AgCountry Farm Credit 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 AgCountry Farm Credit Services, ACA and its subsidiaries AgCountry Farm Credit Services, FLCA and AgCountry 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:

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MERGER ACTIVITY

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

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

World Gross Domestic Product (GDP) is projected to grow 3.2% in 2017 compared to 2.6% in 2016. Global economic growth in 2016 was relatively static due to lower commodity prices, weakening currency valuations for emerging market economies, slower growth in China, and uneven rates of growth in developed economies around the world. Emerging Asia's economy is projected to expand 5.8% in 2017 compared to 6.0% in 2016. Growth is expected to remain relatively flat for 2017 due to softer global demand for many export dependent economies. Although still experiencing high levels of growth, the Chinese economy is expected to grow at a slower rate than in the past due to the government's willingness to keep struggling state-owned enterprises afloat and the misallocation of capital to less dynamic firms. Latin America's economy is projected to rebound in 2017 with growth of 1.3% compared to a contraction of 1.2% in 2016. Latin America's economy remained in a recession in 2016 primarily due to recessions in Argentina, Brazil, and Venezuela. Recent reforms in Argentina have improved its outlook for 2017 and although concerns exist regarding Brazil, some improvement in the Brazil economy is expected in 2017. The United Kingdom (UK) vote to leave the European Union (EU) is expected to slow growth for other EU countries, particularly those that have close trading relationships with the UK. The European Union's GDP is projected to grow 2.0% in 2017 compared to 1.9% in 2016.

U.S. GDP is projected to grow 3.0% in 2017 compared to 1.6% in 2016. Growth in 2016 was impacted by weak foreign demand and a strong dollar putting pressure on exports. The strength of the U.S. dollar is expected to continue to affect competitiveness of U.S. exports in 2017. In determining 2017 growth, analysts are watching the new presidential administration to determine which policies advocated during the campaign will be pursued. Inflation is expected to increase slowly with a rate of 1.3% in 2016 and 2.2% in 2017. Household spending has continued to rise moderately while business fixed investment appears to have firmed.

The Federal Reserve decided to raise the target range for the federal funds rate 0.25%, to 0.75% to 1.00% during its March 2017 meeting. The Federal Reserve expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate. The federal funds rate is likely to remain below levels that are expected to prevail in the longer run for some time. In determining the timing and size of future adjustments to the target range for the federal funds rate, the Federal Reserve will assess realized and expected economic conditions relative to its objectives of maximum employment and 2.00% inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. The unemployment rate has been relatively static during the fourth quarter of 2016 through the first quarter of 2017, with an estimated unemployment rate (seasonally adjusted) of 4.70% in February 2017. Inflation has increased in recent quarters but is still below the Federal Reserve's 2.00% objective. The Federal Reserve's economic projections released during the December 2016 meeting projected three 0.25% rate increases in 2017 and three rate increases in 2018 with year-end target average rates of 1.38% and 2.13%, respectively.

Net farm income for 2016 is projected to decrease 17.2% from 2015 to $66.9 billion. If realized, net farm income for 2016 would be the lowest since 2009. The decrease in net farm income is primarily due to lower crop and livestock receipts, but production expenses are expected to ease the reduction in profitability. Production expenses are projected to decrease 2.6% in 2016 and are primarily driven by less spending on livestock/poultry purchases, fertilizer, and fuel. Hired labor and property taxes/fees will partially offset the reduction in expenses. Farm asset values are projected to decline 2.1% in 2016 due to the value of farm real estate, animal and animal product inventories, financial assets, and machinery.

Specific Production Conditions

Corn, soybeans, sugar beets, and wheat are the primary cash crops produced in our territory. A summary of each crop is presented below, along with a summary of the cattle, hog, dairy, and ethanol industries.

Corn: According to the March 2017 United States Department of Agriculture (USDA) Prospective Plantings Report, U.S. planted corn acres for 2017 are expected to be 90 million acres, representing a 4% decrease from the prior year. Corn acres are expected to decrease or remain unchanged in 38 of the 48 estimating states. Corn acres for 2017 are projected to decrease 5% in Minnesota and 4% in North Dakota. Corn stocks in all positions on March 1, 2017, increased 10% from the prior year to 8.6 billion bushels. The March 2017 USDA World Agricultural Supply and Demand Estimates (WASDE) projected the average U.S. farm price for corn at $3.20 to $3.60 per bushel.

Soybeans: According to the March 2017 USDA Prospective Plantings Report, U.S. planted soybean acres for 2017 are projected to increase 7% from the prior year to 89.5 million acres. Compared with last year, planted acreage intentions increased or remained unchanged in 27 of the 31 estimating states. Soybean acres for 2017 are projected to increase 9% in Minnesota and to increase 14% in North Dakota. Soybean stocks in all positions on March 1, 2017, increased 13% from the prior year to 1.7 billion bushels. The March 2017 USDA WASDE projected the average U.S. farm price for soybeans at $9.30 to $9.90 per bushel.

Sugar Beets: Sugar beet processing in the Red River Valley is nearing completion with processing of the large crop expected to end in late May or early June. After experiencing some pile deterioration last year, the local processors have made capital investments to improve storage. U.S. sugar beet acreage for 2017 is expected to decrease 2.5% from the prior year to 1,134,800 acres. Planted acres in Minnesota and North Dakota for 2017 are expected to decrease 2.2% from the prior year to 636,000 acres.

The Suspension Agreements with Mexico established in 2014 have not worked as intended over the past two years. Mexico has continued to export raw cane sugars into the U.S. The sugar imports have caused U.S. refined sugar prices to decrease. In March 2017, Mexico cancelled certain shipments of sugar into the U.S. indicating they realized a miscalculation in the amount and kind of sugar they could import. U.S. raw sugar prices have since rebounded from earlier in the year. Public perceptions regarding food derived from genetically-modified organisms (GMO) could work against the beet sugar industry, which has a high percentage of sugar from GMO sugar beets. With an ongoing shift towards foods that are non-GMO there is an increased demand for non-GMO cane sugar. Although scientific studies have shown sugar from GMO beets is chemically no different than sugar from non-GMO sugarcane, negative public perception of GMO products continues.

Wheat: The March 2017 Prospective Plantings Report estimated all wheat acres for 2017 to decrease 8% from the prior year to 46.1 million acres representing the lowest total planted area for the United States since records began in 1919. Winter wheat planted acres are projected to decrease 9% from 2016 to 32.7 million acres. The 2017 spring wheat planted acres are projected to decrease 3% from 2016 to 11.3 million acres. Minnesota all wheat acres for 2017 are projected to decrease 1% from the prior year and North Dakota all wheat acres for 2017 are projected to decrease 13% from the prior year. The March 2017 USDA WASDE projected the average U.S. farm price for wheat at $3.80 to $3.90 per bushel.

Cattle: U.S. beef production increased approximately 6% in 2016 and exceeded 2015 production by nearly 1.5 billion pounds. The increase in production is the largest in both percentage and volume since the mid-1970s, when the cattle herd was at record inventory levels. The 2016 trend of larger beef production, smaller imports, and larger export is expected to be repeated in 2017. The beef herd continues to grow, providing for prospects of larger beef production into the latter part of the decade. Smaller feedlot placements in late summer and early fall were followed by large year-over-year increases in November and December. Feedlot placements in January 2017 were also up 11% year-over-year largely due to concerns over pasture availability in the Southwest and Southern Plains States. Feeder cattle prices bottomed in October 2016 and the rebound from that bottom has stalled a bit in January and February. First quarter 2017 feeder cattle prices are projected to average from $127 to $131 per cwt.

Hogs: According to the March 2017 USDA Livestock Outlook, U.S. inventory of all hogs and pigs on March 1, 2017, was 71.0 million head. The inventory was 4% higher than the prior year but down 1% from December 1, 2016. Breeding inventory increased 1% from the prior year and was 6.1 million head on March 1, 2017. Market hog inventory increased 4% from the prior year to 64.9 million head.

For the first 2 months of 2017, pork production is estimated to be greater than a year ago with increased supplies of slaughter-ready hogs and heavier carcass weights. Most pork products are selling at year-over-year higher wholesale prices implying an increased demand for pork. Current data suggests that both domestic and foreign demand is robust for 2017. Hog prices in the first quarter of 2017 are expected to average about 13% higher prices than the prior year at $50 to $51 per cwt. Prices in the second quarter of 2017 are expected to average $45 to $47 per cwt primarily due to the increase in pork production.

Dairy: According to the March 2017 USDA Dairy Outlook, U.S. milk production for 2017 increased to 217.5 billion pounds as milk cow numbers are expected to increase. The import forecast for the year on milk-fat basis is unchanged at 6.6 billion pounds. Exports on a milk-fat basis are projected to be 8.3 billion pounds in 2017, the same as last month's forecast. The domestic use forecast on a milk-fat basis is 214.6 billion pounds for the year, a reduction of 0.1 billion pounds from the previous estimate. The estimate for stocks at year end on a milk-fat basis is unchanged at 14.3 billion pounds. The all-milk price forecast for 2017 is projected to be $17.80 to $18.40 per cwt. Class III milk price is forecast at $16.60 to $17.20 per cwt and the Class IV milk price is forecast at $14.85 to $15.55 per cwt.

Ethanol: Ethanol margins are historically lower during the first quarter of the year. Margins in the first quarter of 2017 declined as expected but remained positive for most processors. The U.S. ethanol industry started 2017 with a weekly production record of 1.05 million barrels per day for the week ending January 6 compared to average production in 2016 of 1.00 million barrels per day. In its February 2017 report the U.S. Energy Information Administration (EIA) stated it estimates ethanol production to average 1.03 million barrels per day in both 2017 and 2018. EIA also stated that ethanol consumption was about 940,000 barrels per day in 2016 and is expected to remain at these levels for 2017 and 2018.

Under the Clean Air Act, the Environmental Protection Agency (EPA) is required to set the annual standards for the Renewable Fuel Standard (RFS) program each year. On November 23, 2016, the EPA announced the final Renewable Volume Obligations (RVOs) for 2017. The final RVO for conventional ethanol (corn based) was set at 15.0 billion gallons for 2017 compared to the proposed amount of 14.8 billion gallons in May 2016. According to the EIA, the largest effect of the finalized 2017 RFS targets will be on biomass-based diesel consumption, which includes both biodiesel and renewable diesel and helps to meet the RFS targets for use of biomass-based diesel, advanced biofuel, and total renewable fuel.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $5.1 billion at March 31, 2017, an increase of $29.9 million from December 31, 2016. The increase was primarily due to growth in our agribusiness portfolio as a result of originations and increased volume in our Commercial Finance Group alliance.

Portfolio Credit Quality

The credit quality of our portfolio improved slightly from December 31, 2016. Adversely classified loans decreased to 2.8% of the portfolio at March 31, 2017, from 3.0% 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, $172.2 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	**$ 13,378**	$ 12,246
Accruing restructured	**10**	1,765
Accruing loans 90 days or more past due	**523**	59
Total risk loans	**13,911**	14,070
Other property owned	**--**	--
Total risk assets	**$ 13,911**	$ 14,070
Total risk loans as a percentage of total loans	**0.3%**	0.3%
Nonaccrual loans as a percentage of total loans	**0.3%**	0.2%
Current nonaccrual loans as a percentage of total nonaccrual loans	**60.1%**	64.9%
Total delinquencies as a percentage of total loans	**0.6%**	0.2%

Note: Accruing loans include accrued interest receivable.

Our risk assets have not changed significantly 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 increase in nonaccrual loans was primarily due to several customers moving to nonaccrual status in our production and intermediate term and real estate loan categories during the first quarter of 2017. Nonaccrual loans remained at an acceptable level at March 31, 2017, and December 31, 2016.

The decrease in accruing restructured loans 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.

The increase in accruing loans 90 days or more past due was primarily due to three loans in our production and intermediate term loan category and one loan in our real estate loan category becoming more than 90 days past due during the first quarter of 2017. Our accounting policy requires accruing loans past due 90 days or more to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, all accruing loans 90 days or more past due were eligible to remain in accruing status.

Allowance for Loan Losses

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

Allowance Coverage Ratios

As of:	**March 31 2017**	December 31 2016
Allowance as a percentage of:		
Loans	**0.3%**	0.3%
Nonaccrual loans	**107.5%**	116.6%
Total risk loans	**103.3%**	101.5%

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	**$ 20,060**	$ 21,135
Return on average assets	**1.5%**	1.6%
Return on average members' equity	**6.8%**	7.7%

Changes in the chart above relate directly to:

- Changes in income discussed below,
- Changes in assets discussed in the Loan Portfolio section, and
- 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	**$ 32,945**	$ 31,458	**$ 1,487**
(Reversal of) provision for credit losses	**(235)**	113	**348**
Patronage income	**4,831**	4,149	**682**
Other income, net	**4,637**	6,018	**(1,381)**
Operating expenses	**21,567**	19,844	**(1,723)**
Provision for income taxes	**1,021**	533	**(488)**
Net income	**$ 20,060**	$ 21,135	**$ (1,075)**

Changes in Net Interest Income

(in thousands) For the three months ended March 31	**2017 vs 2016**
Changes in volume	**$ 1,997**
Changes in interest rates	**(735)**
Changes in nonaccrual income and other	**225**
Net change	**$ 1,487**

The change in the (reversal of) provision for credit losses was primarily related to a reduction in our reserve for unfunded lending commitments. This was due to some larger agribusiness customers that paid off or were upgraded during the first quarter of 2017.

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

The change in other income was primarily related to a decline in operating lease income as we sold a significant portion of our leasing portfolio effective January 1, 2017, to Farm Credit Leasing (FCL). See further discussion in the Relationship With Other Farm Credit Institutions section. In addition, we had increased merger related expenses.

The change in operating expenses was primarily related to an increase in purchased services and salaries and employee benefit expenses.

The change in provision for income taxes was primarily related to a decrease in the estimated tax savings related to the patronage program.

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 May 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 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, and
- 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 $15.8 million from December 31, 2016, primarily due to net income for the period partially offset by patronage distribution 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 10 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.

RELATIONSHIP WITH OTHER FARM CREDIT INSTITUTIONS

Effective January 1, 2017, we sold $69.7 million of our finance lease volume and $79.0 million of our equipment/operating lease volume to FCL. We simultaneously purchased approximately 66% interest in the cash flows of the leases sold. This transaction resulted in a gain of $1.2 million during 2016 as a result of writing up the leases to fair value. On the basis of the sale agreement, the fair value of assets relating to the sale was classified as held for sale on the Consolidated Statements of Condition at December 31, 2016. This arrangement provides our members with a broad selection of product offerings and enhanced lease expertise.

CERTIFICATION

The undersigned have reviewed the March 31, 2017, Quarterly Report of AgCountry 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.

Greg Nelson
Chairperson of the Board
AgCountry Farm Credit Services, ACA

Robert C. Bahl
President/Chief Executive Officer
AgCountry Farm Credit Services, ACA

Jeremy W. Oliver
SVP Finance and Operations/CFO
AgCountry Farm Credit Services, ACA

May 4, 2017

CONSOLIDATED STATEMENTS OF CONDITION

AgCountry Farm Credit Services, ACA
(in thousands)
(Unaudited)

As of:		March 31 2017		December 31 2016
ASSETS				
Loans	**$**	**5,079,476**	$	5,049,534
Allowance for loan losses		**14,377**		14,284
Net loans held to maturity		**5,065,099**		5,035,250
Finance leases held for sale		**--**		70,356
Net loans		**5,065,099**		5,105,606
Investment in AgriBank, FCB		**111,196**		111,196
Investment securities		**7,059**		7,059
Accrued interest receivable		**48,747**		62,041
Premises and equipment, net		**35,671**		36,109
Assets held for lease, net		**17,723**		19,646
Leased assets held for sale		**--**		79,623
Other assets		**38,475**		41,190
Total assets	**$**	**5,323,970**	$	5,462,470
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**4,069,851**	$	4,201,744
Accrued interest payable		**16,414**		15,398
Deferred tax liabilities, net		**2,254**		26,211
Patronage distribution payable		**4,250**		21,000
Other liabilities		**46,730**		29,401
Total liabilities		**4,139,499**		4,293,754
Contingencies and commitments (Note 7)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**7,315**		7,370
Unallocated surplus		**1,177,156**		1,161,346
Total members' equity		**1,184,471**		1,168,716
Total liabilities and members' equity	**$**	**5,323,970**	$	5,462,470

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

CONSOLIDATED STATEMENTS OF INCOME

AgCountry Farm Credit Services, ACA
(in thousands)
(Unaudited)

	Three Months Ended	
For the period ended March 31	**2017**	2016
Interest income	**$ 49,359**	$ 45,490
Interest expense	**16,414**	14,032
Net interest income	**32,945**	31,458
(Reversal of) provision for credit losses	**(235)**	113
Net interest income after (reversal of) provision for credit losses	**33,180**	31,345
Other income		
Patronage income	**4,831**	4,149
Financially related services income	**3,268**	3,148
Fee income	**1,592**	1,651
Miscellaneous (loss) income, net	**(223)**	1,219
Total other income	**9,468**	10,167
Operating expenses		
Salaries and employee benefits	**12,525**	11,742
Other operating expenses	**9,042**	8,102
Total operating expenses	**21,567**	19,844
Income before income taxes	**21,081**	21,668
Provision for income taxes	**1,021**	533
Net income	**$ 20,060**	$ 21,135

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

AgCountry Farm Credit Services, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2015	$ 7,516	$ 1,076,726	$ 1,084,242
Net income	--	21,135	21,135
Unallocated surplus designated for patronage distributions	--	(4,000)	(4,000)
Capital stock and participation certificates issued	96	--	96
Capital stock and participation certificates retired	(148)	--	(148)
Balance at March 31, 2016	$ 7,464	$ 1,093,861	$ 1,101,325
Balance at December 31, 2016	$ 7,370	$ 1,161,346	$ 1,168,716
Net income	**--**	**20,060**	**20,060**
Unallocated surplus designated for patronage distributions	**--**	**(4,250)**	**(4,250)**
Capital stock and participation certificates issued	**91**	**--**	**91**
Capital stock and participation certificates retired	**(146)**	**--**	**(146)**
Balance at March 31, 2017	**$ 7,315**	**$ 1,177,156**	**$ 1,184,471**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

The Consolidated Financial Statements present the consolidated financial results of AgCountry Farm Credit Services, ACA and its subsidiaries AgCountry Farm Credit Services, FLCA and AgCountry 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 mortgage	**$ 1,955,276**	**38.5%**	$ 1,959,692	38.8%
Production and intermediate term	**1,544,375**	**30.4%**	1,671,230	33.1%
Agribusiness	**1,263,625**	**24.9%**	1,119,744	22.2%
Other	**316,200**	**6.2%**	298,868	5.9%
Total	**$ 5,079,476**	**100.0%**	$ 5,049,534	100.0%

The other category is primarily comprised of energy, communication, and agricultural export finance related loans, as well as finance leases.

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	**$ 5,678**	**$ 1,519**	**$ 7,197**	**$ 1,974,532**	**$ 1,981,729**	**$ 150**
Production and intermediate term	**22,304**	**3,378**	**25,682**	**1,536,510**	**1,562,192**	**373**
Agribusiness	**--**	**--**	**--**	**1,267,473**	**1,267,473**	**--**
Other	**--**	**260**	**260**	**316,556**	**316,816**	**--**
Total	**$ 27,982**	**$ 5,157**	**$ 33,139**	**$ 5,095,071**	**$ 5,128,210**	**$ 523**

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	$ 513	$ 1,315	$ 1,828	$ 1,987,776	$ 1,989,604	$ --
Production and intermediate term	5,624	1,934	7,558	1,690,657	1,698,215	59
Agribusiness	--	--	--	1,124,149	1,124,149	--
Other	482	216	698	298,897	299,595	--
Total	$ 6,619	$ 3,465	$ 10,084	$ 5,101,479	$ 5,111,563	$ 59

Note: Accruing loans include accrued interest receivable.

Risk Loans

Risk loans are loans for which all principal and interest may 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	**$ 7,655**	$ 6,180
Volume without specific allowance	**6,256**	7,890
Total risk loans	**$ 13,911**	$ 14,070
Total specific allowance	**$ 1,844**	$ 1,586
For the three months ended March 31	**2017**	2016
Income on accrual risk loans	**$ 29**	$ 47
Income on nonaccrual loans	**420**	195
Total income on risk loans	**$ 449**	$ 242
Average risk loans	**$ 21,472**	$ 15,919

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 may 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 $65 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 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. We had TDRs in the production and intermediate term loan category of $44 thousand that defaulted during the three months ended March 31, 2016, 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	$	--	$	--
Production and intermediate term		10		9
Agribusiness		--		--
Other		--		1,756
Total TDRs in accrual status	$	10	$	1,765
Nonaccrual status:				
Real estate mortgage	$	3,902	$	3,996
Production and intermediate term		285		252
Agribusiness		--		540
Other		--		--
Total TDRs in nonaccrual status	$	4,187	$	4,788
Total TDRs:				
Real estate mortgage	$	3,902	$	3,996
Production and intermediate term		295		261
Agribusiness		--		540
Other		--		1,756
Total TDRs	$	4,197	$	6,553

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

There were no 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	$	14,284	$	13,394
(Reversal of) provision for loan losses		(41)		85
Loan recoveries		145		88
Loan charge-offs		(11)		(2,090)
Balance at end of period	$	14,377	$	11,477

The “(Reversal of) provision for credit losses” in the Consolidated Statements of Income includes a (reversal of) provision for loan losses as presented in the previous chart, as well as a (reversal of) provision for credit losses on unfunded commitments. The accrued credit losses on unfunded commitments are recorded in “Other liabilities” in the Consolidated Statements of Condition.

Credit Loss Information on Unfunded Commitments

(in thousands) For the three months ended March 31		2017		2016
(Reversal of) provision for credit losses	$	(194)	$	28
As of:		March 31 2017		December 31 2016
Accrued credit losses	$	1,399	$	1,593

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.

Investment in AgriBank

(in thousands) As of:	**March 31 2017**	December 31 2016
Required stock investment	**$ 108,554**	$ 111,196
Purchased excess stock investment	**2,642**	--
Total investment	**$ 111,196**	$ 111,196

NOTE 4: INVESTMENT SECURITIES

We held investment securities of $7.1 million at March 31, 2017, and December 31, 2016. Our investment securities consisted of Agricultural and Rural Community bonds.

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 outstanding at March 31, 2017.

The amortized cost and fair value of the investment securities was $7.1 million at March 31, 2017, and December 31, 2016. The weighted average yield of the investment securities was 2.2% and 2.0% at March 31, 2017, and December 31, 2016, respectively.

Investment income is recorded in "Interest income" in the Consolidated Statements of Income and totaled $39 thousand and $34 thousand for the three months ended March 31, 2017, and 2016, respectively.

NOTE 5: OTHER INVESTMENT

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 $7.0 million through October 2019. Our investment in the RBIC is recorded in "Other assets" in the Consolidated Statements of Condition, and totaled $2.9 million at March 31, 2017, and $2.6 million at December 31, 2016.

The investment was evaluated for impairment. To date, we have not recognized any impairment on this investment. We received distributions of $87 thousand during the three months ended March 31, 2016, as the RBIC sold an investment. No distributions were made during the three months ended March 31, 2017. The distribution was a return of contributed capital and therefore reduced our recorded investment. To date, no income has been distributed from the RBIC.

NOTE 6: 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	**17.5%**	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**17.5%**	6.0%	2.5%*	8.5%
Total capital ratio	**17.8%**	8.0%	2.5%*	10.5%
Permanent capital ratio	**17.6%**	7.0%	0.0%	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	**20.4%**	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**21.1%**	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 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 10 in our 2016 Annual Report for a more complete description of the ratios effective as of December 31, 2016.

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.

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	**$ --**	**$ 2,427**	**$ 3,675**	**$ 6,102**	**$ (269)**
	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	$ --	$ 1,117	$ 3,707	$ 4,824	$ (230)

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.

NOTE 9: 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.