Financing RURAL Oklahoma

OKLAHOMA AGCREDIT

2017
FIRST 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 three months ended March 31, 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.

Adequate moisture during the first quarter was received in nearly all of our trade area allowing for increased soil moisture as wheat crops exited dormancy. The national drought monitor for our area remains at moderate to severe drought and is expected to remain at that level for some time barring significant moisture events. Strong winds and unusually low humidity combined with ignition sparked one of the largest wildfires in Oklahoma history west of our trade area destroying over 300,000 acres.

As expected, cattle numbers in Oklahoma have grown during 2017 with increases of 4.2% in overall cattle numbers and an increase of 8.9% in beef cattle numbers. Oklahoma cattle herds have made a dramatic turnaround from the 2013 drought numbers when cattle herds were the smallest since 1962. Rebuilding has occurred since 2013 and in 2017 the herd numbers are projected to be the largest on record since 1984 indicating growth in cow herd numbers by 23.7% in 4 years. Replacement heifer numbers are slightly lower in 2017 compared to 2016, however still increasing causing the projected herd expansion to continue throughout 2017 and into 2018 and 2019. Increased awareness by cow/calf producers about these numbers and their consequence on beef production, which may impact supply and prices, will be necessary. Fed cattle and boxed beef prices are seeing seasonal highs during the first quarter due to retail demand. Seasonally higher stocker prices have been evident with the marketing of wheat pasture calves toward the end of the quarter.

Wheat prices continue to be steady to lower in the first quarter. As costs of production hover near $4.50/bu, more Oklahoma producers are expected to use planted acres for additional wheat pasture graze out, wheat hay or simply turn it under to plant summer and fall crops. On average approximately 70% of planted wheat acres in Oklahoma are harvested, however this percentage is expected to be less this year. Cotton and soybean acres are projected to be significantly higher during 2017 with corn acres declining. Regardless of the crop, both technology and improved management will be necessary to reduce costs to attempt break even profitability.

Crude oil prices remained steady to higher throughout the first quarter of 2017 with highs of nearly $55 per barrel. Oil field activity seems to be modestly recovering from this time just one year ago. The number of rigs and natural gas wells in Oklahoma has doubled compared to the first quarter 2016. Modest recovery is expected to continue throughout 2017.

LOAN PORTFOLIO

Loans outstanding at March 31, 2017 totaled $1.16 billion, an increase of $20.4 million, or 1.80%, from loans of $1.14 billion at December 31, 2016. The increase was primarily due to increased loan origination consisting of agribusiness loans most notably loans to cooperatives and processing and marketing loans followed by an increase in production loans.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2017 was $3.9 million, a decrease of $60 thousand, or 1.50%, from the same period ended one year ago. The decrease can be attributed to decreases in net interest income coupled with an increase in noninterest expense.

Net interest income for the three months ended March 31, 2017 was $7.7 million, a decrease of $155 thousand, or 1.97%, compared with March 31, 2016. Net interest income decreased as a result of a reduction in the amortization of the fair market value adjustment on loans acquired through merger in 2016.

The provision for credit losses for the three months ended March 31, 2017 was $312 thousand, a decrease of $143 thousand, or 31.43%, from the same period ended one year ago. The provision for credit losses decreased due to the reduction in several specific reserves and a $13 thousand reversal of provision of reserve for unfunded commitment, partially offset by additional provision of $286 thousand attributable to land value subjective allowance and an increase of $125 thousand to the general allowance.

Noninterest income increased $89 thousand during the first three months of 2017 compared with the first three months in 2016 primarily due to an increase in patronage refund from Farm Credit Institutions and other noninterest income. Mineral income of $164 thousand was recognized during the first three months of 2017. Of this amount, quarterly payments totaling $155 thousand were received from CoBank.

During the first three months of 2017, noninterest expense increased $135 thousand to $5.0 million, primarily due to increases in salaries and benefits, purchased services from AgVantis, Inc., Farm Credit Insurance Fund premiums, and supervisory and examination costs partially offset by decreases in occupancy and equipment, merger costs and other noninterest expense.

CAPITAL RESOURCES

Our shareholders' equity at March 31, 2017 was $244.7 million, an increase from $240.7 million at December 31, 2016. This increase is due to net income offset by the amortization of pension gains included in the net periodic benefit cost and 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 March 31, 2017.

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

Dale McDaniel

Dale McDaniel
Chairman of the Audit Committee
May 3, 2017

Butch McComas
President/CEO
May 3, 2017

Patrick Zeka

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

Consolidated Statement of Condition

(Dollars in Thousands)

	March 31	December 31
	2017	2016
	UNAUDITED	AUDITED
ASSETS		
Loans	$ 1,156,788	$ 1,136,387
Less allowance for loan losses	2,874	2,549
Net loans	1,153,914	1,133,838
Cash	2,284	2,646
Accrued interest receivable	12,253	10,832
Investment in CoBank, ACB	36,097	36,086
Investment in AgDirect	2,561	2,579
Premises and equipment, net	7,088	7,097
Prepaid benefit expense	1,350	1,711
Other assets	5,072	6,788
Total assets	$ 1,220,619	$ 1,201,577
LIABILITIES		
Note payable to CoBank, ACB	$ 960,911	$ 944,081
Advance conditional payments	4,320	3,903
Accrued interest payable	1,442	1,400
Patronage distributions payable	4,750	4,750
Accrued benefits liability	554	736
Deferred tax liability	270	270
Reserve for unfunded commitments	188	201
Other liabilities	3,510	5,526
Total liabilities	975,945	960,867
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Capital stock	3,278	3,273
Additional paid-in capital	55,558	55,558
Unallocated retained earnings	185,990	182,042
Accumulated other comprehensive (loss)/income	(152)	(163)
Total shareholders' equity	244,674	240,710
Total liabilities and shareholders' equity	$ 1,220,619	$ 1,201,577

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

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

	For the three months ended March 31	
UNAUDITED	**2017**	2016
INTEREST INCOME		
Loans	**$ 12,069**	$ 11,935
Total interest income	**12,069**	11,935
INTEREST EXPENSE		
Note payable to CoBank	**4,337**	4,048
Other	**2**	2
Total interest expense	**4,339**	4,050
Net interest income	**7,730**	7,885
Provision for credit losses	**312**	455
Net interest income after provision for credit losses	**7,418**	7,430
NONINTEREST INCOME		
Financially related services income	**8**	10
Loan fees	**165**	184
Patronage refund from Farm Credit Institutions	**1,086**	1,010
Mineral income	**164**	157
Other noninterest income	**91**	64
Total noninterest income	**1,514**	1,425
NONINTEREST EXPENSE		
Salaries and employee benefits	**2,776**	2,598
Occupancy and equipment	**177**	213
Purchased services from AgVantis, Inc.	**579**	563
Farm Credit Insurance Fund premium	**340**	292
Merger-implementation costs	**-**	8
Supervisory and examination costs	**203**	181
Other noninterest expense	**907**	992
Total noninterest expense	**4,982**	4,847
Income before income taxes	**3,950**	4,008
Provision for income taxes	**2**	-
Net income	**3,948**	4,008
OTHER COMPREHENSIVE INCOME		
Amortization of retirement costs	**11**	5
Comprehensive income	**$ 3,959**	$ 4,013

panying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

UNAUDITED	Protected Borrower Stock	Capital Stock	Additional Paid-In Capital	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2015	$ 9	$ 2,450	$ -	$ 169,683	$ (107)	$ 172,035
Comprehensive income				4,008	5	4,013
Stock issued	-	73		-		73
Stock retired	(4)	(68)				(72)
Equity issued in connection with merger		766	55,573	-		56,339
Balance at March 31, 2016	$ 5	$ 3,221	$ 55,573	$ 173,691	$ (102)	$ 232,388
Balance at December 31, 2016	$ -	$ 3,273	$ 55,558	$ 182,042	$ (163)	$ 240,710
Comprehensive income				3,948	11	3,959
Stock issued	-	84				84
Stock retired	-	(79)				(79)
Balance at March 31, 2017	**$ -**	**$ 3,278**	**$ 55,558**	**$ 185,990**	**$ (152)**	**$ 244,674**

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 first 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 2016, the Financial Accounting Standards Board (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 currently 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 currently 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.

	March 31, 2017	December 31, 2016
Real estate mortgage	**$ 772,598**	$ 771,140
Production and intermediate-term	**209,200**	204,841
Agribusiness	**123,711**	110,740
Rural infrastructure	**45,710**	43,587
Rural residential real estate	**640**	1,151
Agricultural export finance	**4,929**	4,928
Total loans	**$ 1,156,788**	$ 1,136,387

The Association purchases or 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 March 31, 2017:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ 29,793	$ 25,427	$ 465	$ --	$ 30,258	$ 25,427
Production and intermediate-term	32,358	5,836	40	--	32,398	5,836
Agribusiness	121,360	--	--	--	121,360	--
Rural infrastructure	45,868	--	--	--	45,868	--
Agricultural export finance	4,937	--	--	--	4,937	--
Total	$ 234,316	$ 31,263	$ 505	$ --	$ 234,821	$ 31,263

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:

	March 31, 2017	December 31, 2016
Real estate mortgage		
Acceptable	**96.19%**	97.05%
OAEM	**1.92%**	1.13%
Substandard	**1.89%**	1.82%
Total	**100.00%**	100.00%
Production and intermediate-term		
Acceptable	**94.44%**	94.52%
OAEM	**4.45%**	4.28%
Substandard	**1.11%**	1.20%
Total	**100.00%**	100.00%
Agribusiness		
Acceptable	**100.00%**	99.62%
Substandard	**0.00%**	0.38%
Total	**100.00%**	100.00%
Rural infrastructure		
Acceptable	**99.07%**	96.66%
OAEM	**0.93%**	3.34%
Total	**100.00%**	100.00%
Rural residential real estate		
Acceptable	**99.24%**	99.49%
OAEM	**0.76%**	0.51%
Total	**100.00%**	100.00%

Agricultural export finance		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%
Total Loans		
Acceptable	**96.41%**	96.84%
OAEM	**2.13%**	1.67%
Substandard	**1.46%**	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**:**

(dollars in thousands)	**March 31, 2017**	December 31, 2016
Nonaccrual loans		
Real estate mortgage	**$ 12,277**	$ 12,184
Production and intermediate-term	**1,668**	1,734
Total nonaccrual loans	**$ 13,945**	$ 13,918
Accruing restructured loans		
Real estate mortgage	**$ 178**	$ 193
Rural infrastructure	**--**	1,033
Total accruing restructured loans	**$ 178**	$ 1,226
Accruing loans 90 days past due		
Production and intermediate-term	**$ --**	$ 104
Total accruing loans 90 days past due	**$ --**	$ 104
Total high risk assets	**$ 14,123**	$ 15,248

Additional impaired loan information is as follows:

	March 31, 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	**$ 2,172**	**$ 3,080**	**$ 408**	$ 2,507	$ 3,390	$ 409
Production and intermediate-term	**668**	**688**	**180**	1,024	1,030	266
Total	**$ 2,840**	**$ 3,768**	**$ 588**	$ 3,531	$ 4,420	$ 675
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 10,283**	**$ 10,488**	**$ --**	$ 9,870	$ 10,255	$ --
Production and intermediate-term	**1,000**	**1,000**	**--**	814	812	--
Rural infrastructure	**--**	**--**	**--**	1,033	1,067	--
Total	**$ 11,283**	**$ 11,488**	**$ --**	$ 11,717	$ 12,134	$ --
Total impaired loans:						
Real estate mortgage	**$ 12,455**	**$ 13,568**	**$ 408**	$ 12,377	$ 13,645	$ 409
Production and intermediate-term	**1,668**	**1,688**	**180**	1,838	1,842	266
Rural infrastructure	**--**	**--**	**--**	1,033	1,067	--
Total	**$ 14,123**	**$ 15,256**	**$ 588**	$ 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 March 31, 2017		For the Three Months Ended March 31, 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	**$ 2,475**	**$ --**	$ 3,221	$ --
Production and intermediate-term	**908**	**--**	--	--
Total	**$ 3,383**	**$ --**	$ 3,221	$ --
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 10,220**	**$ 5**	$ 3,903	$ 219
Production and intermediate-term	**853**	**1**	1	--
Rural infrastructure	**383**	**--**	910	--
Total	**$ 11,456**	**$ 6**	$ 4,814	$ 219
Total impaired loans:				
Real estate mortgage	**$ 12,695**	**$ 5**	$ 7,124	$ 219
Production and intermediate-term	**1,761**	**1**	1	--
Rural infrastructure	**383**	**--**	910	--
Total	**$ 14,839**	**$ 6**	$ 8,035	$ 219

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

March 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	$ 2,030	$ 8,354	$ 10,384	$ 770,699	$ 781,083	$ --
Production and intermediate-term	4,204	69	4,273	208,267	212,540	--
Agribusiness	178	--	177	123,884	124,061	--
Rural infrastructure	--	--	--	45,771	45,771	--
Rural residential real estate	--	--	--	642	642	--
Agriculture export finance	--	--	--	4,943	4,944	--
Total	$ 6,412	$ 8,423	$ 14,834	$1,154,206	$1,169,041	$ --

December 31, 2016	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	$ 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 December 31, 2016	Charge-offs	Recoveries	Provision for Loan Losses	Balance at March 31, 2017
Real estate mortgage	$ 1,799	$ --	$ --	$ 305	$ 2,104
Production and intermediate-term	466	--	--	10	476
Agribusiness	189	--	--	4	193
Rural infrastructure	93	--	--	5	98
Agricultural export finance	2	--	--	1	3
Total	$ 2,549	$ --	$ --	$ 325	$ 2,874

	Balance at December 31, 2015	Charge-offs	Recoveries	Provision for Loan Losses	Balance at March 31, 2016
Real estate mortgage	$ 1,643	$ --	$ --	$ 219	$ 1,862
Production and intermediate-term	44	--	--	130	174
Agribusiness	128	--	--	47	175
Rural infrastructure	81	--	--	12	93
Agricultural export finance	2	--	--	--	2
Total	$ 1,898	$ --	$ --	$ 408	$ 2,306

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 March 31	
	2017	2016
Balance at beginning of period	**$ 201**	$ 118
(Reversal of reserve)/Provision for unfunded commitments	**(13)**	47
Total	**$ 188**	$ 165

	Allowance for Credit Losses Ending Balance at March 31, 2017		Recorded Investments in Loans Outstanding Ending Balance at March 31, 2017	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ 408	$ 1,696	$ 12,633	$ 768,450
Production and intermediate-term	180	296	2,297	210,243
Agribusiness	--	193	--	124,061
Rural infrastructure	--	98	--	45,771
Rural residential real estate	--	--	--	642
Agricultural export finance	--	3	--	4,943
Total	$ 588	$ 2,286	$ 14,930	$1,154,111

	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 three months ended March 31, 2017.

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table.

	Loans modified as TDRs		TDRs in Nonaccrual Status*	
	March 31, 2017	December 31, 2016	**March 31, 2017**	December 31, 2016
Real estate mortgage	**$ 178**	$ 193	**$ --**	$ --
Rural infrastructure	**--**	1,033	**--**	--
Total	**$ 178**	$ 1,226	**$ --**	$ --

* 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 based on a three-month average and minimums as of March 31, 2017 follows.

	As of March 31, 2017	Regulatory Minimums	Capital Conversation Buffer	Total
Risk Adjusted:				
Common equity tier 1 ratio	17.18%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	17.18%	6.0%	2.5%*	8.5%
Total capital ratio	17.41%	8.0%	2.5%*	10.5%
Permanent capital ratio	17.22%	7.0%	–	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	17.46%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	18.41%	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 March 31	
	2017	2016
Pension and other benefit plans:		
Beginning balance	**$ (163)**	$ (107)
Amounts reclassified from accumulated other comprehensive loss	**11**	5
Net current period other comprehensive income/(loss)	**11**	5
Ending balance	**$ (152)**	$ (102)

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 March 31		
	2017	2016	
Pension and other benefit plans:			
Net actuarial loss	**$ 11**	$ 5	Salaries and employee benefits
Total reclassifications	**$ 11**	$ 5	

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
	Level 1	Level 2	Level 3	Value
Assets held in nonqualified benefits trusts				
March 31, 2017	**$ 883**	**$ --**	**$ --**	**$ 883**
December 31, 2016	$ 838	$ --	$ --	$ 838

During the first three 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 March 31, 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	Total
	Level 1	Level 2	Level 3	Value	Losses
March 31, 2017					
Loans	**$ —**	**$ —**	**$ 3,692**	**$ 3,692**	**$ 19**
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 March 31, 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 May 3, 2017, which is the date the financial statements were issued, and no material subsequent events were identified.