

# **Farm Credit of Western Oklahoma, ACA**



**Quarterly Report  
September 30, 2017**

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 2016 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](http://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**

(Dollars in Thousands, Except as Noted)  
(Unaudited)

The following discussion summarizes the financial position and results of operations of Farm Credit of Western Oklahoma, ACA for the nine months ended September 30, 2017, with comparisons to prior periods. You should read these comments along with the accompanying financial statements and footnotes and the 2016 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

Over the past several months, moisture has been adequate to above average over much of our area. Year-to-date rainfall accumulation has been strong throughout the territory and crop conditions remain adequate throughout Western Oklahoma. According to USDA, Oklahoma sorghum crop conditions are 4% poor, 43% fair, 50% good, and 3% excellent across the state, with other cash grains falling into similar categories. Cotton growing conditions across the state are shown by USDA to be 1% poor, 7% fair, 90% good, and 2% excellent. Oklahoma pasture and range land conditions are estimated to be 2% very poor, 9% poor, 44% fair, 42% good, and 3% excellent, while approximately 74% of topsoil moisture is rated adequate and 79% of subsoil moisture is rated adequate at this time. It remains evident that cash grain commodity prices continue to be under pressure, but opportunities for profitability remain across the subset of commodities we serve. Overall, cattle futures have strengthened over the past year allowing for the likelihood of profitability in the highest commodity concentration of our portfolio.

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 agriculture 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 management will continue to evaluate the sustainability of this market strength over time. USDA National Agricultural Statistics indicate that Oklahoma farm real estate values have increased by 5.56% in 2017, but the continuation of Oklahoma real estate appreciation remains in question given the previously mentioned factors impacting the agricultural economy. Our Real Estate Market Trend Analysis does indicate that land prices have seen a slight decline in value of 1.13% across our territory, when comparing 2015 to 2016 real estate values, with the total impact on 2017 real estate values yet to be seen. As noted, land values continue to increase on average in Oklahoma on a state-wide basis, but pockets of weakness have been noted in recent months and future land value studies will indicate to what level the current farm economy will impact land values across the region.

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 and it is evident that the volatility of this market continues. Good financial managers will have the upper hand during this time of lower commodity prices coupled with market volatility. A higher level of financial management is expected from our customer base in order to maintain profitability by working to control expenses while maintaining liquidity.

### **LOAN PORTFOLIO**

Loans outstanding at September 30, 2017 totaled \$750.1 million, a decrease of \$17.9 million, or 2.33%, from loans of \$768.0 million at December 31, 2016. The decrease was primarily due to reduced loan demand combined with repayments on short and intermediate term loans, real estate mortgage loans and loans to cooperatives.

### **RESULTS OF OPERATIONS**

Net income for the nine months ended September 30, 2017 was \$8.8 million, an increase of \$1.6 million, or 22.63%, from the same period ended one year ago. This was driven primarily by an increase in net interest income and a decrease in noninterest expense, partially offset by an increase in provision for credit losses and a decrease in noninterest income.

Net interest income for the nine months ended September 30, 2017 was \$15.6 million, an increase of \$856 thousand, or 5.80%, compared with September 30, 2016. The increase was a result of increased earnings on loanable funds, impacted primarily by the rising interest rate environment over the past year. Net interest income was further impacted by increased spread in accrual loan volume when compared to the same period one year ago.

The provision for credit losses for the nine months ended September 30, 2017 was \$631 thousand, an increase of \$326 thousand, or 106.89%, from the same period ended one year ago. The provision for credit losses increased as a result of increased risk in certain loans, however was partially offset by a \$470 thousand reduction in the subjective allowance. The provision for credit losses for the three months ended September 30, 2017 was \$83 thousand, a

decrease of 58.50% from the same three month period ended one year ago. The quarter over quarter difference was driven primarily by timing differences in loan classifications.

Noninterest income decreased \$151 thousand during the first nine months of 2017 compared with the first nine months of 2016 primarily due to a decrease in other noninterest income which had been impacted by the sale of certain fixed assets in 2016. This decrease was partially offset by an increase in mineral income. Mineral income of \$322 thousand was recognized during the first nine months of 2017. Of this amount, quarterly payments totaling \$305 thousand were received from CoBank.

During the first nine months of 2017, noninterest expense decreased \$1.2 million to \$8.7 million, primarily due to decreased salaries and employee benefits, FCSIC premiums, information technology services, and other noninterest expenses. The decrease was partially offset by increases in occupancy and equipment and supervisory and examination costs.

## **CAPITAL RESOURCES**

Our shareholders' equity at September 30, 2017 was \$151.0 million, an increase from \$142.2 million at December 31, 2016. This increase is due to net income and the amortization of pension costs included in the net periodic benefit cost, offset by stock reductions.

## **REGULATORY MATTERS**

On March 10, 2016, the FCA approved new rules ("New Capital Regulations") relating to regulatory capital requirements for System Banks, including CoBank and Associations. The New Capital Regulations became effective 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 ("Dodd-Frank Act").

The New Capital Regulations, among other things, replace 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 add a tier 1 leverage ratio for all System institutions, which replaces the existing net collateral ratio for System Banks. In addition, the New Capital Regulations establish a capital conservation buffer and a leverage buffer; enhance the sensitivity of risk weightings; and, for System Banks only, require additional public disclosures. The revisions to the risk weightings include 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 percent;
- A tier 1 capital ratio (CET1 capital plus additional tier 1 capital) of 6 percent; and
- A total capital ratio (tier 1 plus tier 2) of 8 percent.

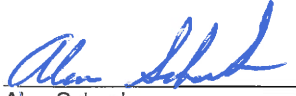
The New Capital Regulations also set a minimum tier 1 leverage ratio (tier 1 divided by total assets) of 4 percent, of which at least 1.5 percent must consist of unallocated retained earnings (URE) and URE equivalents, which are nonqualified allocated equities with certain characteristics of URE.

The New Capital Regulations establish a capital cushion (capital conservation buffer) of 2.5 percent above the risk-based CET1, tier 1 and total capital requirements. In addition, the New Capital Regulations establish a leverage capital cushion (leverage buffer) of 1 percent above the tier 1 leverage ratio 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 New Capital 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.

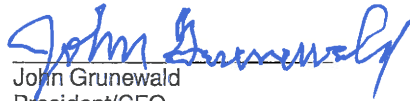
Refer to Note 3 of the accompanying Consolidated Financial Statements for additional detail regarding the capital ratios as of September 30, 2017.

**OTHER MATTERS**

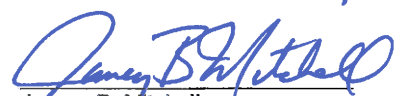
The undersigned certify they have reviewed this report, this report has been prepared in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of his or her knowledge and belief.



Alan Schenk  
Chairman of the Board  
November 6<sup>th</sup>, 2017



John Grunewald  
President/CEO  
November 6<sup>th</sup>, 2017



Jamey B. Mitchell  
Chief Financial Officer  
November 6<sup>th</sup>, 2017

## Consolidated Statement of Condition

(Dollars in Thousands)

	September 30 2017 UNAUDITED	December 31 2016 AUDITED
<b>ASSETS</b>		
Loans	\$ 750,054	\$ 767,955
Less allowance for loan losses	3,119	2,623
Net loans	746,935	765,332
Cash	1,449	4,425
Accrued interest receivable	15,840	12,472
Investment in CoBank, ACB	25,369	25,369
Premises and equipment, net	4,711	3,744
Prepaid benefit expense	1,013	1,141
Other assets	3,678	4,367
<b>Total assets</b>	<b>\$ 798,995</b>	<b>\$ 816,850</b>
<b>LIABILITIES</b>		
Note payable to CoBank, ACB	\$ 633,772	\$ 658,900
Advance conditional payments	7,687	7,441
Accrued interest payable	1,066	1,045
Patronage distributions payable	-	2,000
Accrued benefits liability	250	258
Reserve for unfunded commitments	484	374
Other liabilities	4,778	4,666
<b>Total liabilities</b>	<b>648,037</b>	<b>674,684</b>
<b>Commitments and Contingencies</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock	1,984	2,002
Additional paid-in capital	33,619	33,619
Unallocated retained earnings	115,410	106,610
Accumulated other comprehensive (loss)/income	(55)	(65)
<b>Total shareholders' equity</b>	<b>150,958</b>	<b>142,166</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 798,995</b>	<b>\$ 816,850</b>

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 September 30		For the nine months ended September 30	
	2017	2016	2017	2016
<b>INTEREST INCOME</b>				
Loans	\$ 8,572	\$ 8,057	\$ 25,728	\$ 24,000
<b>Total interest income</b>	<b>8,572</b>	<b>8,057</b>	<b>25,728</b>	<b>24,000</b>
<b>INTEREST EXPENSE</b>				
Note payable to CoBank	3,456	3,093	10,046	9,172
Other	25	27	77	79
<b>Total interest expense</b>	<b>3,481</b>	<b>3,120</b>	<b>10,123</b>	<b>9,251</b>
Net interest income	5,091	4,937	15,605	14,749
Provision for credit losses	83	200	631	305
Net interest income after provision for credit losses	5,008	4,737	14,974	14,444
<b>NONINTEREST INCOME</b>				
Financially related services income	6	7	15	23
Loan fees	(5)	1	7	11
Patronage refund from Farm Credit Institutions	702	721	2,142	2,135
Mineral income	102	118	322	285
Other noninterest income	2	9	47	230
<b>Total noninterest income</b>	<b>807</b>	<b>856</b>	<b>2,533</b>	<b>2,684</b>
<b>NONINTEREST EXPENSE</b>				
Salaries and employee benefits	1,362	1,624	4,449	5,080
Occupancy and equipment	128	127	436	419
Purchased services from AgVantis, Inc.	388	430	1,263	1,279
Farm Credit Insurance Fund premium	206	256	636	716
Merger-implementation costs	-	-	-	26
Supervisory and examination costs	58	56	198	168
Other noninterest expense	588	599	1,725	2,264
<b>Total noninterest expense</b>	<b>2,730</b>	<b>3,092</b>	<b>8,707</b>	<b>9,952</b>
<b>Net income</b>	<b>3,085</b>	<b>2,501</b>	<b>8,800</b>	<b>7,176</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Amortization of retirement costs	3	2	10	4
<b>Comprehensive income</b>	<b>\$ 3,088</b>	<b>\$ 2,503</b>	<b>\$ 8,810</b>	<b>\$ 7,180</b>

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
<b>Balance at December 31, 2015</b>	\$ 2,005	\$ 33,619	\$ 99,976	\$ (28)	\$ 135,572
Comprehensive income			7,176	4	7,180
Stock issued	121				121
Stock retired	(115)				(115)
<b>Balance at September 30, 2016</b>	\$ 2,011	\$ 33,619	\$ 107,152	\$ (24)	\$ 142,758
<b>Balance at December 31, 2016</b>	\$ 2,002	\$ 33,619	\$ 106,610	\$ (65)	\$ 142,166
Comprehensive income			8,800	10	8,810
Stock issued	106				106
Stock retired	(124)				(124)
<b>Balance at September 30, 2017</b>	\$ 1,984	\$ 33,619	\$ 115,410	\$ (55)	\$ 150,958

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, 2016, are contained in the 2016 Annual Report to Shareholders. These unaudited third quarter 2017 financial statements should be read in conjunction with the 2016 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, 2016 as contained in the 2016 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, 2017. Descriptions of the significant accounting policies are included in the 2016 Annual Report to Shareholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In August 2017, the Financial Accounting Standards Board (FASB) issued guidance entitled "Targeted Improvements to Accounting for Hedging Activities." The guidance better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance also addresses the timing of effectiveness testing, qualitative and quantitative effectiveness testing and components that can be excluded from effectiveness testing. This guidance becomes effective for interim and annual periods beginning after December 15, 2018. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations. Currently, the Association has no hedging activity.

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 is not expected to impact the Association's financial condition but could change the classification of certain items in the 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 is not expected to impact the Association's financial condition or its results of operations but could change the classification of certain items in the statement of cash flows.

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 becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations.

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. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect, if any, on its financial condition or results of operations.

Certain amounts in the prior period financial statements have been reclassified to conform to current financial statement presentation.

## NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

	September 30, 2017	December 31, 2016
Real estate mortgage	\$ 483,827	\$ 488,311
Production and intermediate-term	252,373	264,265
Agribusiness	11,664	12,976
Rural Infrastructure	1,318	1,413
Rural residential real estate	872	990
<b>Total Loans</b>	<b>\$ 750,054</b>	<b>\$ 767,955</b>

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 September 30, 2017:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	\$ 30,711	\$ 17,499	\$ 1,187	\$ -	\$ 31,898	\$ 17,499
Production and intermediate-term	13,366	8,416	-	-	13,366	8,416
Agribusiness	6,798	-	-	-	6,798	-
Rural infrastructure	1,343	-	-	-	1,343	-
<b>Total</b>	<b>\$ 52,218</b>	<b>\$ 25,915</b>	<b>\$ 1,187</b>	<b>\$ -</b>	<b>\$ 53,405</b>	<b>\$ 25,915</b>

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:

	September 30, 2017	December 31, 2016
Real estate mortgage		
Acceptable	93.98%	95.87%
OAEM	2.29%	2.68%
Substandard	3.73%	1.45%
Total	100.00%	100.00%
Production and intermediate-term		
Acceptable	88.26%	94.03%
OAEM	6.94%	1.08%
Substandard	4.80%	4.89%
Total	100.00%	100.00%
Agribusiness		
Acceptable	99.86%	100.00%
OAEM	0.14%	-
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	92.16%	95.32%
OAEM	3.82%	2.07%
Substandard	4.02%	2.61%
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:

<i>(dollars in thousands)</i>	September 30, 2017	December 31, 2016
Nonaccrual loans		
Real estate mortgage	\$ 1,177	\$ 124
Production and intermediate-term	2,889	1,017
Total nonaccrual loans	\$ 4,066	\$ 1,141
Accruing restructured loans		
Real estate mortgage	\$ 86	\$ 112
Total accruing restructured loans	\$ 86	\$ 112
Total high risk assets	\$ 4,152	\$ 1,253

The Association had no accruing loans 90 days past due and no other property owned for the periods presented.

Additional impaired loan information is as follows:

	September 30, 2017			December 31, 2016		
	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	\$ 2,889	\$ 2,852	\$ 830	\$ 1,017	\$ 1,012	\$ 47
Total	\$ 2,889	\$ 2,852	\$ 830	\$ 1,017	\$ 1,012	\$ 47
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$ 1,263	\$ 1,253		\$ 236	\$ 254	
Production and intermediate-term	-	1,349		-	1,349	
Total	\$ 1,263	\$ 2,602		\$ 236	\$ 1,603	
Total impaired loans:						
Real estate mortgage	\$ 1,263	\$ 1,253	\$ -	\$ 236	\$ 254	\$ -
Production and intermediate-term	2,889	4,201	830	1,017	2,361	47
Total	\$ 4,152	\$ 5,454	\$ 830	\$ 1,253	\$ 2,615	\$ 47

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 September 30, 2017		For the Three Months Ended September 30, 2016	
	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	\$ 2,937	\$ -	\$ -	\$ -
Total	\$ 2,937	\$ -	\$ -	\$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	\$ 1,266	\$ 6	\$ 122	\$ 1
Production and intermediate-term	627	21	60	-
Total	\$ 1,893	\$ 27	\$ 182	\$ 1
Total impaired loans:				
Real estate mortgage	\$ 1,266	\$ 6	\$ 122	\$ 1
Production and intermediate-term	3,564	21	60	-
Total	\$ 4,830	\$ 27	\$ 182	\$ 1

	For the Nine Months Ended September 30, 2017		For the Nine Months Ended September 30, 2016	
	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	\$ 2,368	\$ -	\$ -	\$ -
Total	\$ 2,368	\$ -	\$ -	\$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	\$ 850	\$ -	\$ 426	\$ 47
Production and intermediate-term	534	30	20	-
Total	\$ 1,384	\$ 30	\$ 446	\$ 47
Total impaired loans:				
Real estate mortgage	\$ 850	\$ -	\$ 426	\$ 47
Production and intermediate-term	2,902	30	20	-
Total	\$ 3,752	\$ 30	\$ 446	\$ 47

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

	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
<b>September 30, 2017</b>						
Real estate mortgage	\$ 1,431	\$ 766	\$ 2,197	\$ 491,724	\$ 493,921	\$ -
Production and intermediate-term	45	2,049	2,094	255,933	258,027	-
Agribusiness	-	-	-	11,753	11,753	-
Rural infrastructure	-	-	-	1,318	1,318	-
Rural residential real estate	-	-	-	875	875	-
Total	\$ 1,476	\$ 2,815	\$ 4,291	\$ 761,603	\$ 765,894	\$ -

	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
<b>December 31, 2016</b>						
Real estate mortgage	\$ 3,343	\$ -	\$ 3,343	\$ 492,898	\$ 496,241	\$ -
Production and intermediate-term	295	98	393	268,359	268,752	-
Agribusiness	-	-	-	13,027	13,027	-
Rural infrastructure	-	-	-	1,413	1,413	-
Rural residential real estate	-	-	-	994	994	-
Total	\$ 3,638	\$ 98	\$ 3,736	\$ 776,691	\$ 780,427	\$ -

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

	Balance at June 30, 2017	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2017
Real estate mortgage	\$ 379	\$ -	\$ -	\$ 32	\$ 411
Production and intermediate-term	2,654	17	3	32	2,672
Agribusiness	22	-	-	5	27
Rural infrastructure	10	-	-	(1)	9
Total	\$ 3,065	\$ 17	\$ 3	\$ 68	\$ 3,119

	Balance at December 31, 2016	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2017
Real estate mortgage	\$ 293	\$ -	\$ -	\$ 118	\$ 411
Production and intermediate-term	2,295	34	9	402	2,672
Agribusiness	25	-	-	2	27
Rural infrastructure	10	-	-	(1)	9
Total	\$ 2,623	\$ 34	\$ 9	\$ 521	\$ 3,119

	Balance at June 30, 2016	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2016
Real estate mortgage	\$ 253	\$ -	\$ -	\$ 13	\$ 266
Production and intermediate-term	1,846	15	3	247	2,081
Agribusiness	22	-	-	5	27
Rural infrastructure	11	-	-	(1)	10
Total	\$ 2,132	\$ 15	\$ 3	\$ 264	\$ 2,384

	Balance at December 31, 2015	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2016
Real estate mortgage	\$ 243	\$ -	\$ -	\$ 23	\$ 266
Production and intermediate-term	1,975	24	9	121	2,081
Agribusiness	26	-	-	1	27
Rural infrastructure	18	-	-	(8)	10
Rural residential real estate	1	-	-	(1)	-
Total	\$ 2,263	\$ 24	\$ 9	\$ 136	\$ 2,384

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 September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
Balance at beginning of period	\$ 469	\$ 476	\$ 374	\$ 243
Provision for unfunded commitments / (Reversal of reserve for unfunded commitments)	15	(64)	110	169
Total	\$ 484	\$ 412	\$ 484	\$ 412

Additional information on the allowance for credit losses follows:

	Allowance for Credit Losses Ending Balance at September 30, 2017		Recorded Investments in Loans Outstanding Ending Balance at September 30, 2017	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	\$ -	\$ 411	\$ 1,263	\$ 492,658
Production and intermediate-term	830	1,842	2,889	255,138
Agribusiness	-	27	-	11,753
Rural infrastructure	-	9	-	1,318
Rural residential real estate	-	-	-	875
Total	\$ 830	\$ 2,289	\$ 4,152	\$ 761,742

	Allowance for Credit Losses Ending Balance at December 31, 2016		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2016	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	\$ -	\$ 293	\$ 236	\$ 496,005
Production and intermediate-term	47	2,248	1,018	267,734
Agribusiness	-	25	-	13,027
Rural infrastructure	-	10	-	1,413
Rural residential real estate	-	-	-	994
Total	\$ 47	\$ 2,576	\$ 1,254	\$ 779,173

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The Association recorded no TDRs during the nine months ended September 30, 2017. The Association had no TDRs within the previous 12 months and for which there were subsequent payment defaults during the period. There were no additional commitments to lend to borrowers whose loans have been modified in troubled debt restructuring at September 30, 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*	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Real estate mortgage	\$ 86	\$ 124	\$ -	\$ -
Total	\$ 86	\$ 124	\$ -	\$ -

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

### NOTE 3 - CAPITAL

Effective January 1, 2017, the regulatory capital requirements for System Banks and Associations were modified. The new regulations replaced existing core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk based capital ratios. The new regulations also added a tier 1 leverage ratio and an unallocated retained earning equivalents (UREE) leverage ratio. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. Farm Credit Administration regulations require us to maintain minimums for various regulatory capital ratios.

In addition, the New Capital Regulations establish a capital conservation buffer and a leverage buffer; enhance the sensitivity of risk weightings; and, for System Banks only, require additional public disclosures. The revisions to the risk weightings include alternatives to the use of credit ratings, as required by the Dodd-Frank Act.

A summary of select capital ratios as of September 30, 2017, based on a three-month average and minimums follows.

	As of September 30, 2017	Regulatory Minimums	Capital Conservation Buffer	Total
<b>Risk Adjusted:</b>				
Common equity tier 1 ratio	16.88%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	16.88%	6.0%	2.5%*	8.5%
Total capital ratio	17.37%	8.0%	2.5%*	10.5%
Permanent capital ratio	16.95%	7.0%	-	7.0%
<b>Non-risk-adjusted:</b>				
Tier 1 leverage ratio	16.05%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	17.57%	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 New Capital 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 September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
Pension and other benefit plans:				
Beginning balance	\$ (58)	\$ (26)	\$ (65)	\$ (28)
Amounts reclassified from accumulated other comprehensive loss	3	2	10	4
Net current period other comprehensive income/(loss)	3	2	10	4
Ending balance	\$ (55)	\$ (24)	\$ (55)	\$ (24)

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

	Amount Reclassified from Accumulated Other Comprehensive Income/(Loss)		Location of Gain/Loss Recognized in Statement of Income
	For the Three Months Ended September 30		
	2017	2016	
Pension and other benefit plans:			Salaries and employee benefits
Net actuarial loss	\$ 3	\$ 2	
Total reclassifications	\$ 3	\$ 2	

	Amount Reclassified from Accumulated Other Comprehensive Income/(Loss)		Location of Gain/Loss Recognized in Statement of Income
	For the Nine Months Ended September 30		
	2017	2016	
Pension and other benefit plans:			Salaries and employee benefits
Net actuarial loss	\$ 10	\$ 4	
Total reclassifications	\$ 10	\$ 4	

#### NOTE 4 - FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 to the 2016 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				
September 30, 2017	\$ 318	\$ -	\$ -	\$ 318
December 31, 2016	\$ 242	\$ -	\$ -	\$ 242

During the first nine months of 2017, 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 September 30, 2017 or December 31, 2016.

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	Total Gains/ (Losses)
	Level 1	Level 2	Level 3		
September 30, 2017 Loans	\$ -	\$ -	\$ 2,059	\$ 2,059	\$ (797)
December 31, 2016 Loans	\$ -	\$ -	\$ 970	\$ 970	\$ (47)

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 September 30, 2017 or December 31, 2016.

### Valuation Techniques

As more fully discussed in Note 2 to the 2016 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*

For impaired loans measured on a non-recurring basis, the fair value is based upon the underlying real estate collateral since the loans are collateral dependent. 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 5 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through November 6, 2017, which is the date the financial statements were issued, and no material subsequent events were identified.