AgStar Financial Services, 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 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:

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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 FCA, in the third quarter of 2016, and the FCA granted preliminary approval in February 2017. On April 7, 2017, our stockholders approved the proposed merger. The FCA is expected to provide final approval for the merger in the second quarter of 2017 assuming no valid petition for reconsideration is filed by stockholders. The merger effective date will be July 1, 2017, and the merged Association will operate under the name of Compeer Financial with the headquarters located in Sun Prairie, Wisconsin.

1st Farm Credit Services, ACA serves the northern 42 counties of Illinois. Badgerland Financial, ACA serves the southern 33 Wisconsin counties; and AgStar Financial Services, ACA serves 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 May 1, 2017, the Board of Directors of 1st Farm Credit Services, ACA, AgStar Financial Services, ACA, and Badgerland Financial, ACA have approved to operate under joint management where AgStar's CEO, Rod Hebrink, will serve as CEO of all three associations.

On April 7, 2017, our stockholders voted to approve amending our capital bylaws to increase our ability to issue preferred stock up to $500.0 million, inclusive of our existing preferred stock. This authority is relative to our existing bylaw approval of $250.0 million. Future issuances, if any, are subject to Board approval and certain regulatory approvals.

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

Economic and agricultural conditions have shown very little change in the first quarter of 2017. We serve many sectors in agriculture including our primary industries of grain, swine, and dairy. Additionally, we serve the rural housing, energy, and food processing and distribution segments. Credit quality and delinquencies remained stable during the quarter with improvement in nonaccrual volume. Prospects are more challenging, particularly for grain producers.

While many clients enjoy large equity positions, tight margins are taking their toll on client financial positions. Expectation is for future deterioration particularly if lower grain prices persist beyond 2017. Nonetheless, the quality of the crop portfolio continues to be strong at 95.8% non-adverse.

As of April 11, 2017, United States Department of Agriculture (USDA) projected 2016/17 U.S. corn production at 15.1 billion bushels, equal to its March projection and up 11.4% from the estimate for the 2015/16 marketing year. Projected average yields are 174.6 bushels per acre. The 2016/17 season-average corn price received by producers is projected at $3.25 to $3.55 per bushel compared to an estimated $3.61 for the 2015/16 period. The USDA is currently projecting 2016/17 soybean production at 4.3 billion bushels, 9.7% higher than 2015/16 estimated levels, with yield per harvested acre of a record 52.1 bushels. The 2016/17 season-average soybean price is projected at $9.40 to $9.70 per bushel compared to an estimated $8.95 per bushel in 2015/16.

More favorable growing conditions within our territory, coupled with generally favorable conditions in the broader Corn Belt, led to strong 2016 production from grain producers. In areas of southern Minnesota, for example, estimated corn and soybean yields well exceeded 200 and 60 bushels per acre, respectively. Nevertheless, weakness in national spot prices kept margins for grain producers narrow, and will likely remain narrow in 2017 based on current expectations and futures prices.

U.S. corn growers expect to plant 90.0 million acres of corn this coming year, according to the March 2017 Prospective Plantings report of the USDA's National Agricultural Statistics Service (NASS), down 4% from last year. Plantings are expected to be down in 38 of the 48 states that estimate. Minnesota and Wisconsin expected plantings are expected at 95% and 99% of 2016, respectively. U.S. soybean growers expect to plant 89.5 million acres of soybeans, a record high and a 7% increase from 2016. Specifically, Minnesota growers expect to be at 109% of 2016 soybean plantings whereas Wisconsin expects to be at 110%.

Hog margins were unfavorable for much of 2016, with fourth quarter returns particularly depressed. Nevertheless, the quality of the swine portfolio remains very strong at 98.0% non-adverse. As of March, there were 71.0 million hogs and pigs on U.S. farms, up 4% from a year ago, but down 1% since December according to the Quarterly Hogs and Pigs report published by NASS. Hog producers intend to farrow 3.0 million sows during the March to May 2017 quarter, up 1% from the same period a year ago. The first quarter of 2017 saw the spot price for lean hogs fall significantly from the mid to upper $70 range to below $70 currently. The protracted strength of the U.S. dollar has had more limited impact on exports than originally expected. USDA pork exports for 2016 are modestly higher compared to 2015, and forecasts for 2017 were higher still in April despite a near decade high price of the dollar. The April USDA forecast for pork exports has risen 5.2% since October coinciding with a 1.4% increase in the U.S. Dollar Index over the same time period.

In the dairy sector, the USDA milk production forecast for 2017 at 217.3 billion pounds is 2.3% higher than 2016, and reports that milk production across the country is expected lower by 35 pounds per cow. The effects of ongoing tight margins are encouraging producers to cull more aggressively while discouraging additional herd expansion. Tight processor capacity is resulting in lower basis payments, particularly in the Upper Midwest. Declining expectations for milk prices continued into 2017 as tight processor capacity and high cow numbers worked its way through the system. The USDA estimates an average price received by farmers for all milk of $17.40 to $17.90 per cwt in 2017, below the previous forecast in March, and up slightly from the $16.24 received in 2015. USDA's Farm Service Agency announced a February 2017 Margin Protection Program-Dairy Margin of about $10.82 per cwt, up slightly from December 2016. At a dairy margin of $8 or less, government insurance payments are possible depending on the level of coverage chosen by the dairy producer. We expect many dairy operators will be around break-even in 2017 unless the spot price of milk materially improves. The quality of the dairy portfolio declined modestly from 94.6% non-adverse at year end to 94.0% at March 31.

After years of steady increase, farm land values in our area have moderated and declined slightly in some areas; and are expected to continue to moderate as we progress through 2017 in response to lower commodity prices. According to a USDA August 2016 survey, cropland values in Minnesota declined 1.0% compared to the August 2015 survey. 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 rent. According to a survey done by AgriBank, cash rents in Minnesota declined by 6.1% in 2016.

Our rural home mortgage portfolio credit quality remains strong. The economy continues to generate a number of positive economic signals for the housing market. Home ownership in the U.S. is now 63.7% which is just off 50 year lows. According to the CoreLogic HPI, home prices nationwide increased by 6.9% year over year in January 2017 and forecasts prices will rise 4.8% over the following 12 months. Additionally, reports from the twelve Federal Reserve Districts suggest that national economic activity continued to expand in late February and March, and the U.S. Bureau of Labor Statistics reported that the national unemployment rate declined to 4.5%. 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 $8.1 billion at March 31, 2017, a decrease of $82.9 million from December 31, 2016. The decrease was primarily due to seasonality in our production agriculture sectors, partially offset by an increase in net participations purchased.

Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2016. Adversely classified loans increased to 3.2% of the portfolio at March 31, 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. The 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 March 31, 2017, $670.1 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	March 31 2017	December 31 2016
Loans:		
Nonaccrual	**$ 51,195**	$ 60,861
Accruing restructured	**15,852**	24,417
Accruing loans 90 days or more past due	**6,157**	738
Total risk loans	**73,204**	86,016
Other property owned	**1,137**	840
Total risk assets	**$ 74,341**	$ 86,856
Total risk loans as a percentage of total loans	**0.9%**	1.0%
Nonaccrual loans as a percentage of total loans	**0.6%**	0.7%
Current nonaccrual loans as a percentage of total nonaccrual loans	**55.4%**	54.4%
Total delinquencies as a percentage of total loans	**0.8%**	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 and cattle portfolios. Nonaccrual loans remained at an acceptable level at March 31, 2017, and December 31, 2016.

The decrease in accruing restructured loans was primarily the result of refinancing the loans of a certain communications account.

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 cattle 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.

The increase in total delinquencies as a percentage of total loans was the result of financial stress in both the grain and dairy portfolios. Delinquencies may continue to increase if lower prices persist.

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	**0.5%**	0.4%
Nonaccrual loans	**73.4%**	59.2%
Total risk loans	**51.3%**	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 March 31, 2017.

LOANS HELD FOR SALE

We originate loans held for sale under our RuraLiving® program, a rural residential mortgage program designed to provide qualified borrowers with additional 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 March 31, 2017, the volume in this program was $18.4 million, a $9.0 million decrease from December 31, 2016. The decrease was the result of loans being sold to and securitized by a third party investor and partially offset by loans held for sale being originated.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the three months ended March 31	2017	2016
Net income	**$ 36,137**	$ 27,246
Return on average assets	**1.6%**	1.3%
Return on average equity	**10.9%**	8.8%

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	**$ 56,222**	$ 50,737	**$ 5,485**
Provision for loan losses	**1,330**	2,104	**774**
Patronage income	**7,552**	5,904	**1,648**
Other income, net	**10,604**	10,321	**283**
Operating expenses	**32,105**	34,877	**2,772**
Provision for income taxes	**4,806**	2,735	**(2,071)**
Net income	**$ 36,137**	$ 27,246	**$ 8,891**

Changes in Net Interest Income

(in thousands) For the three months ended March 31	2017 vs 2016
Changes in volume	**$ 2,975**
Changes in interest rates	**(2,428)**
Changes in asset securitization	**54**
Changes in nonaccrual income and other	**4,884**
Net change	**$ 5,485**

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 further 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 three months ended March 31, 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 on our note payable increased due to a higher patronage rate compared to the prior year.

We originated rural home loans for resale into the secondary market. We sold loans in the secondary market totaling $10.7 million through March 31, 2017, compared to $10.0 million for the same period in 2016. The fee income from this activity totaled $228 thousand for the three months ended March 31, 2017, compared to $238 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 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 September 30, 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 equity increased $27.0 million from December 31, 2016, primarily due to net income for the period partially offset by accrued redemptions of nonqualified patronage allocations, patronage distribution accruals, and preferred stock dividend accruals.

Farm Credit Administration (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 March 31, 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

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 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 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.

Kaye Compart
Chairperson of the Board
AgStar Financial Services, ACA

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

Jase L. Wagner
Chief Financial Officer
AgStar Financial Services, ACA

May 5, 2017

CONSOLIDATED STATEMENTS OF CONDITION

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

As of:		**March 31 2017**		December 31 2016
ASSETS				
Loans held to maturity	**$**	**8,069,542**	$	8,152,435
Allowance for loan losses		**37,578**		36,018
Net loans held to maturity		**8,031,964**		8,116,417
Loans held for sale		**18,362**		27,370
Net loans		**8,050,326**		8,143,787
Unrestricted cash		**2,200**		2,200
Investment securities (including $29,116 and $0 at fair value)		**493,576**		473,248
Assets held for lease, net		**37,864**		36,598
Accrued interest receivable		**61,961**		64,904
Investment in AgriBank, FCB		**184,476**		180,812
Premises and equipment, net		**17,369**		17,633
Other property owned		**1,137**		840
Deferred tax assets, net		**942**		--
Other assets		**60,098**		60,645
Total assets	**$**	**8,909,949**	$	8,980,667
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**7,479,401**	$	7,590,254
Accrued interest payable		**34,799**		31,954
Deferred tax liabilities, net		**--**		125
Patronage distribution payable		**7,227**		--
Other liabilities		**46,014**		42,866
Total liabilities		**7,567,441**		7,665,199
Contingencies and commitments (Note 7)				
EQUITY				
Preferred stock		**100,000**		100,000
Capital stock and participation certificates		**15,835**		15,934
Allocated surplus		**399,741**		441,122
Unallocated surplus		**826,932**		758,412
Total equity		**1,342,508**		1,315,468
Total liabilities and equity	**$**	**8,909,949**	$	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)

For the period ended March 31	Three Months Ended 2017	Three Months Ended 2016
Interest income	**$ 91,021**	$ 81,914
Interest expense	**34,799**	31,177
Net interest income	**56,222**	50,737
Provision for loan losses	**1,330**	2,104
Net interest income after provision for loan losses	**54,892**	48,633
Other income		
Patronage income	**7,552**	5,904
Net operating lease income	**397**	378
Financially related services income	**4,629**	5,003
Fee and miscellaneous income, net	**5,578**	4,940
Total other income	**18,156**	16,225
Operating expenses		
Salaries and employee benefits	**21,494**	23,936
Farm Credit System insurance	**2,817**	2,796
Other operating expenses	**7,794**	8,145
Total operating expenses	**32,105**	34,877
Income before income taxes	**40,943**	29,981
Provision for income taxes	**4,806**	2,735
Net income	**$ 36,137**	$ 27,246

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	--	--	--	27,246	27,246
Net surplus allocated under nonqualified patronage program	--	--	13,883	(13,883)	--
Redemption of prior year allocated patronage	--	--	(223)	--	(223)
Preferred stock dividend	--	--	--	(1,688)	(1,688)
Capital stock and participation certificates issued	--	292	--	--	292
Capital stock and participation certificates retired	--	(323)	--	--	(323)
Balance at March 31, 2016	$ 100,000	$ 16,054	$ 420,418	$ 715,966	$ 1,252,438
Balance at December 31, 2016	$ 100,000	$ 15,934	$ 441,122	$ 758,412	$ 1,315,468
Net income	**--**	**--**	**--**	**36,137**	**36,137**
Transfer of allocated surplus to unallocated surplus	**--**	**--**	**(41,286)**	**41,286**	**--**
Redemption of prior year allocated patronage	**--**	**--**	**(95)**	**12**	**(83)**
Preferred stock dividend	**--**	**--**	**--**	**(1,688)**	**(1,688)**
Unallocated surplus designated for patronage distributions	**--**	**--**	**--**	**(7,227)**	**(7,227)**
Capital stock and participation certificates issued	**--**	**332**	**--**	**--**	**332**
Capital stock and participation certificates retired	**--**	**(431)**	**--**	**--**	**(431)**
Balance at March 31, 2017	**$ 100,000**	**$ 15,835**	**$ 399,741**	**$ 826,932**	**$ 1,342,508**

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).

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 FCA, in the third quarter of 2016, and the FCA granted preliminary approval in February 2017. On April 7, 2017, our stockholders approved the proposed merger. The FCA is expected to provide final approval for the merger in the second quarter of 2017 assuming no valid petition for reconsideration is filed by stockholders. Effective May 1, 2017, all three boards have approved to operate under joint management where AgStar's CEO, Rod Hebrink, will serve as CEO of all three associations. The merger effective date will be July 1, 2017, and the merged Association will operate under the name of Compeer Financial with the headquarters located in Sun Prairie, Wisconsin.

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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.

Standard	Description	Effective date and financial statement impact
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 with 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.
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 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:	**March 31, 2017**			December 31, 2016		
		Amount	%		Amount	%
Real estate mortgage	**$**	**4,089,370**	**50.7%**	$	4,054,633	49.7%
Production and intermediate term		**1,816,513**	**22.5%**		2,019,030	24.8%
Agribusiness		**1,296,662**	**16.1%**		1,200,684	14.7%
Other		**866,997**	**10.7%**		878,088	10.8%
Total	**$**	**8,069,542**	**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 March 31, 2017 or December 31, 2016.

Credit Quality of Loans

(dollars in thousands)	Acceptable			Special Mention			Substandard/ Doubtful			Total		
As of March 31, 2017		Amount	%		Amount	%		Amount	%		Amount	%
Real estate mortgage	**$**	**3,858,467**	**93.5%**	**$**	**128,651**	**3.1%**	**$**	**140,011**	**3.4%**	**$**	**4,127,129**	**100.0%**
Production and intermediate term		**1,657,604**	**90.5%**		**89,849**	**4.9%**		**84,508**	**4.6%**		**1,831,961**	**100.0%**
Agribusiness		**1,290,763**	**99.3%**		**4,869**	**0.4%**		**4,652**	**0.3%**		**1,300,284**	**100.0%**
Other		**824,734**	**95.0%**		**14,639**	**1.7%**		**29,191**	**3.3%**		**868,564**	**100.0%**
Total	**$**	**7,631,568**	**93.9%**	**$**	**238,008**	**2.9%**	**$**	**258,362**	**3.2%**	**$**	**8,127,938**	**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 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	**$ 19,789**	**$ 13,038**	**$ 32,827**	**$ 4,094,302**	**$ 4,127,129**	**$ 3,861**
Production and intermediate term	**15,886**	**10,272**	**26,158**	**1,805,803**	**1,831,961**	**2,278**
Agribusiness	**--**	**941**	**941**	**1,299,343**	**1,300,284**	**--**
Other	**2,067**	**2,444**	**4,511**	**864,053**	**868,564**	**18**
Total	**$ 37,742**	**$ 26,695**	**$ 64,437**	**$ 8,063,501**	**$ 8,127,938**	**$ 6,157**

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:	**March 31 2017**	December 31 2016
Volume with specific allowance	**$ 9,238**	$ 8,731
Volume without specific allowance	**63,966**	77,285
Total risk loans	**$ 73,204**	$ 86,016
Total specific allowance	**$ 3,192**	$ 3,218
For the three months ended March 31	**2017**	2016
Income on accrual risk loans	**$ 341**	$ 252
Income on nonaccrual loans	**4,021**	1,368
Total income on risk loans	**$ 4,362**	$ 1,620
Average risk loans	**$ 82,072**	$ 69,957

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 $106 thousand and $242 thousand during the three months ended March 31, 2017, and 2016, respectively. Our recorded investment in these loans immediately following the restructuring was $106 thousand and $236 thousand 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 types of modification included extension of maturity and deferral of principal.

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

(in thousands)		**2017**		2016
Production and intermediate term	**$**	**89**	$	136
Agribusiness		**67**		--
Total	**$**	**156**	$	136

TDRs Outstanding

(in thousands) As of:		**March 31 2017**		December 31 2016
Accrual status:				
Real estate mortgage	**$**	**14,663**	$	14,765
Production and intermediate term		**1,189**		1,322
Agribusiness		**--**		--
Other		**--**		8,330
Total TDRs in accrual status	**$**	**15,852**	$	24,417
Nonaccrual status:				
Real estate mortgage	**$**	**1,278**	$	1,399
Production and intermediate term		**1,393**		3,004
Agribusiness		**67**		67
Other		**80**		84
Total TDRs in nonaccrual status	**$**	**2,818**	$	4,554
Total TDRs:				
Real estate mortgage	**$**	**15,941**	$	16,164
Production and intermediate term		**2,582**		4,326
Agribusiness		**67**		67
Other		**80**		8,414
Total TDRs	**$**	**18,670**	$	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 $1.7 million 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	**$**	**36,018**	$	27,071
Provision for loan losses		**1,330**		2,104
Loan recoveries		**386**		412
Loan charge-offs		**(156)**		(161)
Balance at end of period	**$**	**37,578**	$	29,426

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 $184.5 million at March 31, 2017, and $180.8 million at December 31, 2016.

NOTE 4: INVESTMENT SECURITIES

We had held-to-maturity investment securities of $464.5 million at March 31, 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 $7.8 million and $6.9 million, were fully guaranteed by Farmer Mac, SBA, or USDA at March 31, 2017, and December 31, 2016, respectively.

Additional Held-to-Maturity Investment Securities Information

(dollars in thousands) **As of March 31, 2017**	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
MBS	**$ 424,837**	**$ 895**	**$ (11,169)**	**$ 414,563**	**3.9%**
ABS	**31,788**	**--**	**(1,973)**	**29,815**	**2.6%**
Bonds	**7,835**	**2**	**(200)**	**7,637**	**5.6%**
Total	**$ 464,460**	**$ 897**	**$ (13,342)**	**$ 452,015**	**3.9%**

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 $4.1 million for the three months ended March 31, 2017, and 2016.

Contractual Maturities of Held-to-Maturity Investment Securities

(in thousands) **As of March 31, 2017**	Amortized Cost
Less than one year	**$ 830**
One to five years	**28,239**
Five to ten years	**61,731**
More than ten years	**373,660**
Total	**$ 464,460**

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 March 31, 2017	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
MBS	**$ 202,029**	**$ 3,637**	**$ 119,509**	**$ 7,532**
ABS	**5,189**	**338**	**24,601**	**1,635**
Bonds	**--**	**--**	**4,717**	**200**
Total	**$ 207,218**	**$ 3,975**	**$ 148,827**	**$ 9,367**

	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 March 31, 2017, the majority of the $9.4 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 $29.1 million and the contractual maturities were more than 10 years at March 31, 2017. We had no outstanding available-for-sale investment securities at December 31, 2016.

Additional Available-for-Sale Investment Securities Information

Three months ended March 31	**2017**	2016
Proceeds from sales	**$ --**	$ 21,495
Realized (losses) gains on sales, net	**(1)**	265

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) established on October 3, 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 $8.5 million at March 31, 2017, and $7.5 million at December 31, 2016.

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

We and other Farm Credit Institutions have committed to another RBIC limited partnership, which has aggregate capital commitments of $31.3 million. Our total commitment is $2.0 million, which ends on the fourth anniversary of the initial closing date, unless extended to the fifth anniversary. The commitment to this RBIC has been approved by the governing bodies of the various partners and was approved by the USDA in April 2017.

NOTE 6: 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	**11.7%**	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**12.8%**	6.0%	2.5%*	8.5%
Total capital ratio	**13.2%**	8.0%	2.5%*	10.5%
Permanent capital ratio	**13.2%**	7.0%	0.0%	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	**12.9%**	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**8.1%**	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 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:

- 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 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.

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 $18.4 million and $27.4 million as of March 31, 2017, and December 31, 2016, respectively, which were valued using Level 3 inputs. Total fair value gains related to these loans of $35 thousand and $379 thousand for the three months ended March 31, 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 $29.1 million at March 31, 2017, which were valued using Level 3 inputs. We had no outstanding available-for-sale investment securities at December 31, 2016. We had no sales of available-for-sale investment securities during the three months ended March 31, 2017. During the three months ended March 31, 2016, we sold available-for-sale investment securities with total sales proceeds of $21.5 million, resulting in a gain of $265 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 $60.5 million and $34.5 million as of March 31, 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 $126 thousand for the three months ended March 31, 2017, compared to $799 thousand 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 March 31, 2017				Three months ended March 31, 2017
	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Impaired loans	**$ --**	**$ 814**	**$ 5,534**	**$ 6,348**	**$ 34**
Other property owned	**--**	**--**	**1,380**	**1,380**	**(7)**

	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	$ --	$ 821	$ 4,969	$ 5,790	$ (527)
Other property owned	--	--	1,022	1,022	31

NOTE 9: SUBSEQUENT EVENTS

We have evaluated subsequent events through May 5, 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 joint management agreement between 1st Farm Credit Services, ACA, AgStar Financial Services, ACA, and Badgerland Financial ACA.

Effective May 1, 2017, the Board of Directors of 1st Farm Credit Services, ACA, AgStar Financial Services, ACA, and Badgerland Financial, ACA have approved to operate under joint management where AgStar's CEO, Rod Hebrink, will serve as CEO of all three associations.