United FCS, ACA

Quarterly Report
March 31, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of United FCS, ACA and its subsidiaries United FCS, FLCA and United FCS, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2016 (2016 Annual Report).

Due to the nature of our financial relationship with AgriBank, FCB (AgriBank), the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of the AgriBank or the AgriBank District financial reports or additional copies of our report, contact us at:

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MERGER ACTIVITY

The stockholders of United FCS, ACA and AgCountry Farm Credit Services, ACA have voted in favor of the proposed merger between these associations. The consolidated association will be named AgCountry Farm Credit Services, ACA and will be headquartered in Fargo, ND. Upon completion of the merger, the association will serve nearly 18,000 customers in 65 counties in Minnesota, North Dakota, and Wisconsin, and have assets over $7.0 billion. The merger will be effective July 1, 2017.

FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2016 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

Informa Economics, in its January 2017 Agribusiness Outlook, states that 2017 world GDP growth is forecast at 3.2%, higher than 2016's 2.6% growth. Growth is expected to be higher in most countries. The outlook is for improved growth in the U.S. economy of 3.0% in 2017 versus 1.6% in 2016.

The United States Department of Agriculture (USDA), in its February 2017 Farm Sector Income Forecast, is forecasting net farm income at $62.3 billion in 2017, down 8.7% from 2016 levels. This 2017 forecast is the fourth consecutive year of decline after reaching a record high in 2013, and is the lowest forecasted net farm income since 2002, in inflation-adjusted terms. The value of total farm sector equity is forecast to decline by $51.2 billion, or 2.1%, in 2017 as farm sector assets are seen declining and debt levels increasing relative to 2016. The balance sheet changes result in declining farm solvency and liquidity measures.

The following reflect economic conditions for various commodities based on various USDA March 2017 reports, including World Agricultural Supply and Demand, Milk Supply, Sugar and Sweeteners Outlook, Livestock, Dairy and Poultry Outlook, Hogs and Pigs, and Cold Storage.

Cash Grain-Corn/Soybeans: The USDA is projecting ending 2016/17 U.S. corn stocks at 2.3 billion bushels (bu), 33.6% higher than the 2015/16 estimated ending stocks. Projected U.S. corn production for 2016/17 is 15.1 billion bu., an increase of 11.4%. USDA is projecting a season average corn price of $3.20-$3.60/bu. USDA is projecting ending U.S. soybean stocks for 2016/17 at 435 million bu., vs. the 2015/16 estimated ending stocks of 197 million bu. USDA projects the season average soybean price of $9.30-$9.90/bu. Global soybean production for 2016/17 is projected at 336.6 million tons, 7.6% higher than the estimated 2015/16 production. Current and forecasted 2017 corn and soybean prices will likely be below break-even levels for most area producer's based on forecasted 2017 input costs and expected average 2017 yields. The Association expects to experience a decline in credit quality in 2017 for this segment of our portfolio.

Dairy: USDA forecasts class III milk prices at $16.60-$17.20 per cwt in 2017, an increase from 2016. Milk prices increased in the 1st quarter of 2017 to approximately $16.45/cwt which is generally at break-even levels for many local dairy producers. Current futures prices indicate that prices will stay in the $15-16/cwt range and close to break-even levels for many area producers for 2017. Wisconsin and Minnesota milk production continues to increase in 2017. Both states show increases in February production vs. the prior year, with Wisconsin increasing 0.8% and Minnesota increasing 2.0%.

Sugar: U.S. Sugar production for 2015/16 is estimated at 9.0 million short tons, raw value (STRV), up 3.9% from 2014/15 actual production. The USDA is also forecasting U.S. sugar production of 9.0 million STRV in 2016/17, level with the estimate for 2015/16 production. Total U.S. ending stocks for 2015/16 are forecast to be 13.2% higher than the prior year due to increased production. Total U.S. ending stocks for 2016/17 are forecast to be 18.4% less than 2015/16 due to lower sugar imports. The projected outlook is for 2017/18 ending stocks to be 6.5% less than 2016/17 due to stronger demand offsetting increased U.S. sugar production.

General Livestock: The USDA states that Red Meat and Poultry disappearance (the quantity of red meat and poultry used in domestic markets) is forecast to increase by 1.2% in 2017.

The March Cold Storage report showed that frozen meat stocks were down 6.0% from the prior year and up 1.0% from the prior month. The report showed that (compared to year-ago levels), frozen beef stocks were down 1.0%, frozen pork stocks were down 9.0%, frozen chicken stocks were down 2.0%, and frozen turkey stocks were up 11.0%.

The March Hogs and Pigs report showed the March 1, 2017 U.S. hogs and pigs inventory was up 4.0% from one year ago, and down 1.0% from the prior quarter. Breeding stock inventory was up 1.0% from year-ago levels and marketing hog inventory was up 4.0% from year-ago levels. The December 2016-February 2017 pig crop was up 4.0% from year-ago levels. Sows farrowing during this period were up 3.0% from 2016. The average pigs saved per litter was a record high for the December-February period. Prices of live equivalent 51%-52% lean hogs are expected to average $45-$48 per cwt in the first quarter, more than 5% greater than a year-ago levels. The hog industry operated at profitable levels for the first 7 months of 2016 but the hog industry is expected to show losses in the 4th quarter of 2016 into the first part of 2017 due to increased hog supplies.

2017 U.S. Turkey meat production is forecast to grow in the first half of 2017 as a result of increased poultry placements from turkey hatcheries. Sustained production in the latter half of 2016 and early 2017 has put downward pressure on turkey prices. Turkey prices are forecast to average below 2016 in all quarters of 2017. This downward pressure on prices is expected to slow the pace of production growth in the second half of 2017.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.6 billion at March 31, 2017, a decrease of $48.3 million from December 31, 2016. The seasonal decrease was primarily due to normal customer cash flow needs, which resulted in lower use of operating commitments and higher principal re-payments.

Portfolio Credit Quality

The credit quality of our portfolio improved from December 31, 2016. Adversely classified loans decreased to 1.9% of the portfolio at March 31, 2017, from 2.3% of the portfolio at December 31, 2016, and remains manageable and within the Associations risk bearing capacity. Adversely classified loans are loans and leases with serious contractual performance deficiencies and/or borrowers that exhibit serious weakness in repayment capacity, working capital, equity, and/or collateral. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses. Our current credit quality expectations for 2017 are less favorable than in prior years, but our credit quality is expected to remain at acceptable levels.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At March 31, 2017, $45.6 million of our loans were, to some level, guaranteed under these government programs. We also have a standby commitment program in place with Farmer Mac. At March 31, 2017, $85.4 million of our loans were, to some level, guaranteed under the Farmer Mac program.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**March 31 2017**	December 31 2016
Loans:		
Nonaccrual	**$ 11,104**	$ 13,732
Accruing restructured	**9,785**	11,643
Accruing loans 90 days or more past due	**28**	15
Total risk loans	**20,917**	25,390
Other property owned	**115**	115
Total risk assets	**$ 21,032**	$ 25,505
Total risk loans as a percentage of total loans	**1.3%**	1.5%
Nonaccrual loans as a percentage of total loans	**0.7%**	0.8%
Current nonaccrual loans as a percentage of total nonaccrual loans	**64.6%**	72.8%
Total delinquencies as a percentage of total loans	**0.4%**	0.3%

Note: Accruing loans include accrued interest receivable.

Our risk assets have decreased from December 31, 2016 and remained at acceptable levels. Total risk loans as a percentage of total loans were well within our established risk management guidelines.

Our accounting policy requires accruing loans past due 90 days to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, all accruing loans 90 days or more past due were eligible to remain in accruing status.

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Allowance Coverage Ratios

As of:	**March 31 2017**	December 31 2016
Allowance as a percentage of:		
Loans	**0.3%**	0.3%
Nonaccrual loans	**43.9%**	41.9%
Total risk loans	**23.3%**	22.6%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2017.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the three months ended March 31	**2017**	2016
Net income	**$ 7,089**	$ 5,515
Return on average assets	**1.7%**	1.3%
Return on average members' equity	**9.2%**	7.6%

Changes in the chart above relate directly to:

- Changes in income discussed below
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Funding, Liquidity, and Capital section

Changes in Significant Components of Net Income

(in thousands) For the three months ended March 31	**2017**	2016	**Increase (decrease) in net income**
Net interest income	**$ 10,861**	$ 10,707	**$ 154**
(Reversal of) provision for loan losses	**(862)**	1,165	**2,027**
Patronage income	**2,221**	1,914	**307**
Other income, net	**2,074**	1,838	**236**
Operating expenses	**8,009**	7,700	**(309)**
Provision for income taxes	**920**	79	**(841)**
Net income	**$ 7,089**	$ 5,515	**$ 1,574**

Changes in Net Interest Income

(in thousands) For the three months ended March 31	**2017 vs 2016**
Changes in volume	**$ 113**
Changes in interest rates	**(219)**
Changes in nonaccrual income and other	**260**
Net change	**$ 154**

The change in the provision for (reversal of) credit losses was related to our estimate of losses in our portfolio for the applicable years.

The change in patronage income was primarily related to the increase in patronage accrued related to an increase in the wholesale spread on our note payable.

The change in operating expenses was primarily related to ongoing/annual budgeted base compensation adjustments.

The change in provision for income taxes was primarily related to our estimate of taxes based on taxable income.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable matures on October 31, 2017, at which time the note will be renegotiated. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from unallocated surplus.

The components of cost of funds associated with our note payable include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity, and bank profit
- A risk premium component, if applicable

We were not subject to a risk premium at March 31, 2017 or December 31, 2016.

Total members' equity increased $5.7 million from December 31, 2016 primarily due to net income for the period partially offset by patronage distribution accruals.

Farm Credit Administration regulations require us to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required 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 tier 1 leverage and unallocated retained earnings and equivalents ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations.

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section. Refer to Note 5 of the accompanying Consolidated Financial Statements for additional detail regarding the capital ratios effective as of March 31, 2017. Refer to Note 6 in our 2016 Annual Report for a more complete description of the ratios effective as of December 31, 2016.

RELATIONSHIP WITH AGRIBANK

Purchased Services

During 2016, District Associations and AgriBank conducted research related to the creation of a separate service entity to provide many of the business services offered by AgriBank. A separate service entity may allow District Associations and AgriBank to develop and maintain long-term, cost effective technology and business services. If pursued, the service entity formation would require approval by the Farm Credit Administration (FCA) and would be owned by certain District Associations and AgriBank. An application to form the service entity is expected to be submitted to the FCA during the second quarter of 2017.

CERTIFICATION

The undersigned have reviewed the March 31, 2017 Quarterly Report of United FCS, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Bradley Sunderland
Chairperson of the Board
United FCS, ACA

Marcus L. Knisely
Chief Executive Officer
United FCS, ACA

Robert M. Haines
Chief Financial Officer
United FCS, ACA

May 9, 2017

CONSOLIDATED STATEMENTS OF CONDITION

United FCS, ACA
(in thousands)
(Unaudited)

As of:		March 31 2017		December 31 2016
ASSETS				
Loans	**$**	**1,622,820**	$	1,671,137
Allowance for loan losses		**4,870**		5,748
Net loans		**1,617,950**		1,665,389
Investment in AgriBank, FCB		**23,455**		23,455
Accrued interest receivable		**12,564**		13,990
Other property owned		**115**		115
Deferred tax assets, net		**551**		1,019
Other assets		**26,180**		23,618
Total assets	**$**	**1,680,815**	$	1,727,586
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**1,354,527**	$	1,399,907
Accrued interest payable		**6,122**		5,597
Patronage distribution payable		**1,500**		6,000
Other liabilities		**7,460**		10,608
Total liabilities		**1,369,609**		1,422,112
Contingencies and commitments (Note 5)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**5,045**		4,902
Unallocated surplus		**306,161**		300,572
Total members' equity		**311,206**		305,474
Total liabilities and members' equity	**$**	**1,680,815**	$	1,727,586

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

United FCS, ACA
(in thousands)
(Unaudited)

	Three Months Ended	
For the period ended March 31	**2017**	2016
Interest income	**$ 17,378**	$ 16,318
Interest expense	**6,517**	5,611
Net interest income	**10,861**	10,707
(Reversal of) provision for loan losses	**(862)**	1,165
Net interest income after (reversal of) provision for loan losses	**11,723**	9,542
Other income		
Patronage income	**2,221**	1,914
Financially related services income	**926**	907
Fee income	**613**	663
Miscellaneous income, net	**535**	268
Total other income	**4,295**	3,752
Operating expenses		
Salaries and employee benefits	**5,298**	5,045
Other operating expenses	**2,711**	2,655
Total operating expenses	**8,009**	7,700
Income before income taxes	**8,009**	5,594
Provision for income taxes	**920**	79
Net income	**$ 7,089**	$ 5,515

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

United FCS, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2015	$ 5,045	$ 282,433	$ 287,478
Net income	--	5,515	5,515
Unallocated surplus designated for patronage distributions	--	(1,495)	(1,495)
Capital stock and participation certificates issued	91	--	91
Capital stock and participation certificates retired	(89)	--	(89)
Balance at March 31, 2016	$ 5,047	$ 286,453	$ 291,500
Balance at December 31, 2016	$ 4,902	$ 300,572	$ 305,474
Net income	**--**	**7,089**	**7,089**
Unallocated surplus designated for patronage distributions	**--**	**(1,500)**	**(1,500)**
Capital stock and participation certificates issued	**173**	**--**	**173**
Capital stock and participation certificates retired	**(30)**	**--**	**(30)**
Balance at March 31, 2017	**$ 5,045**	**$ 306,161**	**$ 311,206**

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. While our accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry, this interim Quarterly Report is prepared based upon statutory and regulatory requirements and, accordingly, does not include all disclosures required by U.S. GAAP. The results of the three months ended March 31, 2017 are not necessarily indicative of the results to be expected for the year ending December 31, 2017. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2016 (2016 Annual Report).

The stockholders of United Farm Credit Services, ACA and AgCountry Farm Credit Services, ACA have voted in favor of the proposed merger between these associations. The consolidated association will be named AgCountry Farm Credit Services, ACA and will be headquartered in Fargo, ND. Upon completion of the merger, the association will serve nearly 18,000 customers in 65 counties in Minnesota, North Dakota, and Wisconsin, and have assets over $7 billion. The merger will be effective July 1, 2017

The Consolidated Financial Statements present the consolidated financial results of United FCS, ACA and its subsidiaries United FCS, FLCA and United FCS, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business:

Standard	Description	Effective date and financial statement impact
In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13 "Financial Instruments – Credit Losses."	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.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2020 and interim periods within annual periods beginning after December 15, 2021. Early adoption is permitted as of annual reporting periods beginning after December 15, 2018, including interim periods within those annual periods. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.
In February 2016, the FASB issued ASU 2016-02 "Leases."	The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2019 and interim periods the subsequent year. Early adoption is permitted and modified retrospective adoption is required. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.
In January 2016, the FASB issued ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities."	The guidance is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments address certain aspects of recognition, measurement, presentation, and disclosure of financial statements.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2018 and interim periods with annual periods beginning after December 15, 2019. Certain disclosure changes are permitted to be immediately adopted for annual reporting periods that have not yet been made available for issuance. Nonpublic entities are no longer required to include certain fair value of financial instruments disclosures as part of these disclosure changes. We have immediately adopted this guidance and have excluded such disclosures from our Notes to Consolidated Financial Statements. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2017 for other applicable sections of the guidance. We are currently evaluating the impact of the remaining guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.

Standard	Description	Effective date and financial statement impact
In May 2014, the FASB issued ASU 2014-09 “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.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. In March 2016, the FASB issued ASUs 2016-08 and 2016-10 which provided further clarifying guidance on the previously issued standard. We are in the process of reviewing contracts to determine the effect, if any, on our financial condition and results of operations.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	**March 31, 2017**			December 31, 2016		
		Amount	%		Amount	%
Real estate mortgage	**$**	**757,889**	**46.7%**	$	769,593	46.0%
Production and intermediate term		**479,398**	**29.5%**		542,886	32.5%
Agribusiness		**259,228**	**16.0%**		233,821	14.0%
Other		**126,305**	**7.8%**		124,837	7.5%
Total	**$**	**1,622,820**	**100.0%**	$	1,671,137	100.0%

The other category is primarily comprised of energy, communication, agricultural export finance, and rural residential real estate related loans, as well as finance leases and loans and related assets originated under our Mission Related Investment authority.

Delinquency

Aging Analysis of Loans

(in thousands) **As of 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	Total	90 Days or More Past Due and Accruing
Real estate mortgage	**$ 21**	**$ 922**	**$ 943**	**$ 764,161**	**$ 765,104**	**$ --**
Production and intermediate term	**2,840**	**2,963**	**5,803**	**478,090**	**483,893**	**28**
Agribusiness	**295**	**41**	**336**	**259,464**	**259,800**	**--**
Other	**--**	**--**	**--**	**126,587**	**126,587**	**--**
Total	**$ 3,156**	**$ 3,926**	**$ 7,082**	**$ 1,628,302**	**$ 1,635,384**	**$ 28**

As of 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	Total	90 Days or More Past Due and Accruing
Real estate mortgage	$ 1,062	$ 395	$ 1,457	$ 775,858	$ 777,315	$ --
Production and intermediate term	2,779	1,460	4,239	543,728	547,967	15
Agribusiness	--	41	41	234,648	234,689	--
Other	--	--	--	125,156	125,156	--
Total	$ 3,841	$ 1,896	$ 5,737	$ 1,679,390	$ 1,685,127	$ 15

Note: Accruing loans include accrued interest receivable.

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

Risk Loan Information

(in thousands) As of:		**March 31** **2017**		December 31 2016
Volume with specific allowance	**$**	**1,033**	$	981
Volume without specific allowance		**19,884**		24,409
Total risk loans	**$**	**20,917**	$	25,390
Total specific allowance	**$**	**748**	$	694
For the three months ended March 31		**2017**		2016
Income on accrual risk loans	**$**	**151**	$	36
Income on nonaccrual loans		**414**		155
Total income on risk loans	**$**	**565**	$	191
Average risk loans	**$**	**23,879**	$	10,330

Note: Accruing loans include accrued interest receivable.

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at March 31, 2017.

Troubled Debt Restructurings (TDRs)

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

We completed TDRs of certain production and intermediate term loans during the three months ended March 31, 2017 and 2016. Our recorded investment in these loans just prior to restructuring was $261 thousand and $1.8 million during the three months ended March 31, 2017 and 2016, respectively. Our recorded investment in these loans immediately following the restructuring was $261 thousand and $1.5 million during the three months ended March 31, 2017 and 2016, respectively. The recorded investment of the loan is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off.

The primary type of modification was extension of maturity.

TDRs that Occurred Within the Previous 12 Months that Subsequently Defaulted During the Three Months Ended March 31

(in thousands)		**2017**		2016
Real estate mortgage	**$**	**21**	$	--
Production and intermediate term		**981**		11
Total	**$**	**1,002**	$	11

TDRs Outstanding

(in thousands) As of:	March 31 2017	December 31 2016
Accrual status:		
Real estate mortgage	$ 3,720	$ 3,734
Production and intermediate term	6,065	6,587
Other	--	1,322
Total TDRs in accrual status	$ 9,785	$ 11,643
Nonaccrual status:		
Real estate mortgage	$ 1,369	$ 1,379
Production and intermediate term	2,590	2,808
Total TDRs in nonaccrual status	$ 3,959	$ 4,187
Total TDRs:		
Real estate mortgage	$ 5,089	$ 5,113
Production and intermediate term	8,655	9,395
Other	--	1,322
Total TDRs	$ 13,744	$ 15,830

The decrease in TDRs outstanding from December 31, 2016, was primarily due to communication loans, which are included in the other loan category, being refinanced at market terms during the first quarter of 2017.

There were no material commitments to lend to borrowers whose loans have been modified in a TDR at March 31, 2017.

Allowance for Loan Losses

Changes for Allowance for Loan Losses

(in thousands) Three months ended March 31	2017	2016
Balance at beginning of period	$ 5,748	$ 4,359
(Reversal of) provision for loan losses	(915)	1,165
Loan recoveries	40	16
Loan charge-offs	(3)	(16)
Balance at end of period	$ 4,870	$ 5,524

NOTE 3: INVESTMENT IN AGRIBANK, FCB

Effective January 1, 2017, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable, with an additional amount required on growth in excess of a sustainable growth rate. Previously, the required investment was equal to 2.25% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on growth that exceeded a targeted rate.

The balance of our investment in AgriBank, all required stock, was $23.5 million at March 31, 2017 and December 31, 2016.

NOTE 4: MEMBERS' EQUITY

Regulatory Capitalization Requirements

Select Capital Ratios

	As of March 31, 2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:				
Common equity tier 1 ratio	**15.8%**	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**15.8%**	6.0%	2.5%*	8.5%
Total capital ratio	**16.1%**	8.0%	2.5%*	10.5%
Permanent capital ratio	**15.8%**	7.0%	0.0%	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	**17.2%**	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**16.9%**	1.5%	0.0%	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.

Effective January 1, 2017, the regulatory capital requirements for Farm Credit 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 earnings equivalents (UREE) leverage ratio. The permanent capital ratio continues to remain in effect.

Risk-adjusted assets have been defined by Farm Credit Administration (FCA) Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes, which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments with terms at originations of less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the inclusion of the allowance for loan losses as a deduction to risk-adjusted assets for the permanent capital ratio.

These ratios are based on a three-month average daily balance in accordance with FCA Regulations and are calculated as follows:

- Common equity tier 1 ratio is statutory minimum purchased member stock, other required member stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to retirement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required member stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt, and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for credit losses subject to certain limitations, less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt, and preferred stock subject to certain limitations, less certain allocated and purchased investments in other System institutions divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.

UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to retirement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

Effective January 1, 2017, the regulatory capital requirements allow for allotment agreements for only the permanent capital ratio and, as such, any stock in excess of our AgriBank required investment was not included in the common equity tier 1, tier 1 capital, total capital, or leverage ratios. We had no allocated excess stock at March 31, 2017 or December 31, 2016.

Refer to Note 6 in our 2016 Annual Report for a more complete description of the ratios effective as of December 31, 2016.

NOTE 5: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions.

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk not recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At March 31, 2017, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $497.5 million. Additionally, we had $8.3 million of issued standby letters of credit as of March 31, 2017.

Commitments to extend credit and letters of credit generally have fixed expiration dates or other termination clauses and we generally require payment of a fee. If commitments to extend credit and letters of credit remain unfulfilled or have not expired, they may have credit risk not recognized in the financial statements. Many of the commitments to extend credit and letters of credit will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Certain letters of credit may have recourse provisions that would enable us to recover from third parties amounts paid under guarantees, thereby limiting our maximum potential exposure. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers and we apply the same credit policies.

NOTE 6: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Note 2 in our 2016 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at March 31, 2017 or December 31, 2016.

Non-Recurring

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)	**As of March 31, 2017**				**Three months ended March 31, 2017**
	Fair Value Measurement Using			Total Fair	Total
	Level 1	Level 2	Level 3	Value	(Losses)
Impaired loans	**$ --**	**$ 21**	**$ 278**	**$ 299**	**$ (57)**
Other property owned	**--**	**58**	**69**	**127**	**--**

	As of December 31, 2016				Three months ended March 31, 2016
	Fair Value Measurement Using			Total Fair	Total (Losses)
	Level 1	Level 2	Level 3	Value	Gains
Impaired loans	$ --	$ 11	$ 291	$ 302	$ (758)
Other property owned	--	59	69	128	6

Valuation Techniques

Impaired loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses independent appraisals and other market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as Level 3.

Other property owned: Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses independent appraisals and other market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the property and other matters, they are classified as Level 3.

NOTE 7: SUBSEQUENT EVENTS

We have evaluated subsequent events through May 9, 2017, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.