Badgerland Financial, 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 Badgerland Financial, ACA and its subsidiaries Badgerland Financial, FLCA and Badgerland Financial, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2016 (2016 Annual Report).

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

Badgerland Financial, ACA
1430 North Ridge Drive
Prairie du Sac, WI 53578
(877) 780-6410
www.badgerlandfinancial.com
Greg.Rufsvold@badgerlandfinancial.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 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. All three boards approved a transition plan and AgStar's CEO, Rod Hebrink, was named CEO of all three associations effective May 1, 2017. 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.

Badgerland Financial, ACA serves the southern 33 Wisconsin counties; 1st Farm Credit Services, ACA serves the northern 42 counties of Illinois; 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.

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

Similar to a year ago, we are experiencing cool temperatures and wet soil conditions. As a result, there has been very limited field work through the first half of April. As conditions improve, field work will begin in earnest.

Current cash prices for corn are approximately $3.36 per bushel (bu). Cash prices for soybeans are approximately $9.00/bu. New crop corn cash prices are estimated at $3.40/bu with new crop soybeans at $9.10/bu. Futures prices for new crop corn are approximately $3.78/bu (December 2017) with soybeans at approximately $9.71/bu. (November 2017). Soybean acres are expected to increase in 2017 resulting in a reduction in corn acres which may provide some strength for corn prices later in the year. Grain producers will likely continue to have tight margins in 2017 and will need to take advantage of opportunities to lock in prices when possible.

The average class III milk price for the first quarter of 2017 was $16.49 per hundred-weight (cwt) which compares to $13.75/cwt for the same quarter last year. Calendar year 2016 averaged $14.87/cwt. Milk futures for the balance of 2017 (May-December) currently average $16.22/cwt. (all milk prices are before premiums). Milk prices have been running higher than a year ago. However, futures prices have been dropping over the past two months with some months down $2.00/cwt or more from where they were earlier this year.

Although we do not have a significant concentration in beef, this industry has faced major challenges the past two years as prices have slipped considerably resulting in negative margins.

Land values have held fairly steady in spite of the lower commodity prices. Wisconsin has been somewhat of an anomaly in the Midwest as surrounding states with a higher concentration of grain operations have seen a drop in land values from the recent highs. Competition for land by both grain and dairy operations has kept values stable in our territory. A continued weakness in commodity prices in both of these enterprises will likely lead to a softening of land values. Similar to previous quarters, there continues to be some slow improvement in the overall economic conditions throughout our territory, which should provide for some non-farm employment opportunities.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $4.1 billion at March 31, 2017, an increase of $61.9 million from December 31, 2016. The increase was primarily due to strong loan demand in our agribusiness and real estate mortgage loan volume which was partially offset by production and intermediate loan volume decreasing since December 31, 2016. Lower commodity prices have limited the demand for credit for capital purchases. There may be additional operating credit needs as the year progresses due to tighter margins.

Portfolio Credit Quality

The credit quality of our portfolio improved from December 31, 2016. Adversely classified loans decreased to 2.1% of the portfolio at March 31, 2017, from 2.2% 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.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At March 31, 2017, $134.0 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	**$ 15,355**	$ 16,891
Accruing restructured	**418**	537
Accruing loans 90 days or more past due	**1,828**	1,152
Total risk loans	**17,601**	18,580
Other property owned	**--**	--
Total risk assets	**$ 17,601**	$ 18,580
Total risk loans as a percentage of total loans	**0.4%**	0.5%
Nonaccrual loans as a percentage of total loans	**0.4%**	0.4%
Current nonaccrual loans as a percentage of total nonaccrual loans	**53.6%**	56.9%
Total delinquencies as a percentage of total loans	**0.6%**	0.5%

Note: Accruing loans include accrued interest receivable.

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

The decrease in nonaccrual loans was primarily due to payoffs of several nonaccrual status loans.

The increase in accruing loans 90 days or more past due was primarily due to certain real estate mortgage and production and intermediate term loans. Our accounting policy requires accruing loans past due 90 days to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, all accruing loans 90 days or more past due were eligible to remain in accruing status.

Allowance for Loan Losses

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

Allowance Coverage Ratios

As of:	March 31 2017	December 31 2016
Allowance as a percentage of:		
Loans	**0.2%**	0.2%
Nonaccrual loans	**64.2%**	53.8%
Total risk loans	**56.0%**	48.9%

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

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the three months ended March 31	2017	2016
Net income	**$ 20,159**	$ 18,676
Return on average assets	**1.9%**	1.9%
Return on average members' equity	**9.2%**	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 three months ended March 31	2017	2016	Increase (decrease) in net income
Net interest income	**$ 24,929**	$ 24,550	**$ 379**
Provision for loan losses	**671**	335	**(336)**
Patronage income	**5,527**	4,469	**1,058**
Other income, net	**5,764**	4,938	**826**
Operating expenses	**15,721**	15,259	**(462)**
(Benefit from) income taxes	**(331)**	(313)	**18**
Net income	**$ 20,159**	$ 18,676	**$ 1,483**

Changes in Net Interest Income

(in thousands) For the three months ended March 31	2017 vs 2016
Changes in volume	**$ 1,621**
Changes in interest rates	**(1,393)**
Changes in nonaccrual income and other	**151**
Net change	**$ 379**

The change in the provision for loan losses was related to changes in loss estimates in the portfolio.

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

The change in other income was primarily the result of increased revenue in our financially related services business segment related to monthly income accruals for Multi-Peril Crop Insurance.

The change in operating expenses was primarily related to expected increases in salaries and benefits.

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

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

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

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

Total members' equity increased $15.5 million from December 31, 2016 primarily due to net income for the period, which was partially offset by patronage distribution accruals.

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

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section. Refer to Note 5 of the accompanying Consolidated Financial Statements for additional detail regarding the capital ratios effective as of March 31, 2017. Refer to Note 7 in our 2016 Annual Report for a more complete description of the ratios effective as of December 31, 2016.

CERTIFICATION

The undersigned have reviewed the March 31, 2017 Quarterly Report of Badgerland Financial, 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 W. Cade

Mark Cade
Chairperson of the Board
Badgerland Financial, ACA

Diane M Cole

Diane M. Cole
Chief Executive Officer
Badgerland Financial, ACA

Gregory Rufsvold

Gregory S. Rufsvold
Chief Financial Officer
Badgerland Financial, ACA

May 4, 2017

CONSOLIDATED STATEMENTS OF CONDITION

Badgerland Financial, ACA
(in thousands)
(Unaudited)

As of:		March 31 2017		December 31 2016
ASSETS				
Loans	**$**	**4,050,370**	$	3,988,437
Allowance for loan losses		**9,864**		9,081
Net loans		**4,040,506**		3,979,356
Investment in AgriBank, FCB		**108,373**		108,341
Accrued interest receivable		**20,158**		20,259
Other investments		**8,938**		8,938
Other assets		**47,925**		49,568
Total assets	**$**	**4,225,900**	$	4,166,462
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**3,287,251**	$	3,247,585
Accrued interest payable		**14,997**		13,392
Deferred tax liabilities, net		**656**		987
Patronage distribution payable		**4,647**		15,232
Other liabilities		**33,293**		19,746
Total liabilities		**3,340,844**		3,296,942
Contingencies and commitments (Note 6)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**8,683**		8,659
Allocated surplus		**81,430**		37,616
Unallocated surplus		**794,943**		823,245
Total members' equity		**885,056**		869,520
Total liabilities and members' equity	**$**	**4,225,900**	$	4,166,462

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

CONSOLIDATED STATEMENTS OF INCOME

Badgerland Financial, ACA
(in thousands)
(Unaudited)

	Three Months Ended	
For the period ended March 31	**2017**	2016
Interest income	**$ 39,926**	$ 36,872
Interest expense	**14,997**	12,322
Net interest income	**24,929**	24,550
Provision for loan losses	**671**	335
Net interest income after provision for loan losses	**24,258**	24,215
Other income		
Patronage income	**5,527**	4,469
Financially related services income	**4,673**	3,459
Fee income	**1,244**	1,208
Miscellaneous (loss) income, net	**(153)**	271
Total other income	**11,291**	9,407
Operating expenses		
Salaries and employee benefits	**9,438**	9,075
Other operating expenses	**6,283**	6,184
Total operating expenses	**15,721**	15,259
Income before income taxes	**19,828**	18,363
(Benefit from) income taxes	**(331)**	(313)
Net income	**$ 20,159**	$ 18,676

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Badgerland Financial, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Allocated Surplus	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2015	$ 8,527	$ --	$ 799,923	$ 808,450
Net income	--	--	18,676	18,676
Unallocated surplus designated for patronage distributions	--	--	(3,493)	(3,493)
Capital stock and participation certificates issued	143	--	--	143
Capital stock and participation certificates retired	(167)	--	--	(167)
Balance at March 31, 2016	$ 8,503	$ --	$ 815,106	$ 823,609
Balance at December 31, 2016	$ 8,659	$ 37,616	$ 823,245	$ 869,520
Net income	**--**	**--**	**20,159**	**20,159**
Net surplus allocated under nonqualified patronage program	**--**	**43,814**	**(43,814)**	**--**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(4,647)**	**(4,647)**
Capital stock and participation certificates issued	**157**	**--**	**--**	**157**
Capital stock and participation certificates retired	**(133)**	**--**	**--**	**(133)**
Balance at March 31, 2017	**$ 8,683**	**$ 81,430**	**$ 794,943**	**$ 885,056**

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 Badgerland Financial, ACA, 1st Farm Credit Services, ACA, and AgStar Financial Services, 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. All three boards approved a transition plan and AgStar's CEO, Rod Hebrink, was named CEO of all three associations effective May 1, 2017. 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.

Badgerland Financial, ACA serves the southern 33 Wisconsin counties; 1st Farm Credit Services, ACA serves the northern 42 counties of Illinois; 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.

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

Recently Issued or Adopted Accounting Pronouncements

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

Standard	Description	Effective date and financial statement impact
In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13 "Financial Instruments – Credit Losses."	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2020 and interim periods within annual periods beginning after December 15, 2021. Early adoption is permitted as of annual reporting periods beginning after December 15, 2018, including interim periods within those annual periods. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.
In February 2016, the FASB issued ASU 2016-02 "Leases."	The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2019 and interim periods the subsequent year. Early adoption is permitted and modified retrospective adoption is required. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.

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 nonpublic entities for annual reporting periods beginning after December 15, 2018 and interim periods with annual periods beginning after December 15, 2019. Certain disclosure changes are permitted to be immediately adopted for annual reporting periods that have not yet been made available for issuance. Nonpublic entities are no longer required to include certain fair value of financial instruments disclosures as part of these disclosure changes. We have immediately adopted this guidance and have excluded such disclosures from our Notes to Consolidated Financial Statements. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2017 for other applicable sections of the guidance. We are currently evaluating the impact of the remaining guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.
In May 2014, the FASB issued ASU 2014-09 “Revenue from Contracts with Customers."	The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. In March 2016, the FASB issued ASUs 2016-08 and 2016-10 which provided further clarifying guidance on the previously issued standard. We are in the process of reviewing contracts to determine the effect, if any, on our financial condition and results of operations.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	**March 31, 2017**		December 31, 2016	
	Amount	%	Amount	%
Real estate mortgage	**$ 2,213,739**	**54.6%**	$ 2,199,012	55.2%
Production and intermediate term	**974,185**	**24.1%**	1,011,038	25.3%
Agribusiness	**622,153**	**15.4%**	545,931	13.7%
Other	**240,293**	**5.9%**	232,456	5.8%
Total	**$ 4,050,370**	**100.0%**	$ 3,988,437	100.0%

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

Delinquency

Aging Analysis of Loans

(in thousands) **As of March 31, 2017**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	90 Days or More Past Due and Accruing
Real estate mortgage	**$ 8,161**	**$ 4,056**	**$ 12,217**	**$ 2,213,697**	**$ 2,225,914**	**$ 1,433**
Production and intermediate term	**7,064**	**3,510**	**10,574**	**969,922**	**980,496**	**395**
Agribusiness	**2,305**	**--**	**2,305**	**621,239**	**623,544**	**--**
Other	**388**	**--**	**388**	**240,186**	**240,574**	**--**
Total	**$ 17,918**	**$ 7,566**	**$ 25,484**	**$ 4,045,044**	**$ 4,070,528**	**$ 1,828**

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	$	9,503	$	3,841	$	13,344	$	2,197,198	$	2,210,542	$	806
Production and intermediate term		2,404		3,589		5,993		1,012,215		1,018,208		346
Agribusiness		--		--		--		547,214		547,214		--
Other		392		--		392		232,340		232,732		--
Total	$	12,299	$	7,430	$	19,729	$	3,988,967	$	4,008,696	$	1,152

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	**$**	**2,379**	$	2,752
Volume without specific allowance		**15,222**		15,828
Total risk loans	**$**	**17,601**	$	18,580
Total specific allowance	**$**	**1,326**	$	1,066
For the three months ended March 31		**2017**		2016
Income on accrual risk loans	**$**	**18**	$	23
Income on nonaccrual loans		**387**		236
Total income on risk loans	**$**	**405**	$	259
Average risk loans	**$**	**17,376**	$	17,184

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. Our recorded investment in these loans just prior to and immediately following the restructuring was $48 thousand during the three months ended March 31, 2017. There were no TDRs that occurred during the three months ended March 31, 2016. The recorded investment of the loan is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off.

The primary type of modification was extension of maturity.

We had TDRs in the production and intermediate term loan category of $33 thousand that defaulted during the three months ended March 31, 2016 and no TDRs that defaulted during the three months ended March 31, 2017 in which the modifications were within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:		March 31 2017		December 31 2016
Accrual status:				
Real estate mortgage	**$**	**411**	$	239
Production and intermediate term		**7**		298
Other		**--**		--
Total TDRs in accrual status	**$**	**418**	$	537
Nonaccrual status:				
Real estate mortgage	**$**	**138**	$	250
Production and intermediate term		**175**		135
Other		**26**		28
Total TDRs in nonaccrual status	**$**	**339**	$	413
Total TDRs:				
Real estate mortgage	**$**	**549**	$	489
Production and intermediate term		**182**		433
Other		**26**		28
Total TDRs	**$**	**757**	$	950

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

Allowance for Loan Losses

Changes for Allowance for Loan Losses

(in thousands) Three months ended March 31		2017		2016
Balance at beginning of period	**$**	**9,081**	$	11,600
Provision for loan losses		**671**		335
Loan recoveries		**129**		41
Loan charge-offs		**(17)**		(1,050)
Balance at end of period	**$**	**9,864**	$	10,926

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 $108.4 million and 108.3 million at March 31, 2017 and December 31, 2016 respectively.

NOTE 4: OTHER INVESTMENTS

We held non-controlling investments in venture capital equity funds of $8.9 million at March 31, 2017 and at December 31, 2016. These investments represent our stake in venture capital equity funds focused on the needs of rural start-up companies. Our $5.0 million commitment to these venture capital equity funds began in 2008 and was initially over a period of ten years. In 2013, we committed an additional $5.0 million over a period of ten years. We are a limited partner in the funds and these investments are valued at cost. Our remaining commitment to the funds at March 31, 2017 was $800 thousand through December 2023.

The investments were evaluated for impairment. No impairments were recognized on these investments during the three months ended March 31, 2017 or 2016. Since inception, we have received a distribution of $237 thousand as the funds sold investments. We did not receive any distributions during the three months ended March 31, 2017 or 2016.

NOTE 5: MEMBERS' EQUITY

Regulatory Capitalization Requirements

Select Capital Ratios

	As of March 31, 2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:				
Common equity tier 1 ratio	**15.7%**	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**15.7%**	6.0%	2.5%*	8.5%
Total capital ratio	**16.0%**	8.0%	2.5%*	10.5%
Permanent capital ratio	**17.4%**	7.0%	0.0%	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	**17.0%**	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**17.8%**	1.5%	0.0%	1.5%

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums will be phased in over three years under the FCA capital requirements.

Effective January 1, 2017, the regulatory capital requirements for Farm Credit System Banks and associations were modified. The new regulations replaced existing core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio continues to remain in effect.

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

- Inclusion of off-balance-sheet commitments with terms at 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 7 in our 2016 Annual Report for a more complete description of the ratios effective as of December 31, 2016.

NOTE 6: 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 7: FAIR VALUE MEASUREMENTS

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

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

Non-Recurring

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

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)	**As of March 31, 2017**				**Three months ended March 31, 2017**
	Fair Value Measurement Using			Total Fair	Total
	Level 1	Level 2	Level 3	Value	(Losses)
Impaired loans	**$ --**	**$ 1,075**	**$ 30**	**$ 1,105**	**$ (277)**
Other property owned	**--**	**--**	**--**	**--**	**--**

	As of December 31, 2016				Three months ended March 31, 2016
	Fair Value Measurement Using			Total Fair	Total
	Level 1	Level 2	Level 3	Value	(Losses)
Impaired loans	$ --	$ 1,719	$ 51	$ 1,770	$ (302)
Other property owned	--	--	--	--	(41)

Valuation Techniques

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

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

NOTE 8: SUBSEQUENT EVENTS

We have evaluated subsequent events through May 4, 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 and AgStar's CEO, Rod Hebrink, will serve as CEO of all three associations.