1st FARM CREDIT SERVICES
YOUR FIRST CHOICE

Quarterly Report
March 31, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of 1st Farm Credit Services, ACA and its subsidiaries 1st Farm Credit Services, FLCA and 1st Farm Credit 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 members' investment. To request free copies of the AgriBank or the AgriBank District financial reports or additional copies of our report, contact us at:

1st Farm Credit Services, ACA
2000 Jacobssen Drive
Normal, IL 61761
(309) 268-0100
www.1stfarmcredit.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. 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.

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

Illinois farmers and ranchers began preparation for planting; activities included fixing equipment, tilling fields, and applying anhydrous ammonia. According to the United States Department of Agriculture (USDA) Illinois Crop Progress and Condition report, topsoil moisture conditions statewide were rated 89% adequate to surplus, down 7% from the same period last year.

According to the Prospective Plantings report released by the USDA's National Agricultural Statistics Service (NASS), Illinois farmers intend to plant 11.3 million acres of corn for all purposes in 2017, down 3% from 2016. Across the United States, corn growers intend to plant 90.0 million acres in 2017, down 4% from 2016.

According to the Prospective Plantings report released by NASS, Illinois soybean producers intend to plant 10.2 million acres, up 1% from last year. Producers across the United States intend to plant an estimated 89.5 million acres of soybeans in 2017, up 7% from last year.

According to the Wall Street Journal, cash corn prices in Central Illinois at March 31, 2017 were $3.39 per bushel, down $0.03 per bushel compared to one year ago. Lower prices will continue to benefit our livestock producers through lower feed costs. Soybean prices for the same period were $9.11 per bushel, up $0.19 per bushel.

According to the March 2017 USDA Hogs and Pigs Report, as of March 1, in the United States the number of hogs and pigs were 71.0 million, up 4% from March 2016, but down 1% from December 1, 2016. The average pigs saved per litter was a record high of 10.43 for the December-February period, compared to 10.30 last year.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $5.5 billion at March 31, 2017, a decrease of $16.2 million from December 31, 2016. The decrease was primarily due to a decline in our commercial loan portfolio.

Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2016. Adversely classified loans decreased to 1.5% of the portfolio at March 31, 2017, from 1.6% of the portfolio at December 31, 2016. Adversely classified loans are loans with well-defined credit weakness. 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, $490.2 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	**$26,574**	$29,989
Accruing restructured	**849**	761
Accruing loans 90 days or more past due	**817**	3,263
Total risk loans	**28,240**	34,013
Other property owned	**568**	568
Total risk assets	**$28,808**	$34,581
Total risk loans as a percentage of total loans	**0.5%**	0.6%
Nonaccrual loans as a percentage of total loans	**0.5%**	0.5%
Current nonaccrual loans as a percentage of total nonaccrual loans	**22.3%**	28.2%
Total delinquencies as a percentage of total loans	**0.7%**	0.6%

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.

Nonaccrual loans remained at an acceptable level at March 31, 2017 and December 31, 2016.

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

Allowance for Loan Losses

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

Allowance Coverage Ratios

As of:	**March 31 2017**	December 31 2016
Allowance as a percentage of:		
Loans	**0.3%**	0.3%
Nonaccrual loans	**66.5%**	58.2%
Total risk loans	**62.5%**	51.3%

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	**$24,138**	$22,337
Return on average assets	**1.6%**	1.6%
Return on average members' equity	**9.0%**	9.0%

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	**$31,720**	$30,688	**$1,032**
Provision for (reversal of) loan losses	**99**	(460)	**(559)**
Patronage income	**5,671**	4,775	**896**
Other income, net	**3,679**	2,519	**1,160**
Operating expenses	**16,568**	15,707	**(861)**
Provision for income taxes	**265**	398	**133**
Net income	**$24,138**	$22,337	**$1,801**

Changes in Net Interest Income

(in thousands) For the three months ended March 31	**2017 vs 2016**
Changes in volume	**$1,977**
Changes in interest rates	**(1,186)**
Changes in nonaccrual income and other	**241**
Net change	**$1,032**

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

The change in other income was primarily related to an increase in financially related services income.

The change in operating expenses was primarily related to an increase in salaries and employee benefits expense.

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 November 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 members' equity increased $19.3 million from December 31, 2016 primarily due to net income for the period partially offset by patronage distribution accruals**.**

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

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section. Refer to Note 5 of the accompanying Consolidated Financial Statements for additional detail regarding the capital ratios effective as of March 31, 2017. Refer to Note 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 1st Farm Credit 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.

Jeffrey Austman
Chairperson of the Board
1st Farm Credit Services, ACA

Gary J. Ash
President and Chief Executive Officer
1st Farm Credit Services, ACA

Doug Kridner
Chief Financial Officer
1st Farm Credit Services, ACA

May 4, 2017

CONSOLIDATED STATEMENTS OF CONDITION

1st Farm Credit Services, ACA
(in thousands)
(Unaudited)

As of:	**March 31 2017**	December 31 2016
ASSETS		
Loans	**$5,494,145**	$5,510,383
Allowance for loan losses	**17,659**	17,455
Net loans	**5,476,486**	5,492,928
Investment in AgriBank, FCB	**130,770**	128,937
Investment securities	**281,259**	237,564
Accrued interest receivable	**45,376**	48,352
Other property owned	**568**	568
Other assets	**45,669**	49,357
Total assets	**$5,980,128**	$5,957,706
LIABILITIES		
Note payable to AgriBank, FCB	**$4,854,723**	$4,826,565
Accrued interest payable	**21,034**	18,958
Patronage distribution payable	**4,828**	19,522
Other liabilities	**14,654**	27,023
Total liabilities	**4,895,239**	4,892,068
Contingencies and commitments (Note 6)		
MEMBERS' EQUITY		
Capital stock and participation certificates	**9,848**	9,907
Allocated surplus	**115,000**	52,412
Unallocated surplus	**960,041**	1,003,319
Total members' equity	**1,084,889**	1,065,638
Total liabilities and members' equity	**$5,980,128**	$5,957,706

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

CONSOLIDATED STATEMENTS OF INCOME

1st Farm Credit Services, ACA
(in thousands)
(Unaudited)

	Three Months Ended	
For the period ended March 31	**2017**	2016
Interest income	**$52,754**	$48,130
Interest expense	**21,034**	17,442
Net interest income	**31,720**	30,688
Provision for (reversal of) loan losses	**99**	(460)
Net interest income after provision for (reversal of) loan losses	**31,621**	31,148
Other income		
Patronage income	**5,671**	4,775
Financially related services income	**2,696**	444
Fee income	**1,131**	1,790
Miscellaneous (loss) income, net	**(148)**	285
Total other income	**9,350**	7,294
Operating expenses		
Salaries and employee benefits	**11,079**	10,290
Other operating expenses	**5,489**	5,417
Total operating expenses	**16,568**	15,707
Income before income taxes	**24,403**	22,735
Provision for income taxes	**265**	398
Net income	**$24,138**	$22,337

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

1st Farm Credit Services, ACA
(in thousands)
(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Allocated Surplus	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2015	$8	$10,025	$ --	$977,679	$987,712
Net income	--	--	--	22,337	22,337
Unallocated surplus designated for patronage distributions	--	--	--	(4,631)	(4,631)
Capital stock and participation certificates issued	--	168	--	--	168
Capital stock and participation certificates retired	(1)	(192)	--	--	(193)
Balance at March 31, 2016	$7	$10,001	$ --	$995,385	$1,005,393
Balance at December 31, 2016	$ --	$9,907	$52,412	$1,003,319	$1,065,638
Net income	--	**--**	**--**	**24,138**	**24,138**
Net surplus allocated under nonqualified patronage program	--	**--**	**62,588**	**(62,588)**	**--**
Unallocated surplus designated for patronage distributions	--	**--**	**--**	**(4,828)**	**(4,828)**
Capital stock and participation certificates issued	--	**202**	**--**	**--**	**202**
Capital stock and participation certificates retired	--	**(261)**	**--**	**--**	**(261)**
Balance at March 31, 2017	**$ --**	**$9,848**	**$115,000**	**$960,041**	**$1,084,889**

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).

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 where 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.

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.

The Consolidated Financial Statements present the consolidated financial results of 1st Farm Credit Services, ACA and its subsidiaries 1st Farm Credit Services, FLCA and 1st Farm Credit 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 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	**$2,929,140**	**53.4%**	$2,918,207	53.0%
Commercial	**2,002,588**	**36.4%**	2,040,256	37.0%
Other	**562,417**	**10.2%**	551,920	10.0%
Total	**$5,494,145**	**100.0%**	$5,510,383	100.0%

The Other category is primarily comprised of communication, energy, and agricultural export finance related loans and purchased government guaranteed loans and bonds originated under the 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	**$3,066**	**$4,272**	**$7,338**	**$2,948,089**	**$2,955,427**	**$185**
Commercial	**12,524**	**13,577**	**26,101**	**1,991,995**	**2,018,096**	**87**
Other	**3,381**	**546**	**3,927**	**560,013**	**563,940**	**545**
Total	**$18,971**	**$18,395**	**$37,366**	**$5,500,097**	**$5,537,463**	**$817**

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	$3,282	$4,699	$7,981	$2,934,808	$2,942,789	$ --
Commercial	1,364	15,367	16,731	2,044,285	2,061,016	46
Other	3,939	3,217	7,156	546,230	553,386	3,217
Total	$8,585	$23,283	$31,868	$5,525,323	$5,557,191	$3,263

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	**$6,817**	$6,614
Volume without specific allowance	**21,423**	27,399
Total risk loans	**$28,240**	$34,013
Total specific allowance	**$3,693**	$3,369
For the three months ended March 31	**2017**	2016
Income on accrual risk loans	**$16**	$22
Income on nonaccrual loans	**667**	425
Total income on risk loans	**$683**	$447
Average risk loans	**$29,851**	$30,087

Note: Accruing loans include accrued interest receivable.

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 commercial loans during the three months ended March 31, 2017. Our recorded investment in these loans just prior to and immediately following the restructuring was $575 thousand during the three months ended March 31, 2017. 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. There were no TDRs completed during the three months ended March 31, 2016.

The primary type of modification was extension of maturity.

We had TDRs in the commercial loan category of $34 thousand that defaulted during the three months ended March 31, 2016 in which the modifications were within twelve months of the respective reporting period. There were no TDRs that defaulted during the three months ended March 31, 2017 in which the modification was within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:	**March 31 2017**	December 31 2016
Accrual status:		
Real estate	**$841**	$753
Commercial	**8**	8
Total TDRs in accrual status	**$849**	$761
Nonaccrual status:		
Real estate	**$2,318**	$2,322
Commercial	**9,030**	10,396
Total TDRs in nonaccrual status	**$11,348**	$12,718
Total TDRs:		
Real estate	**$3,159**	$3,075
Commercial	**9,038**	10,404
Total TDRs	**$12,197**	$13,479

Additional commitments to lend to borrowers whose loans have been modified in a TDR were $287 thousand 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	**$17,455**	$17,998
Provision for (reversal of) loan losses	**99**	(460)
Loan recoveries	**113**	45
Loan charge-offs	**(8)**	(155)
Balance at end of period	**$17,659**	$17,428

NOTE 3: INVESTMENT IN AGRIBANK, FCB

Effective January 1, 2017, we were required by AgriBank to maintain an investment equal to the lesser of 4.0% of our average quarterly balance of our note payable to AgriBank or a multiple component calculation based on a percentage of average wholesale loan balances with a higher percentage on balances above a sustainable growth rate and includes a component for additional investments under the asset pool program. The current component requirements are currently 2.25% of the average quarterly balance of our note payable, with an additional 4.5% 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 $130.8 million at March 31, 2017 and $128.9 million at December 31, 2016.

NOTE 4: INVESTMENT SECURITIES

We held investment securities of $281.3 million at March 31, 2017 and $237.6 million at December 31, 2016. Our investment securities consisted of loans fully guaranteed by the Small Business Administration (SBA) and mortgage-backed securities issued by the Federal Agricultural Mortgage Corporation (Farmer Mac).

The investment securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. To date, we have not recognized any impairment on our investment portfolio.

Our investments are either mortgage-backed securities (MBS), which are generally longer-term investments, or asset-backed securities (ABS), which are generally shorter-term investments. Farmer Mac guaranteed investments are typically MBS while SBA guaranteed investments are comprised of ABS.

Additional Investment Securities Information

(dollars in thousands) **As of March 31, 2017**	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
MBS	**$186,695**	**$ --**	**($6,585)**	**$180,110**	**3.5%**
ABS	**94,564**	**1,753**	**(184)**	**96,133**	**2.4%**
Total	**$281,259**	**$1,753**	**($6,769)**	**$276,243**	**3.1%**

As of December 31, 2016	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
MBS	$136,060	$ --	($7,242)	$128,818	3.5%
ABS	101,504	2,080	(184)	103,400	2.1%
Total	$237,564	$2,080	($7,426)	$232,218	2.9%

Investment income is recorded in "Interest income" in the Consolidated Statements of Income and totaled $2.0 million and $703 thousand for the three months ended March 31, 2017 and 2016, respectively.

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	**15.0%**	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**15.0%**	6.0%	2.5%*	8.5%
Total capital ratio	**15.6%**	8.0%	2.5%*	10.5%
Permanent capital ratio	**16.6%**	7.0%	0.0%	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	**14.9%**	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**15.6%**	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	
	Level 1	Level 2	Level 3	Value	Total Losses
Impaired loans	**$ --**	**$135**	**$3,145**	**$3,280**	**($332)**
Other property owned	**--**	**--**	**591**	**591**	**--**

	As of December 31, 2016				Three months ended March 31, 2016
	Fair Value Measurement Using			Total Fair	
	Level 1	Level 2	Level 3	Value	Total Gains
Impaired loans	$ --	$135	$3,272	$3,407	$99
Other property owned	--	--	591	591	--

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.