Farm Credit of Western Oklahoma, ACA

Quarterly Report
March 31, 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**, 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 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.

Since year end 2016, conditions have been abnormally dry in the area we serve with limited winter moisture falling across much of the territory. However, late in the first quarter of 2017, the moisture outlook began to improve with ample moisture falling over much of the region in recent days.

Cash grain commodities as well as cattle prices have been under pressure in the recent past, but opportunities for profitability remain across the subset of commodities we serve. With cattle futures approaching one-year highs, the likelihood of profitability in the highest concentration of our portfolio is apparent. Profitability margins have been suppressed in the cash grain commodities over the past two years and that subset of the portfolio continues to experience less than favorable commodity prices for the products produced. The impact on the real estate market from the reduction in commodity prices, a higher interest rate environment and the narrowing of profitability margins in the agriculture economy in general has yet to be seen in totality, but the likelihood of real estate prices softening in the future is possible. Average real estate values across Oklahoma continue to show signs of stability when compared to real estate values nation-wide, but we will continue to evaluate the sustainability of real estate prices in our area. Management has noted pockets of weakening real estate prices but overall strong values remain across the area we serve.

Although concern over the current economic environment is evident, given the present-day commodity prices and the reduction in commodity prices over the recent past, significant equities remain across our customer base. Input costs have declined in conjunction with the softening of commodity prices which should help somewhat to offset the impact of the lower than desired prices of the commodities being produced. Off-farm income was negatively impacted during 2016 by the downturn in the oil and gas economy; however the trend in energy prices over the past 12 months has been stronger and should positively impact off-farm income across the Association if stronger prices can be maintained for an extended period of time. As previously mentioned, solid equities are unmistakable across the portfolio and good financial managers will have the upper hand during this time of lower commodity prices. A higher level of financial management will be required from our customer base to maintain profitability by working to control expenses while maintaining liquidity.

LOAN PORTFOLIO

Loans outstanding at March 31, 2017 totaled $750.6 million, a decrease of $17.3 million, or 2.26%, from loans of $768.0 million at December 31, 2016. The decrease was primarily due to a reduction in production and intermediate term loans which were impacted by seasonal repayments of operating lines of credit and reduced loan demand.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2017 was $2.7 million, an increase of $352, or 14.77%, from the same period ended one year ago. The increase in net income was driven by higher net interest income and lower noninterest expenses, partially offset by an increase in provision for credit losses and a reduction in noninterest income.

Net interest income for the three months ended March 31, 2017 was $5.4 million, an increase of $501, or 10.29%, compared with March 31, 2016. Net interest income increased as a result of increased loan volume and increased spreads on accrual loans.

The provision for credit losses for the three months ended March 31, 2017 was $472, an increase of $482 from credit loss reversal of $10 for the same period ended one year ago. The provision for credit losses increased as a result of increased risk in certain loans offset by a reduction in the subjective allowance calculation in the first quarter of 2017.

Noninterest income decreased $52 during the first three months of 2017 compared with the first three months in 2016 primarily due to a reduction in other noninterest income related to gains recorded in the first quarter of 2016 on the sale of certain fixed assets. Mineral income of $115 was recognized during the first three months of 2017. Of this amount, quarterly payments totaling $100 were received from CoBank.

During the first three months of 2017, noninterest expense decreased $385 to $3.1 million, primarily due to reductions in salaries and benefits, occupancy and equipment, Farm Credit Insurance Fund premiums, purchased services, travel, public and member relations, advertising, abstracting and filing fees. The decrease was partially offset by increases in information technology services and supervisory and examination costs.

CAPITAL RESOURCES

Our shareholders' equity at March 31, 2017 was $144,898, an increase from $142,166 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 March 31, 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.

Ricky Carothers Chairman of the Board May 3, 2017	John Grunewald President/CEO May 3, 2017	Jamey B. Mitchell Chief Financial Officer May 3, 2017

Consolidated Statement of Condition

(Dollars in Thousands)

	March 31 2017 UNAUDITED	December 31 2016 AUDITED
ASSETS		
Loans	**$ 750,634**	$ 767,955
Less allowance for loan losses	**3,071**	2,623
Net loans	**747,563**	765,332
Cash	**1,778**	4,425
Accrued interest receivable	**14,325**	12,472
Investment in CoBank, ACB	**25,369**	25,369
Premises and equipment, net	**3,921**	3,744
Prepaid benefit expense	**878**	1,141
Other assets	**2,214**	4,367
Total assets	**$ 796,048**	$ 816,850
LIABILITIES		
Note payable to CoBank, ACB	**$ 637,732**	$ 658,900
Advance conditional payments	**9,081**	7,441
Accrued interest payable	**1,075**	1,045
Patronage distributions payable	**-**	2,000
Accrued benefits liability	**255**	258
Reserve for unfunded commitments	**393**	374
Other liabilities	**2,614**	4,666
Total liabilities	**651,150**	674,684
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Capital stock	**1,995**	2,002
Additional paid-in capital	**33,619**	33,619
Unallocated retained earnings	**109,346**	106,610
Accumulated other comprehensive (loss)/income	**(62)**	(65)
Total shareholders' equity	**144,898**	142,166
Total liabilities and shareholders' equity	**$ 796,048**	$ 816,850

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 March 31 **2017**	2016
INTEREST INCOME		
Loans	**$ 8,640**	$ 7,836
Total interest income	**8,640**	7,836
INTEREST EXPENSE		
Note payable to CoBank	**3,244**	2,943
Other	**25**	23
Total interest expense	**3,269**	2,966
Net interest income	**5,371**	4,870
Provision for credit losses/(Credit loss reversals)	**472**	(10)
Net interest income after provision for credit losses/credit loss reversals	**4,899**	4,880
NONINTEREST INCOME		
Financially related services income	**4**	2
Loan fees	**4**	6
Patronage refund from Farm Credit Institutions	**732**	703
Mineral income	**115**	84
Other noninterest income	**43**	155
Total noninterest income	**898**	950
NONINTEREST EXPENSE		
Salaries and employee benefits	**1,636**	1,748
Occupancy and equipment	**110**	140
Purchased services from AgVantis, Inc.	**440**	422
Farm Credit Insurance Fund premium	**219**	230
Supervisory and examination costs	**70**	56
Other noninterest expense	**586**	850
Total noninterest expense	**3,061**	3,446
Income before income taxes	**2,736**	2,384
Net income	**2,736**	2,384
OTHER COMPREHENSIVE INCOME		
Amortization of retirement costs	**3**	1
Comprehensive income	**$ 2,739**	$ 2,385

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

UNAUDITED	Capital Stock	Additional Paid-In Capital	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2015	$ 2,005	$ 33,619	$ 99,976	$ (28)	$ 135,572
Comprehensive income			2,384	1	2,385
Stock issued	42				42
Stock retired	(45)				(45)
Balance at March 31, 2016	$ 2,002	$ 33,619	$ 102,360	$ (27)	$ 137,954
Balance at December 31, 2016	$ 2,002	$ 33,619	$ 106,610	$ (65)	$ 142,166
Comprehensive income			2,736	3	2,739
Stock issued	33				33
Stock retired	(40)				(40)
Balance at March 31, 2017	**$ 1,995**	**$ 33,619**	**$ 109,346**	**$ (62)**	**$ 144,898**

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 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.

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.

	March 31, 2017	December 31, 2016
Real estate mortgage	**$ 488,541**	$ 488,311
Production and intermediate-term	**248,128**	264,265
Agribusiness	**11,616**	12,976
Rural infrastructure	**1,385**	1,413
Rural residential real estate	**964**	990
Total loans	**$ 750,634**	$ 767,955

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	$ 31,240	$ 17,886	$ 1,223	$ -	$ 32,463	$ 17,886
Production and intermediate-term	14,926	7,850	-	-	14,926	7,850
Agribusiness	6,884	-	-	-	6,884	-
Rural infrastructure	1,429	-	-	-	1,429	-
Total	$ 54,479	$ 25,736	$ 1,223	$ -	$ 55,702	$ 25,736

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	**94.90%**	95.87%
OAEM	**1.20%**	2.68%
Substandard	**3.90%**	1.45%
Total	**100.00%**	100.00%
Production and intermediate-term		
Acceptable	**92.34%**	94.03%
OAEM	**0.82%**	1.08%
Substandard	**6.84%**	4.89%
Total	**100.00%**	100.00%
Agribusiness		
Acceptable	**100.00%**	100.00%
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	**94.14%**	95.32%
OAEM	**1.06%**	2.07%
Substandard	**4.80%**	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:

(dollars in thousands)	**March 31, 2017**	December 31, 2016
Nonaccrual loans		
Real estate mortgage	**$ 289**	$ 124
Production and intermediate-term	**2,899**	1,017
Total nonaccrual loans	**$ 3,188**	$ 1,141
Accruing restructured loans		
Real estate mortgage	**$ 82**	$ 112
Total accruing restructured loans	**$ 82**	$ 112
Accruing loans 90 days past due		
Real estate mortgage	**$ 16**	$ -
Total accruing loans 90 days past due	**$ 16**	$ -
Total high risk assets	**$ 3,286**	$ 1,253

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:						
Production and intermediate-term	**$ 2,899**	**$ 2,840**	**$ 884**	$ 1,017	$ 1,012	$ 47
Total	**$ 2,899**	**$ 2,840**	**$ 884**	$ 1,017	$ 1,012	$ 47
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 387**	**$ 414**		$ 236	$ 254	
Production and intermediate-term	**-**	**1,349**		-	1,349	
Total	**$ 387**	**$ 1,763**		$ 236	$ 1,603	
Total impaired loans:						
Real estate mortgage	**$ 387**	**$ 414**	**$ -**	$ 236	$ 254	$ -
Production and intermediate-term	**2,899**	**4,189**	**884**	1,017	2,361	47
Total	**$ 3,286**	**$ 4,603**	**$ 884**	$ 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 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:				
Production and intermediate-term	**$ 1,496**	**$ -**	$ -	$ -
Total	**$ 1,496**	**$ -**	$ -	$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 260**	**$ -**	$ 916	$ 3
Production and intermediate-term	**111**	**1**	-	-
Total	**$ 371**	**$ 1**	$ 916	$ 3
Total impaired loans:				
Real estate mortgage	**$ 260**	**$ -**	$ 916	$ 3
Production and intermediate-term	**1,607**	**1**	-	-
Total	**$ 1,867**	**$ 1**	$ 916	$ 3

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	$ 808	$ 16	$ 824	$ 497,036	$ 497,860	$ 16
Production and intermediate-term	845	5	850	252,216	253,066	-
Agribusiness	-	-	-	11,679	11,679	-
Rural infrastructure	-	-	-	1,386	1,386	-
Rural residential real estate	-	-	-	968	968	-
Total	$ 1,653	$ 21	$ 1,674	$ 763,285	$ 764,959	$ 16

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	$ 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 December 31, 2016	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at March 31, 2017
Real estate mortgage	$ 293	$ -	$ -	$ 42	$ 335
Production and intermediate-term	2,295	8	3	398	2,688
Agribusiness	25	-	-	13	38
Rural infrastructure	10	-	-	-	10
Rural residential real estate	-	-	-	-	-
Total	$ 2,623	$ 8	$ 3	$ 453	$ 3,071

	Balance at December 31, 2015	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at March 31, 2016
Real estate mortgage	$ 243	$ -	$ -	$ 13	$ 256
Production and intermediate-term	1,975	8	2	(35)	1,934
Agribusiness	26	-	-	(8)	18
Rural infrastructure	18	-	-	(1)	17
Rural residential real estate	1	-	-	-	1
Total	$ 2,263	$ 8	$ 2	$ (31)	$ 2,226

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	**$ 374**	$ 243
Provision for unfunded commitments	**19**	21
Total	**$ 393**	$ 264

	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	$ -	$ 335	$ 403	$ 497,457
Production and intermediate-term	884	1,804	2,899	250,167
Agribusiness	-	38	-	11,679
Rural infrastructure	-	10	-	1,386
Rural residential real estate	-	-	-	968
Total	$ 884	$ 2,187	$ 3,302	$ 761,657

	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 three months ended March 31, 2017. The Association had no TDRs within the previous 12 months 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 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	**$ 94**	$ 124	**$ -**	$ -
Total	**$ 94**	$ 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 based on a three-month average and regulatory 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	15.80%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	15.80%	6.0%	2.5%*	8.5%
Total capital ratio	16.20%	8.0%	2.5%*	10.5%
Permanent capital ratio	15.85%	7.0%	–	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	15.01%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	16.48%	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	**$ (65)**	$ (28)
Amounts reclassified from accumulated other comprehensive loss	**3**	1
Ending balance	**$ (62)**	$ (27)

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

	Amount Reclassified from Accumulated Other Comprehensive Income/(Loss)		
	For the Three Months Ended March 31		Location of Gain/Loss Recognized in Statement of Income
	2017	2016	
Pension and other benefit plans:			
Net actuarial loss	**3**	1	Salaries and employee benefits
Total reclassifications	**$ 3**	$ 1	

The Association began construction on a Tuttle branch office building during 2016 and the funding is expected to come from unallocated retained earnings.

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	**$ 266**	**$ -**	**$ -**	**$ 266**
December 31, 2016	$ 242	$ -	$ -	$ 242

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	Gains/(Losses)
March 31, 2017					
Loans	**$ —**	**$ —**	**$ 2,015**	**$ 2,015**	**$ (841)**
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 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.