

Financing

RURAL



Oklahoma

 OKLAHOMA
AGCREDIT

2017
THIRD QUARTER
Financial Report

NOTICE

The shareholders' investment in Oklahoma AgCredit, 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 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

**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 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.

Ample moisture continued through the third quarter allowing the eradication of all traces of drought in Oklahoma with the exception of one county in northwest Oklahoma. This timely moisture allowed the continued development of the fall crops and continued growth of forages and pastures.

A large and growing supply of beef cattle coupled with an increased demand for domestic beef and U. S. beef exports allowed feeder and fed cattle prices to remain strong through the third quarter this year. Projections for steady to growing demand continue in 2018 and 2019 which lead us to believe that cattle prices will be stable during that time. Moisture and cooler temperatures throughout the third quarter have created potential for additional forage growth and grazing in fall and winter months. This reduction of hay and feed costs should allow for opportunities to enhance profitability for cow/calf producers. Soil temperatures have dropped earlier than normal in the third quarter allowing for earlier wheat planting with the possibility of increasing front end grazing time by 20-30 days.

Wheat prices dipped throughout most of the third quarter with slight increases appearing toward the end of September. World stocks of all feed grains continue to be at record levels. Average wheat yields throughout the world were up 20% while the United States saw a more modest gain of approximately 12%. Contrary to world and United States gains, average yields in Oklahoma fell nearly 13% making the case for Oklahoma wheat producers to become more focused on quality protein production through individual field management in 2018. Increased use of technology while managing input costs will be key.

Crude oil prices have been higher throughout the third quarter of 2017. Oil companies throughout Oklahoma continue to manage costs in order to remain profitable. However drop offs in production are projected when pricing nears \$40 per barrel. The rig count in Oklahoma decreased during the third quarter 2017 to a total of 124 rigs but remains up 82 percent from 68 rigs one year ago.

LOAN PORTFOLIO

Loans outstanding at September 30, 2017 totaled \$1.16 billion, an increase of \$26.8 million, or 2.36%, from loans of \$1.14 billion at December 31, 2016. The increase was primarily due to loan origination consisting of real estate mortgages and agribusiness loans most notably processing and marketing loans.

RESULTS OF OPERATIONS

Net income for the nine months ended September 30, 2017 was \$14.4 million, an increase of \$1.6 million, or 12.51%, from the same period ended one year ago. The increase can be attributed to substantially higher net interest income coupled with slightly higher noninterest income offset by a limited 3.38% increase in noninterest expense.

Net interest income for the nine months ended September 30, 2017 was \$25.0 million, an increase of \$2.2 million, or 9.85%, compared with September 30, 2016. Net interest income increased as a result of the collection of two large non-accrual loans coupled with loan origination.

The provision for credit losses for the nine months ended September 30, 2017 was \$1.0 million, an increase of \$430 thousand, or 74.27%, from the same period ended one year ago. The provision for credit losses increased as a result of a change in the default horizon and other qualitative allowances that were made for commodity based clients and capital markets within the portfolio.

Noninterest income increased \$242 thousand during the first nine months of 2017 compared with the first nine months in 2016 primarily due to an increase in patronage refund from Farm Credit Institutions and other noninterest income. Mineral income of \$498 thousand was recognized during the first nine months of 2017. Of this amount, quarterly payments totaling \$472 thousand were received from CoBank.

During the first nine months of 2017, noninterest expense increased \$459 thousand to \$14.0 million, primarily due to increases in salaries and benefits partially offset by a decrease in other noninterest expense.

CAPITAL RESOURCES

Our shareholders' equity at September 30, 2017 was \$255.2 million, an increase from \$240.7 million at December 31, 2016. This increase is primarily due to net income, the amortization of pension costs included in the net periodic benefit cost, and net stock issuances.

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.



Dale McDaniel
Chairman of the Audit Committee
November 3, 2017



Butch McComas
President/CEO
November 3, 2017



Patrick Zeka
Executive Vice President/COO/CFO
November 3, 2017

Consolidated Statement of Condition

(Dollars in Thousands)

	September 30 2017 UNAUDITED	December 31 2016 AUDITED
ASSETS		
Loans	\$ 1,163,229	\$ 1,136,387
Less allowance for loan losses	3,616	2,549
Net loans	1,159,613	1,133,838
Cash	701	2,646
Accrued interest receivable	13,855	10,832
Investment in CoBank, ACB	36,096	36,086
Investment in AgDirect	2,710	2,579
Premises and equipment, net	6,949	7,097
Prepaid benefit expense	1,536	1,711
Other assets	6,456	6,788
Total assets	\$ 1,227,916	\$ 1,201,577
LIABILITIES		
Note payable to CoBank, ACB	\$ 961,986	\$ 944,081
Advance conditional payments	3,772	3,903
Accrued interest payable	1,459	1,400
Patronage distributions payable	-	4,750
Accrued benefits liability	543	736
Deferred tax liability	270	270
Reserve for unfunded commitments	239	201
Other liabilities	4,433	5,526
Total liabilities	972,702	960,867
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Capital stock	3,300	3,273
Additional paid-in capital	55,558	55,558
Unallocated retained earnings	196,488	182,042
Accumulated other comprehensive (loss)/income	(132)	(163)
Total shareholders' equity	255,214	240,710
Total liabilities and shareholders' equity	\$ 1,227,916	\$ 1,201,577

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
INTEREST INCOME				
Loans	\$ 12,889	\$ 11,518	\$ 38,975	\$ 34,855
Total interest income	12,889	11,518	38,975	34,855
INTEREST EXPENSE				
Note payable to CoBank	4,915	4,046	13,926	12,057
Other	5	2	11	5
Total interest expense	4,920	4,048	13,937	12,062
Net interest income	7,969	7,470	25,038	22,793
Provision for credit losses	1,071	4	1,009	579
Net interest income after provision for credit losses	6,898	7,466	24,029	22,214
NONINTEREST INCOME				
Financially related services income	7	13	23	37
Loan fees	157	169	484	485
Patronage refund from Farm Credit Institutions	1,083	1,020	3,253	3,052
Mineral income	164	187	498	478
Other noninterest income	59	64	195	159
Total noninterest income	1,470	1,453	4,453	4,211
NONINTEREST EXPENSE				
Salaries and employee benefits	2,680	2,405	8,116	7,484
Occupancy and equipment	239	189	599	627
Purchased services from AgVantis, Inc.	521	541	1,679	1,642
Gains on other property owned, net	-	-	-	(86)
Farm Credit Insurance Fund premium	333	381	1,012	1,055
Merger-implementation costs	-	-	-	12
Supervisory and examination costs	106	101	392	373
Other noninterest expense	658	713	2,236	2,468
Total noninterest expense	4,537	4,330	14,034	13,575
Income before income taxes	3,831	4,589	14,448	12,850
Provision for income taxes	1	16	9	16
Net income	3,830	4,573	14,439	12,834
OTHER COMPREHENSIVE INCOME				
Amortization of retirement costs	10	4	31	13
Comprehensive income	\$ 3,840	\$ 4,577	\$ 14,470	\$ 12,847

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

	Protected Borrower Stock	Capital Stock	Additional Paid-In Capital	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
UNAUDITED						
Balance at December 31, 2015	\$ 9	\$ 2,450	\$ -	\$ 169,683	\$ (107)	\$ 172,035
Comprehensive income				12,834	13	12,847
Stock issued	-	282		-		282
Stock retired	(4)	(221)				(225)
Patronage distributions: Other		-		1		1
Equity issued in connection with merger		766	55,573	-		56,339
Balance at September 30, 2016	\$ 5	\$ 3,277	\$ 55,573	\$ 182,518	\$ (94)	\$ 241,279
Balance at December 31, 2016	\$ -	\$ 3,273	\$ 55,558	\$ 182,042	\$ (163)	\$ 240,710
Comprehensive income				14,439	31	14,470
Stock issued	-	258				258
Stock retired	-	(231)				(231)
Patronage reversed				7		7
Balance at September 30, 2017	\$ -	\$ 3,300	\$ 55,558	\$ 196,488	\$ (132)	\$ 255,214

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 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, 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.

NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

	September 30, 2017	December 31, 2016
Real estate mortgage	\$ 799,417	\$ 771,140
Production and intermediate-term	195,173	204,841
Agribusiness	119,571	110,740
Rural infrastructure	41,951	43,587
Rural residential real estate	1,249	1,151
Agricultural export finance	5,868	4,928
Total loans	\$ 1,163,229	\$ 1,136,387

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	\$ 31,713	\$ 22,940	\$ 438	\$ --	\$ 32,151	\$ 22,940
Production and intermediate-term	30,144	5,275	20	--	30,164	5,275
Agribusiness	117,274	--	--	--	117,274	--
Rural infrastructure	42,100	--	--	--	42,100	--
Agricultural export finance	5,891	--	--	--	5,891	--
Total	\$ 227,122	\$ 28,215	\$ 458	\$ --	\$ 227,580	\$ 28,215

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	97.61%	97.05%
OAEM	1.77%	1.13%
Substandard	0.62%	1.82%
Total	100.00%	100.00%
Production and intermediate-term		
Acceptable	93.83%	94.52%
OAEM	4.16%	4.28%
Substandard	2.01%	1.20%
Total	100.00%	100.00%
Agribusiness		
Acceptable	99.66%	99.62%
Substandard	0.34%	0.38%
Total	100.00%	100.00%
Rural infrastructure		
Acceptable	99.02%	96.66%
OAEM	0.98%	3.34%
Total	100.00%	100.00%
Rural residential real estate		
Acceptable	100.00%	99.49%
OAEM	0.00%	0.51%
Total	100.00%	100.00%
Agricultural export finance		
Acceptable	100.00%	100.00%
Total	100.00%	100.00%
Total Loans		
Acceptable	97.25%	96.84%
OAEM	1.95%	1.67%
Substandard	0.80%	1.49%
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	\$ 2,190	\$ 12,184
Production and intermediate-term	3,905	1,734
Total nonaccrual loans	\$ 6,095	\$ 13,918
Accruing restructured loans		
Real estate mortgage	\$ 174	\$ 193
Production and intermediate-term	--	1,033
Total accruing restructured loans	\$ 174	\$ 1,226
Accruing loans 90 days past due		
Real estate mortgage	\$ 689	\$ --
Production and intermediate-term	554	104
Total accruing loans 90 days past due	\$ 1,243	\$ 104
Total high risk assets	\$ 7,512	\$ 15,248

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:						
Real estate mortgage	\$ 385	\$ 664	\$ 75	\$ 2,507	\$ 3,390	\$ 409
Production and intermediate-term	573	621	95	1,024	1,030	266
Total	\$ 958	\$ 1,285	\$ 170	\$ 3,531	\$ 4,420	\$ 675
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$ 2,668	\$ 2,905	\$ --	\$ 9,870	\$ 10,255	\$ --
Production and intermediate-term	3,885	3,975	--	814	812	--
Rural infrastructure	--	--	--	1,033	1,067	--
Total	\$ 6,553	\$ 6,880	\$ --	\$ 11,717	\$ 12,134	\$ --
Total impaired loans:						
Real estate mortgage	\$ 3,053	\$ 3,569	\$ 75	\$ 12,377	\$ 13,645	\$ 409
Production and intermediate-term	4,458	4,596	95	1,838	1,842	266
Rural infrastructure	--	--	--	1,033	1,067	--
Total	\$ 7,511	\$ 8,165	\$ 170	\$ 15,248	\$ 16,554	\$ 675

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:				
Real estate mortgage	\$ 384	\$ --	\$ 3,002	\$ --
Production and intermediate-term	614	--	--	--
Total	\$ 998	\$ --	\$ 3,002	\$ --
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	\$ 2,223	\$ 5	\$ 9,903	\$ 36
Production and intermediate-term	2,706	2	304	3
Rural infrastructure	--	--	886	15
Total	\$ 4,929	\$ 7	\$ 11,093	\$ 54
Total impaired loans:				
Real estate mortgage	\$ 2,607	\$ 5	\$ 12,905	\$ 36
Production and intermediate-term	3,320	2	304	3
Rural infrastructure	--	--	886	15
Total	\$ 5,927	\$ 7	\$ 14,095	\$ 54

	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:				
Real estate mortgage	\$ 1,085	\$ --	\$ 3,147	\$ --
Production and intermediate-term	721	--	--	--
Total	\$ 1,806	\$ --	\$ 3,147	\$ --
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	\$ 6,154	\$ 645	\$ 6,802	\$ 294
Production and intermediate-term	1,540	4	144	6
Rural infrastructure	--	--	832	29
Total	\$ 7,694	\$ 649	\$ 7,778	\$ 329
Total impaired loans:				
Real estate mortgage	\$ 7,240	\$ 645	\$ 9,949	\$ 294
Production and intermediate-term	2,261	4	144	6
Rural infrastructure	--	--	832	29
Total	\$ 9,500	\$ 649	\$ 10,925	\$ 329

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
September 30, 2017						
Real estate mortgage	\$ 2,790	\$ 857	\$ 3,647	\$ 805,416	\$ 809,063	\$ 689
Production and intermediate-term	2,279	3,626	5,905	193,028	198,933	554
Agribusiness	208	--	208	119,717	119,925	--
Rural infrastructure	--	--	--	42,029	42,029	--
Rural residential real estate	--	--	--	1,252	1,252	--
Agricultural export finance	--	--	--	5,882	5,882	--
Total	\$ 5,277	\$ 4,483	\$ 9,760	\$1,167,324	\$1,177,084	\$ 1,243

	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
December 31, 2016						
Real estate mortgage	\$ 4,656	\$ 8,189	\$ 12,845	\$ 766,037	\$ 778,882	\$ --
Production and intermediate-term	426	316	742	206,726	207,468	104
Agribusiness	--	--	--	111,114	111,114	--
Rural infrastructure	--	--	--	43,649	43,649	--
Rural residential real estate	--	--	--	1,154	1,154	--
Agricultural export finance	--	--	--	4,952	4,952	--
Total	\$ 5,082	\$ 8,505	\$ 13,587	\$1,133,632	\$1,147,219	\$ 104

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	\$ 1,794	\$ --	\$ --	\$ (437)	\$ 1,357
Production and intermediate-term	514	--	--	747	1,261
Agribusiness	186	--	--	687	873
Rural infrastructure	90	--	--	32	122
Agricultural export finance	2	--	--	1	3
Total	\$ 2,586	\$ --	\$ --	\$ 1,030	\$ 3,616

	Balance at December 31, 2016	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2017
Real estate mortgage	\$ 1,799	\$ --	\$ 96	\$ (538)	\$ 1,357
Production and intermediate-term	466	--	--	795	1,261
Agribusiness	189	--	--	684	873
Rural infrastructure	93	--	--	29	122
Agricultural export finance	2	--	--	1	3
Total	\$ 2,549	\$ --	\$ 96	\$ 971	\$ 3,616

	Balance at June 30, 2016	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2016
Real estate mortgage	\$ 1,871	\$ --	\$ --	\$ (15)	\$ 1,856
Production and intermediate-term	211	--	--	41	252
Agribusiness	189	--	--	(3)	186
Rural infrastructure	112	--	--	(17)	95
Agricultural export finance	5	--	--	(3)	2
Total	\$ 2,388	\$ --	\$ --	\$ 3	\$ 2,391

	Balance at December 31, 2015	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2016
Real estate mortgage	\$ 1,643	\$ 3	\$ --	\$ 216	\$ 1,856
Production and intermediate-term	44	--	--	208	252
Agribusiness	128	--	--	58	186
Rural infrastructure	81	--	--	14	95
Agricultural export finance	2	--	--	--	2
Total	\$ 1,898	\$ 3	\$ --	\$ 496	\$ 2,391

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	\$ 198	\$ 200	\$ 201	\$ 118
Provision for unfunded commitments	41	1	38	83
Total	\$ 239	\$ 201	\$ 239	\$ 201

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	\$ 75	\$ 1,282	\$ 3,053	\$ 806,010
Production and intermediate-term	95	1,166	4,459	194,475
Agribusiness	--	873	--	119,925
Rural infrastructure	--	122	--	42,028
Rural residential real estate	--	--	--	1,252
Agricultural export finance	--	3	--	5,882
Total	\$ 170	\$ 3,446	\$ 7,512	\$ 1,169,572

	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	\$ 409	\$ 1,390	\$ 12,377	\$ 766,505
Production and intermediate-term	266	200	1,838	205,630
Agribusiness	--	189	--	111,114
Rural infrastructure	--	93	1,033	42,616
Rural residential real estate	--	--	--	1,154
Agricultural export finance	--	2	--	4,952
Total	\$ 675	\$ 1,874	\$ 15,248	\$ 1,131,971

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. 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	\$ 174	\$ 193	\$ --	\$ --
Production and intermediate-term	51	--	51	--
Rural infrastructure	--	1,033	--	--
Total	\$ 225	\$ 1,226	\$ 51	\$ --

* 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
Risk Adjusted:				
Common equity tier 1 ratio	17.82%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	17.82%	6.0%	2.5%*	8.5%
Total capital ratio	18.06%	8.0%	2.5%*	10.5%
Permanent capital ratio	17.86%	7.0%	—	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	18.22%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	19.17%	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	\$ (142)	\$ (98)	\$ (163)	\$ (107)
Amounts reclassified from accumulated other comprehensive loss	10	4	31	13
Net current period other comprehensive income/(loss)	10	4	31	13
Ending balance	\$ (132)	\$ (94)	\$ (132)	\$ (94)

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		For the Nine Months Ended September 30		
	2017	2016	2017	2016	
Pension and other benefit plans:					
Net actuarial loss	\$ 10	\$ 4	\$ 31	\$ 13	Salaries and employee benefits
Total reclassifications	\$ 10	\$ 4	\$ 31	\$ 13	

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	\$ 772	\$ -	\$ -	\$ 772
December 31, 2016	\$ 838	\$ -	\$ -	\$ 838

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	\$ -	\$ -	\$ 4,124	\$ 4,124	\$ 64
December 31, 2016					
Loans	\$ -	\$ -	\$ 3,084	\$ 3,084	\$ (56)

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 3, 2017, which is the date the financial statements were issued, and no material subsequent events were identified.