127**	**$ 75**	$ 3,206	$ 3

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	Recorded Investment Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 688	$ 2,016	$ 2,704	$ 522,229	$ 524,933	$ -
Production and intermediate-term	660	1,672	2,332	231,055	233,387	-
Agribusiness	-	-	-	11,433	11,433	-
Rural infrastructure	-	-	-	1,209	1,209	-
Rural residential real estate	-	-	-	783	783	-
Total	$ 1,348	$ 3,688	$ 5,036	$ 766,709	$ 771,745	$ -

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	Recorded Investment Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 285	$ 897	$ 1,182	$ 495,565	$ 496,747	$ 132
Production and intermediate-term	237	1,631	1,868	256,569	258,437	10
Agribusiness	-	-	-	10,090	10,090	-
Rural infrastructure	-	-	-	1,257	1,257	-
Rural residential real estate	-	-	-	1,021	1,021	-
Total	$ 522	$ 2,528	$ 3,050	$ 764,502	$ 767,552	$ 142

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	$ 322	$ -	$ -	$ 9	$ 331
Production and intermediate-term	1,965	-	3	(86)	1,882
Agribusiness	27	-	-	(5)	22
Rural infrastructure	7	-	-	4	11
Total	$ 2,321	$ -	$ 3	$ (78)	$ 2,246

	Balance at December 31, 2017	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2018
Real estate mortgage	$ 367	$ -	$ -	$ (36)	$ 331
Production and intermediate-term	1,993	9	6	(108)	1,882
Agribusiness	27	-	-	(5)	22
Rural infrastructure	7	-	-	4	11
Total	$ 2,394	$ 9	$ 6	$ (145)	$ 2,246

	Balance at March 31, 2017	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2017
Real estate mortgage	$ 335	$ -	$ -	$ 44	$ 379
Production and intermediate-term	2,688	9	3	(28)	2,654
Agribusiness	38	-	-	(16)	22
Rural infrastructure	10	-	-	-	10
Total	$ 3,071	$ 9	$ 3	$ -	$ 3,065

	Balance at December 31, 2016	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2017
Real estate mortgage	$ 293	$ -	$ -	$ 86	$ 379
Production and intermediate-term	2,295	17	6	370	2,654
Agribusiness	25	-	-	(3)	22
Rural infrastructure	10	-	-	-	10
Total	$ 2,623	$ 17	$ 6	$ 453	$ 3,065

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	**$ 442**	$ 393	**$ 407**	$ 374
Provision for unfunded commitments	**86**	76	**121**	95
Total	**$ 528**	$ 469	**$ 528**	$ 469

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	$ -	$ 331	$ 2,242	$ 522,691
Production and intermediate-term	419	1,463	1,968	231,419
Agribusiness	-	22	-	11,433
Rural infrastructure	-	11	-	1,209
Rural residential real estate	-	-	-	783
Total	$ 419	$ 1,827	$ 4,210	$ 767,535

	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	$ -	$ 367	$ 3,225	$ 493,522
Production and intermediate-term	353	1,640	2,244	256,193
Agribusiness	-	27	-	10,090
Rural infrastructure	-	7	-	1,257
Rural residential real estate	-	-	-	1,021
Total	$ 353	$ 2,041	$ 5,469	$ 762,083

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 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	**$ 86**	$ 87	**$ -**	$ -
Total	**$ 86**	$ 87	**$ -**	$ -

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

The association recorded no TDRs during the six months ended June 30, 2018. 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.

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 Convservation Buffer	Total
Risk Adjusted:					
Common equity tier 1 ratio	17.73%	16.83%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	17.73%	16.83%	6.0%	2.5%*	8.5%
Total capital ratio	18.11%	17.31%	8.0%	2.5%*	10.5%
Permanent capital ratio	17.78%	16.90%	7.0%	-	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	16.82%	15.95%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	18.34%	17.42%	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	**$ (71)**	$ (62)	**$ (75)**	$ (65)
Amounts reclassified from accumulated other comprehensive loss	**4**	4	**8**	7
Ending balance	$ (67)	$ (58)	$ (67)	$ (58)

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	**$ 4**	$ 4	Salaries and employee benefits
Total reclassifications	**$ 4**	$ 4	

	Amount Reclassified from Accumulated Other Comprehensive Income/(Loss)		Location of Gain/Loss Recognized in Statement of Income
	For the Six Months Ended June 30		
	2018	2017	
Pension and other benefit plans:			
Net actuarial loss	**$ 8**	$ 7	Salaries and employee benefits
Total reclassifications	**$ 8**	$ 7	

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	**$ 401**	**$ -**	**$ -**	**$ 401**
December 31, 2017	$ 347	$ -	$ -	$ 347

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	**$ -**	**$ -**	**$ 1,187**	**$ 1,187**
December 31, 2017				
Loans	$ -	$ -	$ 1,268	$ 1,268

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 6, 2018 which is the date the financial statements were issued, and no material subsequent events were identified.