Quarterly Report
June 30, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of AgStar Financial Services, ACA and its subsidiaries AgStar Financial Services, FLCA and AgStar Financial Services, 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 stockholders' investment. To request free copies of the AgriBank or the AgriBank District financial reports or additional copies of our report, contact us at:

Compeer Financial, ACA
2600 Jenny Wren Trail
Sun Prairie, WI 53590
(844) 426-6733
www.compeer.com

AgriBank, FCB
30 East 7th Street, Suite 1600
St. Paul, MN 55101
(651) 282-8800
www.agribank.com
financialreporting@agribank.com

MERGER ACTIVITY

We are committed to the success of agriculture, rural communities and most importantly, our client-owners. Every day, we partner with our clients to deliver the insights and expert guidance they have come to expect and count on from their financial services provider. To be that trusted advisor, we are consistently looking for ways to better serve our clients and return value to our stockholders. It's a business objective we've been committed to for the long haul and one we believe matches the strides of our clients – constantly evolving and growing to better our operation.

In August 2016, the Boards of Directors of 1st Farm Credit Services, ACA, AgStar Financial Services, ACA, and Badgerland Financial, ACA unanimously voted in favor of recommending a merger to our client-owners. A merger application was filed with our regulator, the Farm Credit Administration (FCA), in the third quarter of 2016. On April 7, 2017, our stockholders approved the proposed merger. Effective May 1, 2017, the Board of Directors of 1st Farm Credit Services, ACA, AgStar Financial Services, ACA, and Badgerland Financial, ACA approved to operate under joint management where AgStar's CEO, Rod Hebrink, served as CEO of all three associations. The FCA granted final approval in June and the merger was effective July 1, 2017. The merged Association will operate under the name of Compeer Financial, ACA with the headquarters located in Sun Prairie, Wisconsin. The merger of these three organizations strengthens our commitment to the agricultural and rural communities we serve. Visit www.Compeer.com for more information.

1st Farm Credit Services, ACA served the northern 42 counties of Illinois. Badgerland Financial, ACA served the southern 33 Wisconsin counties; and AgStar Financial Services, ACA served 69 counties across Minnesota and Wisconsin. While our markets differ in some ways, our philosophies and focus on client relationships and commitment to rural communities and agriculture are closely aligned.

NOTICE OF SIGNIFICANT OR MATERIAL EVENTS

Effective July 1, 2017, the bylaws of Compeer Financial, ACA took effect reflecting the merger. Changes impacting stockholders include the increase in preferred stock authorization ($500 million), the inclusion of the capital equalization plan from the merger agreement, which determines the ordering of allocated equity retirements, conforming changes to the capital bylaws, changes to Board of Directors make-up and voting, and other changes as voted on by stockholders on April 7, 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

We serve many sectors in agriculture including our primary industries of grain, dairy, and swine. Additionally, we serve the rural housing, energy, and food processing and distribution segments. Economic and agricultural conditions changed very little in the first half of 2017. Profitability prospects remain

challenging, particularly for grain producers. While many grain clients enjoy large equity positions, tight margins are taking their toll on client financial positions. Future deterioration could occur particularly if lower grain margins persist beyond 2017.

Within the June 9, 2017, World Agricultural Supply and Demand Estimates (WASDE), the United States Department of Agriculture (USDA) projects 2017/18 U.S. corn production at 14.1 billion bushels, or 7.1% fewer than the estimated 2016/17 production, on an estimated 4% decline in harvested acreage. Wet weather in the central and eastern Corn Belt boosted soil moisture but ultimately slowed pre-planting fieldwork in March, and wetness continued in many areas through the remainder of the quarter. Overall, the contiguous United States experienced its eleventh wettest spring during the 123-year period of record. Projected average yields are 170.7 bushels per acre, down 2.2% from last season. Estimate for 2017/18 season-average corn price received by producers remains at a wide $3.00 to $3.80 per bushel compared to an estimated $3.25 to $3.45 for the previous crop year. The USDA projection for 2017/18 soybean production is 4.3 billion bushels, or 1.2% fewer than estimated 2016/17 production, with yield per harvested acre at 48 bushels. The 2017/18 season-average soybean price is projected at $8.30 to $10.30 per bushel surrounding the estimated $9.55 per bushel for the previous crop year.

The abundant rainfall across the Midwest periodically slowed fieldwork, and lowland flooding across the lower Midwest resulted in some submerged acreage and poor crop establishment. By June 4, at least 11% of the corn was rated in very poor to poor condition in Illinois. For the 18 major corn producing states, as of June 25, 67% of the crop is listed in good to excellent condition which is below the 75% from a year ago. Illinois crop is 62% good to excellent, Minnesota corn is 78% good to excellent, and Wisconsin is 69%. Soybean conditions for the 18 major production states are 67% good to excellent compared to 72% a year ago. Illinois soybeans are 70% good to excellent, Minnesota is 76% good to excellent, and Wisconsin is 74%. While below the historically strong levels of a year ago, crop conditions remain favorable for another year of average to above average production levels.

On the dairy side, milk production in the 23 major dairy states is up 1.5% through May compared to a year ago, and May production of 17.8 billion pounds alone is 1.8% higher. WASDE forecasts that milk production across the country is expected to increase 4.3 billion pounds in 2017 and an additional 5.0 billion in 2018. In the same periods, imports are forecasted down one billion cumulatively, exports near flat, and domestic usage increases 3.9 billion and 5.8 billion, respectively. The USDA estimates an average price received by farmers for all milk of $17.80 to $18.20 per cwt in 2017, up significantly from the $16.24 received in 2016. Offsetting the higher price, tight processor capacity is resulting in lower basis payments, particularly in segments of the Upper Midwest. We expect many dairy operators will be around break-even in 2017 unless the spot price of milk materially improves/declines.

The USDA expects a continuing trend in pork production with a 4% increase in both 2017 and 2018. Despite seeing an increase in domestic per capita consumption and a growth in exports, the USDA does not forecast demand to rise as fast as expected production. Hog margins were unfavorable for much of 2016, with fourth quarter returns particularly depressed. While they have rebounded with higher hog prices in the first half of 2017, margins remain average at best. Feed prices have moved higher in light of the rainy weather in the Corn Belt. As of June, there were 71.7 million hogs and pigs on U.S. farms, up 3% from a year ago, and 1% above March according to the Quarterly Hogs and Pigs report published by the National Agricultural Statistics Service. Hog producers intend to farrow 3.1 million sows during the June to August 2017 quarter, up slightly from the same period a year ago. The protracted strength of the U.S. dollar has had more limited impact on exports than originally anticipated. USDA pork exports for 2017 are modestly higher compared to 2016 despite a strong dollar.

Following a period of more than 25 years of steadily increasing values, farmland prices are enduring a period of moderation. Farmland values in the upper Midwest have experienced modest declines, with some areas seeing sequential declines over the past three years. Moderation across the region is expected to continue as we progress through 2017 in response to lower commodity prices. According to a USDA August 2016 survey, cropland values in Illinois declined 1.3% from a year earlier while Minnesota remained unchanged and Wisconsin increased 1.1%. Given solid net worth positions and conservative borrowing characteristics, U.S. agriculture is well positioned to handle a decline in land values without enduring significant financial stress and hardship. Additionally, the moderation in land values has the potential to lead to declines in cash rents. According to a survey done by AgriBank, cash rents in Illinois declined 3.1% and Minnesota declined by 6.1%. Wisconsin rents increased 2.2% in 2016.

The economy continues to generate a number of positive economic signals for the housing market. Home ownership in the U.S. is now 63.6%, which is just off 50-year lows. According to the CoreLogic Home Pricing Index, home prices nationwide increased by 6.6% year over year in May 2017, and have averaged 1.2% over the first five months of the year. Forecasted prices are expected to slightly moderate the gains with a 5.3% increase over the following 12 months. Additionally, the U.S. Bureau of Labor Statistics reported on July 7 that the national unemployment rate remains near a multi-year low at 4.4%. The current economy, low interest rates, and housing prices have made the environment good for new home buyers.

Some of our core credit objectives include working with clients to promote risk management, ensure high quality financial statements and production reports, encourage disciplined marketing plans, and provide individualized servicing plans and strategies. We continue to be involved and support positive legislative changes for agriculture and rural America.

LOANS HELD TO MATURITY

Loans Held to Maturity

Loans held to maturity were $8.3 billion at June 30, 2017, an increase of $143.0 million from December 31, 2016. The increase was primarily due to an increase in net participations purchased, partially offset by repayments made by borrowers in our production agriculture sectors.

Portfolio Credit Quality

The credit quality of our portfolio declined slightly from December 31, 2016. Adversely classified loans increased to 3.1% of the portfolio at June 30, 2017, from 2.9% of the portfolio at December 31, 2016. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses. Credit quality has declined as a result of prices remaining low for producers in our grain and dairy portfolios.

In certain circumstances, Federal Agricultural Mortgage Corporation and government agency guarantee programs are used to reduce the risk of loss. At June 30, 2017, $665.4 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:		June 30 2017		December 31 2016
Loans:				
Nonaccrual	$	48,034	$	60,861
Accruing restructured		11,997		24,417
Accruing loans 90 days or more past due		1,412		738
Total risk loans		61,443		86,016
Other property owned		1,086		840
Total risk assets	$	62,529	$	86,856
Total risk loans as a percentage of total loans		0.7%		1.0%
Nonaccrual loans as a percentage of total loans		0.6%		0.7%
Current nonaccrual loans as a percentage of total nonaccrual loans		44.0%		54.4%
Total delinquencies as a percentage of total loans		0.6%		0.6%

Note: Accruing loans include accrued interest receivable.

Our risk assets 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.

The decrease in nonaccrual loans was largely due to the upgrading of an account in our dairy portfolio and the payoff of certain accounts in our grain, cattle, and landlords portfolios. Nonaccrual loans remained at an acceptable level at June 30, 2017, and December 31, 2016.

The decrease in accruing restructured loans was primarily the result of refinancing the loans of certain accounts in our communications and dairy portfolios.

The increase in accruing loans 90 days or more past due was largely due to real estate mortgage and production and intermediate term loans in our grain and home mortgage portfolios. Our accounting policy requires accruing loans past due 90 days or more 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:	June 30 2017	December 31 2016
Allowance as a percentage of:		
Loans	0.5%	0.4%
Nonaccrual loans	83.0%	59.2%
Total risk loans	64.9%	41.9%

The increase in allowance for loan losses from December 31, 2016, was related to provision expense recorded to reflect the deterioration in our grain portfolio. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2017.

LOANS HELD FOR SALE

We originate loans held for sale under our secondary market program, which is a rural residential mortgage program designed to provide qualified borrowers with options for competitive rate financing of rural homes in small towns or homes that are part of a hobby farm, pastureland, or tillable acreage. Loans closed under this program will be sold to and securitized by a third party investor. At June 30, 2017, the volume in this program was $29.1 million, a $1.7 million increase from December 31, 2016. The increase was the result of our originations of new loans held for sale.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the six months ended June 30		**2017**		2016
Net income	**$**	**73,360**	$	57,720
Return on average assets		**1.6%**		1.4%
Return on average equity		**10.9%**		9.2%

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 six months ended June 30		**2017**		2016		**Increase (decrease) in net income**
Net interest income	**$**	**109,907**	$	102,392	**$**	**7,515**
Provision for loan losses		**3,598**		4,356		**758**
Patronage income		**14,991**		11,940		**3,051**
Other income, net		**19,511**		20,595		**(1,084)**
Operating expenses		**64,361**		67,213		**2,852**
Provision for income taxes		**3,090**		5,638		**2,548**
Net income	**$**	**73,360**	$	57,720	**$**	**15,640**

Changes in Net Interest Income

(in thousands) For the six months ended June 30		**2017 vs 2016**
Changes in volume	**$**	**4,848**
Changes in interest rates		**(4,220)**
Changes in asset securitization		**102**
Changes in nonaccrual income and other		**6,785**
Net change	**$**	**7,515**

The change in interest rates was due to an increase in the cost of funds from a new pricing framework implemented by AgriBank, and mix change in our business. The increase in cost of funds from the additional margin required by the new AgriBank pricing framework was returned back to us in the form of patronage. We expect margins to compress due to this increase in cost of funds and may also be impacted if interest rates continue to rise, competition increases, and growth in our wholesale lending programs continues. We expect our loan and lease products to remain competitive in the market place in 2017.

The decrease in the provision for loan losses was primarily related to slower deterioration of credit quality in the grain portfolio than for the six months ended June 30, 2016.

The change in patronage income was primarily related to an increase in additional patronage related to the wholesale spread on our note payable. In addition, patronage income received from AgriBank increased due to a higher patronage rate compared to the prior year.

The change in other income was primarily related to a decline in crop insurance income and loan origination fees. We originated rural home loans for resale into the secondary market. We sold loans in the secondary market totaling $22.7 million through June 30, 2017, compared to $23.0 million for the same period in 2016. The fee income from this activity totaled $422 thousand for the six months ended June 30, 2017, compared to $564 thousand for the same period of 2016.

The change in operating expenses was primarily related to a decrease in salaries and benefits expense due to lower pension expense.

The change in provision for income taxes was primarily due to tax savings related to the cash patronage program, which began January 1, 2017.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Pursuant to our merger with 1st Farm Credit Services, ACA and Badgerland Financial, ACA, as described in Note 9 of the accompanying Consolidated Financial Statements, our note payable with AgriBank was terminated effective July 1, 2017. Compeer Financial, ACA, the merged entity, entered into a new note payable with AgriBank on July 1, 2017, for $18.0 billion with a maturity date of September 30, 2018. The note payable will be renegotiated no later than the maturity date. 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 June 30, 2017, or December 31, 2016.

Total equity increased $54.9 million from December 31, 2016, primarily due to net income for the period partially offset by patronage distribution accruals and preferred stock dividend accruals.

The FCA 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 6 of the accompanying Consolidated Financial Statements for additional detail regarding the capital ratios effective as of June 30, 2017. Refer to Note 11 in our 2016 Annual Report for a more complete description of the ratios effective as of December 31, 2016.

RELATIONSHIP WITH AGRIBANK

Patronage

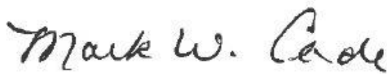
AgriBank has amended its capital plan effective July 1, 2017, to provide for adequate capital at AgriBank under the new capital regulations as well as to create a path to long-term capital optimization within the AgriBank District. The plan contemplates changing from a primarily cash patronage program to distributing a potentially higher level of earnings through cash and allocated stock patronage. The plan's flexibility will allow for proper balance between needed capitalization at AgriBank to meet regulatory capital measures and policy constraints and association investments levels. High levels of investment In AgriBank may constrain growth and patronage levels at the Association.

Purchased Services

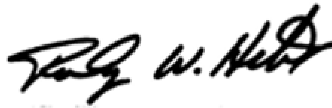
During 2016, District Associations and AgriBank conducted research related to the creation of a separate service entity to provide many of the business services offered by AgriBank. A separate service entity allows District Associations and AgriBank to develop and maintain long-term, cost effective technology and business services. The service entity would be owned by certain District Associations and AgriBank. An application to form the service entity was submitted to the FCA for approval in May 2017.

CERTIFICATION

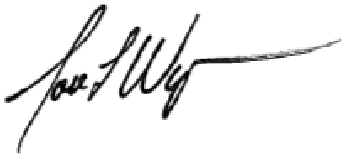
The undersigned have reviewed the June 30, 2017, Quarterly Report of AgStar Financial Services, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Mark Cade
Chairperson of the Board
Compeer Financial, ACA



Rodney W. Hebrink
President and Chief Executive Officer
Compeer Financial, ACA



Jase L. Wagner
Chief Financial Officer
Compeer Financial, ACA

August 8, 2017

CONSOLIDATED STATEMENTS OF CONDITION

AgStar Financial Services, ACA
(in thousands)
(Unaudited)

As of:	June 30 2017	December 31 2016
ASSETS		
Loans held to maturity	**$ 8,295,417**	$ 8,152,435
Allowance for loan losses	**39,880**	36,018
Net loans held to maturity	**8,255,537**	8,116,417
Loans held for sale	**29,089**	27,370
Net loans	**8,284,626**	8,143,787
Unrestricted cash	**2,300**	2,200
Investment securities (including $22,286 and $0 at fair value)	**482,730**	473,248
Assets held for lease, net	**36,169**	36,598
Accrued interest receivable, net	**69,928**	64,904
Investment in AgriBank, FCB	**185,422**	180,812
Premises and equipment, net	**18,246**	17,633
Other property owned	**1,086**	840
Deferred tax assets, net	**1,576**	--
Other assets	**71,823**	60,645
Total assets	**$ 9,153,906**	$ 8,980,667
LIABILITIES		
Note payable to AgriBank, FCB	**$ 7,671,692**	$ 7,590,254
Accrued interest payable	**37,752**	31,954
Deferred tax liabilities, net	**--**	125
Patronage distribution payable	**14,672**	--
Other liabilities	**59,406**	42,866
Total liabilities	**7,783,522**	7,665,199
Contingencies and commitments (Note 7)		
EQUITY		
Preferred stock	**100,000**	100,000
Capital stock and participation certificates	**15,836**	15,934
Allocated surplus	**399,493**	441,122
Unallocated surplus	**855,055**	758,412
Total equity	**1,370,384**	1,315,468
Total liabilities and equity	**$ 9,153,906**	$ 8,980,667

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

CONSOLIDATED STATEMENTS OF INCOME

AgStar Financial Services, ACA
(in thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
For the period ended June 30	**2017**	2016	**2017**	2016
Interest income	**$ 91,437**	$ 84,350	**$ 182,458**	$ 166,264
Interest expense	**37,752**	32,695	**72,551**	63,872
Net interest income	**53,685**	51,655	**109,907**	102,392
Provision for loan losses	**2,268**	2,252	**3,598**	4,356
Net interest income after provision for loan losses	**51,417**	49,403	**106,309**	98,036
Other income				
Patronage income	**7,439**	6,036	**14,991**	11,940
Net operating lease income	**397**	284	**794**	662
Financially related services income	**4,743**	5,069	**9,372**	10,072
Fee and miscellaneous income, net	**3,767**	4,921	**9,345**	9,861
Total other income	**16,346**	16,310	**34,502**	32,535
Operating expenses				
Salaries and employee benefits	**21,519**	21,521	**43,013**	45,457
Farm Credit System insurance	**2,846**	2,887	**5,663**	5,683
Other operating expenses	**7,891**	7,928	**15,685**	16,073
Total operating expenses	**32,256**	32,336	**64,361**	67,213
Income before income taxes	**35,507**	33,377	**76,450**	63,358
(Benefit from) provision for income taxes	**(1,716)**	2,903	**3,090**	5,638
Net income	**$ 37,223**	$ 30,474	**$ 73,360**	$ 57,720

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

AgStar Financial Services, ACA
(in thousands)
(Unaudited)

	Preferred Stock	Capital Stock and Participation Certificates	Allocated Surplus	Unallocated Surplus	Total Equity
Balance at December 31, 2015	$ 100,000	$ 16,085	$ 406,758	$ 704,291	$ 1,227,134
Net income	--	--	--	57,720	57,720
Net surplus allocated under nonqualified patronage program	--	--	29,529	(29,529)	--
Redemption of prior year allocated patronage	--	--	(308)	--	(308)
Preferred stock dividend	--	--	--	(3,375)	(3,375)
Capital stock and participation certificates issued	--	650	--	--	650
Capital stock and participation certificates retired	--	(753)	--	--	(753)
Balance at June 30, 2016	$ 100,000	$ 15,982	$ 435,979	$ 729,107	$ 1,281,068
Balance at December 31, 2016	$ 100,000	$ 15,934	$ 441,122	$ 758,412	$ 1,315,468
Net income	**--**	**--**	**--**	**73,360**	**73,360**
Transfer of allocated surplus to unallocated surplus	**--**	**--**	**(41,286)**	**41,286**	**--**
Redemption of prior year allocated patronage	**--**	**--**	**(343)**	**44**	**(299)**
Preferred stock dividend	**--**	**--**	**--**	**(3,375)**	**(3,375)**
Unallocated surplus designated for patronage distributions	**--**	**--**	**--**	**(14,672)**	**(14,672)**
Capital stock and participation certificates issued	**--**	**707**	**--**	**--**	**707**
Capital stock and participation certificates retired	**--**	**(805)**	**--**	**--**	**(805)**
Balance at June 30, 2017	**$ 100,000**	**$ 15,836**	**$ 399,493**	**$ 855,055**	**$ 1,370,384**

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. Our accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the six months ended June 30, 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).

On July 1, 2017, 1st Farm Credit Services, ACA, AgStar Financial Services, ACA, and Badgerland Financial, ACA merged. The merged association will operate under the name of Compeer Financial, ACA with the headquarters located in Sun Prairie, Wisconsin. See Note 9 for further discussion of the merger.

The Consolidated Financial Statements present the consolidated financial results of AgStar Financial Services, ACA and its subsidiaries AgStar Financial Services, FLCA and AgStar Financial Services, 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 non-U.S. Securities Exchange Commission filers for annual reporting periods beginning after December 15, 2020, including interim periods within those annual periods. 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 public entities for annual reporting periods beginning after December 15, 2018, including interim periods within that 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 public entities for annual reporting periods beginning after December 15, 2017, including interim periods within that year. Early adoption is permitted for only a portion of the guidance, but the guidance does not apply to the Financial Statements. 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 public entities for the first interim reporting period within the annual reporting periods beginning after December 15, 2017. 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 HELD TO MATURITY AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	June 30, 2017		December 31, 2016	
	Amount	%	Amount	%
Real estate mortgage	**$ 4,177,750**	**50.4%**	$ 4,054,633	49.7%
Production and intermediate term	**1,909,603**	**23.0%**	2,019,030	24.8%
Agribusiness	**1,346,320**	**16.2%**	1,200,684	14.7%
Other	**861,744**	**10.4%**	878,088	10.8%
Total	**$ 8,295,417**	**100.0%**	$ 8,152,435	100.0%

The other category is primarily comprised of energy, communication, rural residential real estate, and agricultural export finance related loans, as well as finance and conditional sales leases and bonds originated under our mission related investment authority.

Credit Quality

We utilize the Farm Credit Administration (FCA) Uniform Classification System to categorize loans into five credit quality categories. The categories are:

- Acceptable – loans are non-criticized loans representing the highest quality. They are expected to be fully collectible. This category is further differentiated into various probabilities of default.
- Other assets especially mentioned (Special Mention) – are currently collectible but exhibit some potential weakness. These loans involve increased credit risk, but not to the point of justifying a substandard classification.
- Substandard – loans exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – loans exhibit similar weaknesses as substandard loans. Doubtful loans have additional weaknesses in existing factors, conditions, and values that make collection in full highly questionable.
- Loss – loans are considered uncollectible.

We had no loans categorized as loss at June 30, 2017, or December 31, 2016.

Credit Quality of Loans

(dollars in thousands)	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of June 30, 2017	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 3,916,187**	**92.8%**	**$ 163,875**	**3.9%**	**$ 139,145**	**3.3%**	**$ 4,219,207**	**100.0%**
Production and intermediate term	**1,733,039**	**89.9%**	**107,349**	**5.6%**	**87,262**	**4.5%**	**1,927,650**	**100.0%**
Agribusiness	**1,340,898**	**99.3%**	**4,980**	**0.4%**	**3,787**	**0.3%**	**1,349,665**	**100.0%**
Other	**818,752**	**94.8%**	**16,324**	**1.9%**	**28,463**	**3.3%**	**863,539**	**100.0%**
Total	**$ 7,808,876**	**93.4%**	**$ 292,528**	**3.5%**	**$ 258,657**	**3.1%**	**$ 8,360,061**	**100.0%**

As of December 31, 2016	Acceptable Amount	%	Special Mention Amount	%	Substandard/ Doubtful Amount	%	Total Amount	%
Real estate mortgage	$ 3,844,164	94.0%	$ 116,011	2.8%	$ 131,021	3.2%	$ 4,091,196	100.0%
Production and intermediate term	1,867,608	91.7%	88,035	4.3%	81,030	4.0%	2,036,673	100.0%
Agribusiness	1,189,413	98.8%	4,621	0.4%	9,598	0.8%	1,203,632	100.0%
Other	828,007	94.1%	36,453	4.1%	15,898	1.8%	880,358	100.0%
Total	$ 7,729,192	94.1%	$ 245,120	3.0%	$ 237,547	2.9%	$ 8,211,859	100.0%

Note: Accruing loans include accrued interest receivable.

Delinquency

Aging Analysis of Loans

(in thousands) **As of June 30, 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	**$ 18,598**	**$ 5,852**	**$ 24,450**	**$ 4,194,757**	**$ 4,219,207**	**$ 271**
Production and intermediate term	**13,218**	**10,643**	**23,861**	**1,903,789**	**1,927,650**	**1,020**
Agribusiness	**--**	**283**	**283**	**1,349,382**	**1,349,665**	**--**
Other	**1,811**	**2,043**	**3,854**	**859,685**	**863,539**	**121**
Total	**$ 33,627**	**$ 18,821**	**$ 52,448**	**$ 8,307,613**	**$ 8,360,061**	**$ 1,412**

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	$ 11,554	$ 10,614	$ 22,168	$ 4,069,028	$ 4,091,196	$ 97
Production and intermediate term	8,608	10,844	19,452	2,017,221	2,036,673	577
Agribusiness	1,359	55	1,414	1,202,218	1,203,632	--
Other	2,920	2,117	5,037	875,321	880,358	64
Total	$ 24,441	$ 23,630	$ 48,071	$ 8,163,788	$ 8,211,859	$ 738

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:	**June 30 2017**	December 31 2016
Volume with specific allowance	**$ 9,546**	$ 8,731
Volume without specific allowance	**51,897**	77,285
Total risk loans	**$ 61,443**	$ 86,016
Total specific allowance	**$ 3,883**	$ 3,218
For the six months ended June 30	**2017**	2016
Income on accrual risk loans	**$ 584**	$ 520
Income on nonaccrual loans	**5,337**	2,897
Total income on risk loans	**$ 5,921**	$ 3,417
Average risk loans	**$ 76,631**	$ 75,863

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 June 30, 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.

TDR Activity

(in thousands) Six months ended June 30	**2017**		2016	
	Pre-modification	Post-modification	Pre-modification	Post-modification
Production and intermediate term	**$ 230**	**$ 229**	$ 781	$ 778
Agribusiness	**--**	**--**	69	69
Total	**$ 230**	**$ 229**	$ 850	$ 847

Pre-modification represents the outstanding recorded investment of the loan just prior to restructuring and post-modification represents the outstanding recorded investment of the loan immediately following the restructuring. 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 types of modification included extension of maturity and deferral of principal.

We had TDRs in the production and intermediate term loan category of $35 thousand and $229 thousand that defaulted during the six months ended June 30, 2017, and 2016, respectively in which the modifications were within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:	**June 30 2017**	December 31 2016
Accrual status:		
Real estate mortgage	**$ 11,580**	$ 14,765
Production and intermediate term	**417**	1,322
Agribusiness	**--**	--
Other	**--**	8,330
Total TDRs in accrual status	**$ 11,997**	$ 24,417
Nonaccrual status:		
Real estate mortgage	**$ 1,222**	$ 1,399
Production and intermediate term	**1,408**	3,004
Agribusiness	**65**	67
Other	**76**	84
Total TDRs in nonaccrual status	**$ 2,771**	$ 4,554
Total TDRs:		
Real estate mortgage	**$ 12,802**	$ 16,164
Production and intermediate term	**1,825**	4,326
Agribusiness	**65**	67
Other	**76**	8,414
Total TDRs	**$ 14,768**	$ 28,971

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.

Additional commitments to lend to borrowers whose loans have been modified in a TDR were $1.8 million at June 30, 2017.

Allowance for Loan Losses

Changes for Allowance for Loan Losses

(in thousands) Six months ended June 30	**2017**	2016
Balance at beginning of period	**$ 36,018**	$ 27,071
Provision for loan losses	**3,598**	4,356
Loan recoveries	**662**	704
Loan charge-offs	**(398)**	(562)
Balance at end of period	**$ 39,880**	$ 31,569

NOTE 3: INVESTMENT IN AGRIBANK, FCB

Effective July 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 Association growth in excess of a targeted growth rate, if the District is also growing above a targeted growth rate. From January 1 to June 30, 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 $185.4 million at June 30, 2017, and $180.8 million at December 31, 2016.

NOTE 4: INVESTMENT SECURITIES

We had held-to-maturity investment securities of $460.4 million at June 30, 2017, and $473.2 million at December 31, 2016. Our investment securities consisted of:

- Mortgage-backed securities (MBS) issued by the Federal Agricultural Mortgage Corporation (Farmer Mac) or guaranteed by the Small Business Administration (SBA) or by the United States Department of Agriculture (USDA)
- Asset-backed securities (ABS) guaranteed by SBA or USDA
- Municipal revenue bonds and corporate debt security (Bonds)

The investment securities have been classified as held-to-maturity. MBS are generally longer-term investments and ABS are generally shorter-term investments. Farmer Mac guaranteed investments are typically MBS while SBA and USDA guaranteed investments may be comprised of either MBS or ABS. All of our held-to-maturity investment securities, except $9.1 million and $6.9 million, were fully guaranteed by Farmer Mac, SBA, or USDA at June 30, 2017, and December 31, 2016, respectively.

Additional Held-to-Maturity Investment Securities Information

(dollars in thousands) **As of June 30, 2017**	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
MBS	**$ 425,812**	**$ 1,103**	**$ (9,250)**	**$ 417,665**	**3.9%**
ABS	**25,498**	**--**	**(1,621)**	**23,877**	**1.7%**
Bonds	**9,134**	**1**	**(136)**	**8,999**	**5.6%**
Total	**$ 460,444**	**$ 1,104**	**$ (11,007)**	**$ 450,541**	**3.8%**

As of December 31, 2016	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
MBS	$ 431,592	$ 951	$ (12,223)	$ 420,320	3.8%
ABS	34,784	--	(2,105)	32,679	1.7%
Bonds	6,872	2	(255)	6,619	6.3%
Total	$ 473,248	$ 953	$ (14,583)	$ 459,618	3.6%

Investment income is recorded in “Interest income” in the Consolidated Statements of Income and totaled $8.1 million and $8.0 million for the six months ended June 30, 2017, and 2016, respectively.

Contractual Maturities of Held-to-Maturity Investment Securities

(in thousands) **As of June 30, 2017**	Amortized Cost
Less than one year	**$ 4,998**
One to five years	**24,056**
Five to ten years	**55,172**
More than ten years	**376,218**
Total	**$ 460,444**

A summary of investments in an unrealized loss position presented by the length of time the investments have been in continuous unrealized loss position follows:

(in thousands)	Less than 12 months		Greater than 12 months	
As of June 30, 2017	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
MBS	**$ 211,148**	**$ (2,975)**	**$ 80,452**	**$ (6,275)**
ABS	**4,737**	**(323)**	**19,115**	**(1,298)**
Bonds	**4,780**	**(136)**	**--**	**--**
Total	**$ 220,665**	**$ (3,434)**	**$ 99,567**	**$ (7,573)**
	Less than 12 months		Greater than 12 months	
As of December 31, 2016	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
MBS	$ 121,060	$ (3,912)	$ 206,792	$ (8,311)
ABS	4,492	(342)	27,650	(1,763)
Bonds	--	--	4,661	(255)
Total	$ 125,552	$ (4,254)	$ 239,103	$ (10,329)

Unrealized losses greater than 12 months associated with held-to-maturity investment securities are not considered to be other-than-temporary due to the 100% guarantee of the principal by Farmer Mac, SBA, or USDA. However, the premiums paid to purchase the investment are not guaranteed and are amortized over the maturity of each loan on a straight-line basis as a reduction of interest income. Repayment of principal is assessed at least quarterly, and any remaining unamortized premium is taken as a reduction to interest income if principal repayment is unlikely, or when a demand for payment is made for the guarantee. At June 30, 2017, the majority of the $7.6 million unrealized loss greater than 12 months represents unamortized premium.

We had available-for-sale investment securities, consisting of MBS, with an amortized cost and fair value of $22.3 million and the contractual maturities were more than 10 years at June 30, 2017. We had no outstanding available-for-sale investment securities at December 31, 2016.

Additional Available-for-Sale Investment Securities Information

Six months ended June 30	**2017**	2016
Proceeds from sales	**$ 28,751**	$ 49,002
Realized (losses) gains on sales, net	**(481)**	408

The investment portfolio is evaluated for other-than-temporary impairment. To date, we have not recognized any impairment on our investment portfolio.

NOTE 5: OTHER INVESTMENTS

We and other Farm Credit Institutions are among the limited partners for a $154.5 million Rural Business Investment Company (RBIC), Advantage Capital Agribusiness Partners, L.P., established in October 2014. The RBIC facilitates equity and debt investments in agriculture-related businesses that create growth and job opportunities in rural America. Our total commitment is $20.0 million through October 2019. Our investment in the RBIC is recorded in “Other assets” in the Consolidated Statements of Condition, and totaled $10.8 million at June 30, 2017, and $7.5 million at December 31, 2016.

We and other Farm Credit Institutions are among the limited partners for a $31.3 million RBIC, Innova Ag Innovation Fund IV, L.P., established in April 2017. Our total commitment is $2.0 million, which ends on the fourth anniversary of the initial closing date, unless extended to the fifth anniversary. Our investment in the RBIC is recorded in “Other assets” in the Consolidated Statements of Condition, and totaled $45 thousand at June 30, 2017.

The investments were evaluated for impairment. To date, we have not recognized any impairment on this investment.

NOTE 6: EQUITY

Regulatory Capitalization Requirements

Select Capital Ratios

	As of June 30, 2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:				
Common equity tier 1 ratio	**11.8%**	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**13.0%**	6.0%	2.5%*	8.5%
Total capital ratio	**13.4%**	8.0%	2.5%*	10.5%
Permanent capital ratio	**13.3%**	7.0%	0.0%	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	**13.1%**	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**8.4%**	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, with some modifications, to align with the new regulations.

Risk-adjusted assets have been defined by 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 origination 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 (not all items below may be applicable to our Association):

- 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 June 30, 2017, or December 31, 2016.

Refer to Note 11 in our 2016 Annual Report for a more complete description of the ratios effective as of December 31, 2016.

In 2016, our Board of Directors passed a resolution which modified the form of patronage that can be allocated and/or distributed. Patronage can be allocated and/or distributed in the form of cash, qualified written notices of allocation, and/or nonqualified written notices of allocation. In 2017, we have begun to accrue cash patronage distributions according to a prescribed formula approved by the Board of Directors. The patronage distributions are expected to be paid in cash during the first quarter after year end.

Effective July 1, 2017, the bylaws of Compeer Financial, ACA took effect reflecting the merger. Changes impacting stockholders include the increase in preferred stock authorization ($500 million), the inclusion of the capital equalization plan from the merger agreement, which determines the ordering of allocated equity retirements, conforming changes to the capital bylaws, changes to Board of Directors make-up and voting, and other changes as voted on by stockholders on April 7, 2017.

NOTE 7: 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. However, management cannot ensure that such actions or other contingencies will not arise in the future.

NOTE 8: 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.

Recurring

The following represents a summary of the assets, valuation techniques, and inputs used to measure fair value on a recurring basis:

Loans held for sale: The loans held for sale portfolio is held at fair value. Fair value is based on quoted market prices, where available, or the prices for other similar mortgage loans with similar characteristics. As necessary, these prices are adjusted for typical securitization activities, including servicing value, portfolio composition, market conditions, and liquidity. We had loans held for sale of $29.1 million and $27.4 million as of June 30, 2017, and December 31, 2016, respectively, which were valued using Level 3 inputs. Total fair value gains related to these loans of $254 thousand and $343 thousand for the six months ended June 30, 2017, and 2016, respectively, were recognized in “Fee and miscellaneous income, net” in the Consolidated Statements of Income.

Investment securities available-for-sale: Investment securities available-for-sale are held at fair value. Fair value is based on quoted market prices, where available, or the prices for other similar securities with similar characteristics. As necessary, these prices are adjusted for typical securitization activities, including servicing value, portfolio composition, market conditions, and liquidity. We had available-for-sale investments securities of $22.3 million at June 30, 2017, which were valued using Level 3 inputs. We had no outstanding available-for-sale investment securities at December 31, 2016. During the six months ended June 30, 2017, we sold available-for-sale investment securities with total sales proceeds of $28.8 million, resulting in a loss of $481 thousand, which was recognized in “Fee and miscellaneous income, net” in the Consolidated Statements of Income. During the six months ended June 30, 2016, we sold available-for-sale investment securities with total sales proceeds of $49.0 million, resulting in a gain of $408 thousand, which was recognized in “Fee and miscellaneous income, net” in the Consolidated Statements of Income.

Derivatives: If an active market exists, the fair value of our derivative financial instruments called TBAs is based on currently quoted market prices. We had TBAs with a notional value of $72.8 million and $34.5 million as of June 30, 2017, and December 31, 2016, respectively, which were used to manage exposure to interest rate risk and changes in the fair value of loans held for sale and the interest rate lock commitments that are determined prior to funding. We also used these instruments to hedge the changes in fair value related to investment securities available-for-sale. These derivatives were recorded on a net basis using Level 1 fair value inputs. Net losses related to TBAs sold, combined with fair value gains on the TBAs, resulted in a net loss of $493 thousand for the six months ended June 30, 2017, compared to a net loss of $1.4 million for the same period of 2016. These were included in “Fee and miscellaneous income, net” in the Consolidated Statements of Income.

Non-Recurring

We may also be required, from time to time, to measure certain assets at fair value on a non-recurring basis. The following represents a summary of the assets, valuation techniques, and inputs used to measure fair value on a non-recurring basis:

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.

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)	**As of June 30, 2017**				**Six months ended June 30, 2017**
	Fair Value Measurement Using			Total Fair	Total (Losses)
	Level 1	Level 2	Level 3	Value	Gains
Impaired loans	**$ --**	**$ 891**	**$ 5,055**	**$ 5,946**	**$ (694)**
Other property owned	**--**	**--**	**1,347**	**1,347**	**33**

	As of December 31, 2016				Six months ended June 30, 2016
	Fair Value Measurement Using			Total Fair	Total (Losses)
	Level 1	Level 2	Level 3	Value	Gains
Impaired loans	$ --	$ 821	$ 4,969	$ 5,790	$ (2,667)
Other property owned	--	--	1,022	1,022	48

NOTE 9: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 8, 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, except for the merger of 1st Farm Credit Services, ACA (1st FCS), AgStar Financial Services, ACA (AgStar), and Badgerland Financial, ACA (Badgerland).

On July 1, 2017, the Association merged operations with 1st FCS and Badgerland. All shareholders of 1st FCS and Badgerland received capital stock in AgStar in exchange for their stock which was then canceled. This exchange was made at the stock's par value. The Association's regulator, the Farm Credit Administration, issued amended charters for the newly renamed merged association encompassing the territories previously served by the separate associations.

The merger was accounted for under the acquisition method of accounting in accordance with the FASB Accounting Standards Codification 805 Business Combinations (ASC 805). As the acquirer, AgStar recognized the identifiable assets acquired and liabilities assumed in the merger at their respective fair values. There is no goodwill that is expected to be recorded in connection with the transaction. The fair values are based on various assumptions that management believes are reasonable utilizing information currently available.