United FCS, ACA

Quarterly Report
June 30, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of United FCS, ACA and its subsidiaries United FCS, FLCA and United FCS, 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 merger between AgCountry Farm Credit Services, ACA and United Farm Credit Services, ACA was effective July 1, 2017. The merged entity, AgCountry Farm Credit Services, ACA, is headquartered in Fargo, ND. The merged entity now serves nearly 18,000 customers in 65 counties in Minnesota, North Dakota, and Wisconsin, and has assets over $7 billion.

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

In the Informa Economics' April 2017 Agribusiness Outlook, it states that 2017 world GDP growth is forecast at 2.9%, compared to 2.7% growth in 2016. The outlook is for improved growth in the U.S. economy of 2.3% in 2017 versus 1.6% in 2016.

The United States Department of Agriculture (USDA), in its February 2017 Farm Sector Income Forecast, is forecasting net farm income at $62.3 billion in 2017, down 8.7%. The 2017 forecast is the fourth consecutive year of declines after reaching a record high in 2013, and is the lowest net farm income since 2002, in inflation-adjusted terms. The value of total farm sector equity is forecast to decline by $51.2 billion, or 2.1%, in 2017 as farm sector assets are seen declining and debt levels increasing relative to 2016. These balance sheet changes result in declining farm solvency and liquidity measures.

The following reflect economic conditions for various commodities based on various USDA June 2017 reports, including World Agricultural Supply and Demand, Milk Supply, Sugar and Sweeteners Outlook, Livestock, Dairy and Poultry Outlook, Hogs and Pigs, and the Cold Storage.

Our portfolio's largest commodity concentrations continue to consist of cash grain, dairy, and specialty crop operations. Credit quality within these portfolios generally remains at high levels when compared to long-term historical averages. Delinquencies remain close to historically low levels mainly due to borrower's continued availability of operating funds and to a lesser extent, positive working capital positions that were built from the positive returns these sectors experienced prior to 2014.

Cash Grain-Corn/Soybeans: The USDA is projecting ending 2017/18 U.S. corn stocks at 2.1 billion bushels (bu), 8.1% less than the 2016/17 estimated ending stocks. Projected U.S. corn production for 2017/18 is 14.1 billion bu., a decrease of 7.2%. USDA is projecting a season average corn price of $3.00-$3.80/bu. USDA is projecting ending U.S. soybean stocks for 2017/18 at 480 million bu. vs. the 2016/17 estimated ending stocks of 450 million bu. USDA projects the season average soybean price of $8.30-$10.30/bu. Global soybean production for 2017/18 is projected at 344.7 million tons, 1.9% higher than the estimated 2016/17 production. Current and forecasted 2017 corn and soybean prices will likely be below break-even levels for most area

producer's based on forecasted 2017 input costs and expected average 2017 yields. The Association continues to experience a decline in credit quality in 2017 for this segment of our portfolio.

Dairy: USDA forecasts class III milk prices at $16.35 -$16.75 per hundredweight (cwt) in 2017, an increase from 2016. Milk prices increased slightly in the 2nd quarter of 2017 to the range of the upper $16/cwt to lower $17/cwt, which is generally below break-even levels for a many local dairy producers. Wisconsin shows a 0.7% decrease in May production vs. the prior year, with Minnesota production increasing 2.6% during the same time frame.

Sugar: U.S. Sugar production for 2016/17 is estimated at 8.8 million short tons, raw value (STRV), down 1.8% from 2015/16. Total U.S. ending stocks for 2016/17 are estimated to be 25.2% lower than the prior year due to lower imports. The projected outlook is for 2017/18 ending stocks to be 28.2% less than 2016/17 due to lower imports in 2016/17 and lower production in 2017/18.

General Livestock: The USDA states that export forecasts for 2018 for red meats, poultry, eggs, and dairy all register increases compared with forecasts for 2017.

The June Cold Storage report showed that frozen meat stocks were down 7.0% from the prior year and down 5.0% from the prior month. The report showed that (compared to year-ago levels), frozen beef stocks were down 11.0%, frozen pork stocks were down 4.0%, frozen chicken stocks were down 3.0%, and frozen turkey stocks were up 17.0%.

The June Hogs and Pigs report showed the June 1, 2017 U.S. hogs and pigs inventory was up 3.0% from one year ago, and down 1.0% from the prior quarter. Breeding stock inventory was up 2.0% from year-ago levels and marketing hog inventory was up 4.0% from year-ago levels. The March 2017-May 2017 pig crop was up 4.0% from year-ago levels. Sows farrowed during this period were up 3.0% from 2016. The average pigs saved per litter was a record high for the March-May period. Prices of live equivalent 51-52 percent lean hogs are expected to average $48-$52 per cwt in the second quarter, more than 8% lower than a year-ago levels. The hog industry is expected to show slight profitability in the first half of 2017.

2017 U.S. Turkey meat production is forecast to grow by 1.9% over 2016 production. Turkey prices remain below 2016 levels and have remained flat since the beginning of 2017. Low prices in 2017 indicate lower than expected demand in both domestic and export markets. Turkey prices are forecast to average below 2016 in all four quarters of 2017. This downward pressure on prices is expected to slow the pace of production growth in the second half of 2017.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.7 billion at June 30, 2017, an increase of $2.9 million from December 31, 2016. The increase was primarily due to mortgage loan growth to new and existing members and additional agribusiness segment growth, partially offset by normal term and seasonal loan repayments.

Portfolio Credit Quality

The credit quality of our portfolio showed a slight improvement from December 31, 2016. Adversely classified loans decreased to 2.2% of the portfolio at June 30, 2017, from 2.3% of the portfolio at December 31, 2016, and remains manageable and within the Association's risk bearing capacity. Adversely classified loans are loans and leases with serious contractual performance deficiencies and/or borrowers that exhibit serious weakness in repayment capacity, working capital, equity, and/or collateral. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses. Our current credit quality expectations for 2017 are less favorable than in prior years, but our credit quality is projected to remain at acceptable levels.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At June 30, 2017, $49.5 million of our loans were, to some level, guaranteed under these government programs. We also have a standby commitment program in place with Farmer Mac. At June 30, 2017, $84.4 million of our loans were, to some level, guaranteed under the Farmer Mac program.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**June 30 2017**	December 31 2016
Loans:		
Nonaccrual	**$ 12,748**	$ 13,732
Accruing restructured	**11,489**	11,643
Accruing loans 90 days or more past due	**142**	15
Total risk loans	**24,379**	25,390
Other property owned	**115**	115
Total risk assets	**$ 24,494**	$ 25,505
Total risk loans as a percentage of total loans	**1.4%**	1.5%
Nonaccrual loans as a percentage of total loans	**0.8%**	0.8%
Current nonaccrual loans as a percentage of total nonaccrual loans	**71.1%**	72.8%
Total delinquencies as a percentage of total loans	**0.4%**	0.3%

Note: Accruing loans include accrued interest receivable.

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

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

Allowance for Loan Losses

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

Allowance Coverage Ratios

As of:	**June 30 2017**	December 31 2016
Allowance as a percentage of:		
Loans	**0.3%**	0.3%
Nonaccrual loans	**36.4%**	41.9%
Total risk loans	**19.0%**	22.6%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2017.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the six months ended June 30	**2017**	2016
Net income	**$ 8,802**	$ 10,960
Return on average assets	**1.0%**	1.3%
Return on average members' equity	**5.7%**	7.5%

Changes in the chart above relate directly to:

- Changes in income discussed below
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Funding, Liquidity, and Capital section

Changes in Significant Components of Net Income

(in thousands) For the six months ended June 30	2017	2016	Increase (decrease) in net income
Net interest income	$ 21,937	$ 21,507	$ 430
(Reversal of) provision for loan losses	(1,020)	1,521	2,541
Patronage income	4,298	3,763	535
Other income, net	1,271	3,349	(2,078)
Operating expenses	18,187	15,731	(2,456)
Provision for income taxes	1,537	407	(1,130)
Net income	$ 8,802	$ 10,960	$ (2,158)

Changes in Net Interest Income

(in thousands) For the six months ended June 30	2017 vs 2016
Changes in volume	$ 225
Changes in interest rates	(15)
Changes in nonaccrual income and other	220
Net change	$ 430

The change in the (reversal of) provision for loan losses was related to our estimate of losses in our portfolio for the applicable years.

The change in other income was primarily due to merger related costs.

The change in operating expenses was primarily related to merger-related expenses and ongoing/annual budgeted base compensation adjustments.

The change in provision for income taxes was primarily related to our estimate of income taxes based on taxable income and board of director action to rescind a tax deferral resolution related to AgriBank patronage.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Pursuant to our merger with AgCountry Farm Credit Services, ACA as described in Note 7, our note payable with AgriBank was terminated effective July 1, 2017. AgCountry Farm Credit Services, ACA, the merged entity, entered into a new note payable with AgriBank on July 1, 2017, which matures on June 30, 2019. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from unallocated surplus.

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

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

We were not subject to a risk premium at June 30, 2017, or December 31, 2016.

Total members' equity increased $5.9 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 5 of the accompanying Consolidated Financial Statements for additional detail regarding the capital ratios effective as of June 30, 2017. Refer to Note 6 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 allows District Associations and AgriBank to develop and maintain long-term, cost effective technology and business services. The service entity would be owned by certain District Associations and AgriBank.

Patronage

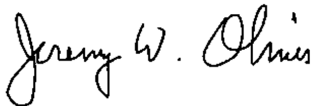
AgriBank has amended its capital plan effective July 1, 2017, to provide for adequate capital at AgriBank under the new capital regulations as well as to create a path to long-term capital optimization within the AgriBank District. The plan optimizes capital at AgriBank; distributing available AgriBank earnings in the form of patronage, either cash or stock. A key part of these changes involves maintaining capital adequacy such that sufficient earnings will be retained in the form of unallocated retained earnings and allocated stock to meet the leverage ratio target and other regulatory or policy constraints prior to any cash patronage distributions.

CERTIFICATION

The undersigned have reviewed the June 30, 2017, Quarterly Report of United FCS, 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

August 7, 2017

CONSOLIDATED STATEMENTS OF CONDITION

United FCS, ACA
(in thousands)
(Unaudited)

As of:	June 30 2017	December 31 2016
ASSETS		
Loans	**$ 1,674,017**	$ 1,671,137
Allowance for loan losses	**4,641**	5,748
Net loans	**1,669,376**	1,665,389
Investment in AgriBank, FCB	**43,973**	23,455
Accrued interest receivable	**15,813**	13,990
Other property owned	**115**	115
Assets held for lease, net	**55**	--
Deferred tax assets, net	**--**	1,019
Other assets	**27,220**	23,618
Total assets	**$ 1,756,552**	$ 1,727,586
LIABILITIES		
Note payable to AgriBank, FCB	**$ 1,423,824**	$ 1,399,907
Accrued interest payable	**6,747**	5,597
Deferred tax liabilities, net	**275**	--
Patronage distribution payable	**3,000**	6,000
Other liabilities	**11,295**	10,608
Total liabilities	**1,445,141**	1,422,112
Contingencies and commitments (Note 5)		
MEMBERS' EQUITY		
Capital stock and participation certificates	**5,037**	4,902
Unallocated surplus	**306,374**	300,572
Total members' equity	**311,411**	305,474
Total liabilities and members' equity	**$ 1,756,552**	$ 1,727,586

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

CONSOLIDATED STATEMENTS OF INCOME

United FCS, ACA
(in thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
For the period ended June 30	**2017**	2016	**2017**	2016
Interest income	**$ 17,947**	$ 16,577	**$ 35,325**	$ 32,895
Interest expense	**6,871**	5,777	**13,388**	11,388
Net interest income	**11,076**	10,800	**21,937**	21,507
(Reversal of) provision for loan losses	**(158)**	356	**(1,020)**	1,521
Net interest income after (reversal of) provision for loan losses	**11,234**	10,444	**22,957**	19,986
Other income				
Patronage income	**2,077**	1,849	**4,298**	3,763
Financially related services income	**543**	578	**1,469**	1,485
Fee income	**643**	706	**1,256**	1,369
Miscellaneous (loss) income, net	**(1,989)**	227	**(1,454)**	495
Total other income	**1,274**	3,360	**5,569**	7,112
Operating expenses				
Salaries and employee benefits	**6,960**	5,344	**12,258**	10,389
Other operating expenses	**3,218**	2,687	**5,929**	5,342
Total operating expenses	**10,178**	8,031	**18,187**	15,731
Income before income taxes	**2,330**	5,773	**10,339**	11,367
Provision for income taxes	**617**	328	**1,537**	407
Net income	**$ 1,713**	$ 5,445	**$ 8,802**	$ 10,960

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

United FCS, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2015	$ 5,045	$ 282,433	$ 287,478
Net income	--	10,960	10,960
Unallocated surplus designated for patronage distributions	--	(2,995)	(2,995)
Capital stock and participation certificates issued	171	--	171
Capital stock and participation certificates retired	(320)	--	(320)
Balance at June 30, 2016	$ 4,896	$ 290,398	$ 295,294
Balance at December 31, 2016	$ 4,902	$ 300,572	$ 305,474
Net income	**--**	**8,802**	**8,802**
Unallocated surplus designated for patronage distributions	**--**	**(3,000)**	**(3,000)**
Capital stock and participation certificates issued	**173**	**--**	**173**
Capital stock and participation certificates retired	**(38)**	**--**	**(38)**
Balance at June 30, 2017	**$ 5,037**	**$ 306,374**	**$ 311,411**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. Our accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the six months ended June 30, 2017, are not necessarily indicative of the results to be expected for the year ending December 31, 2017. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2016 (2016 Annual Report).

The merger between AgCountry Farm Credit Services, ACA and United Farm Credit Services, ACA was effective July 1, 2017. The merged entity, AgCountry Farm Credit Services, ACA, is headquartered in Fargo, ND. The merged entity now serves nearly 18,000 customers in 65 counties in Minnesota, North Dakota, and Wisconsin, and has assets over $7 billion.

The Consolidated Financial Statements present the consolidated financial results of United FCS, ACA and its subsidiaries United FCS, FLCA and United FCS, 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.
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.

Standard	Description	Effective date and financial statement impact
In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers."	The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance.	The guidance is effective for 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:	**June 30, 2017**		December 31, 2016	
	Amount	%	Amount	%
Real estate mortgage	**$ 790,398**	**47.2%**	$ 769,593	46.0%
Production and intermediate term	**502,276**	**30.0%**	542,886	32.5%
Agribusiness	**255,764**	**15.3%**	233,821	14.0%
Other	**125,579**	**7.5%**	124,837	7.5%
Total	**$ 1,674,017**	**100.0%**	$ 1,671,137	100.0%

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

Delinquency

Aging Analysis of Loans

(in thousands) **As of June 30, 2017**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	90 Days or More Past Due and Accruing
Real estate mortgage	**$ 1,728**	**$ 1,107**	**$ 2,835**	**$ 797,120**	**$ 799,955**	**$ --**
Production and intermediate term	**534**	**2,593**	**3,127**	**504,374**	**507,501**	**142**
Agribusiness	**145**	**41**	**186**	**256,416**	**256,602**	**--**
Other	**104**	**--**	**104**	**125,668**	**125,772**	**--**
Total	**$ 2,511**	**$ 3,741**	**$ 6,252**	**$ 1,683,578**	**$ 1,689,830**	**$ 142**

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	$ 1,062	$ 395	$ 1,457	$ 775,858	$ 777,315	$ --
Production and intermediate term	2,779	1,460	4,239	543,728	547,967	15
Agribusiness	--	41	41	234,648	234,689	--
Other	--	--	--	125,156	125,156	--
Total	$ 3,841	$ 1,896	$ 5,737	$ 1,679,390	$ 1,685,127	$ 15

Note: Accruing loans include accrued interest receivable.

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

Risk Loan Information

(in thousands) As of:	June 30 2017	December 31 2016
Volume with specific allowance	$ 1,136	$ 981
Volume without specific allowance	23,243	24,409
Total risk loans	$ 24,379	$ 25,390
Total specific allowance	$ 878	$ 694
For the six months ended June 30	2017	2016
Income on accrual risk loans	$ 324	$ 124
Income on nonaccrual loans	508	288
Total income on risk loans	$ 832	$ 412
Average risk loans	$ 23,620	$ 16,862

Note: Accruing loans include accrued interest receivable.

We had $3.5 million of commitments to lend additional money to borrowers whose loans were at risk at June 30, 2017.

Troubled Debt Restructurings (TDRs)

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

TDR Activity

(in thousands) Six months ended June 30	2017		2016	
	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	$ 5	$ 5	$ 59	$ 59
Production and intermediate term	1,512	1,512	6,946	7,154
Total	$ 1,517	$ 1,517	$ 7,005	$ 7,213

Pre-modification represents the outstanding recorded investment of the loan just prior to restructuring and post-modification represents the outstanding recorded investment of the loan immediately following the restructuring. The recorded investment of the loan is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off.

The primary types of modification was extension of maturity.

TDRs that Occurred Within the Previous 12 Months that Subsequently Defaulted During the Six Months Ended June 30

(in thousands)	2017	2016
Real estate mortgage	$ 384	$ --
Production and intermediate term	410	6
Total	$ 794	$ 6

TDRs Outstanding

(in thousands) As of:		June 30 2017		December 31 2016
Accrual status:				
Real estate mortgage	$	3,708	$	3,734
Production and intermediate term		7,781		6,587
Other		--		1,322
Total TDRs in accrual status	$	11,489	$	11,643
Nonaccrual status:				
Real estate mortgage	$	1,355	$	1,379
Production and intermediate term		2,597		2,808
Other		--		--
Total TDRs in nonaccrual status	$	3,952	$	4,187
Total TDRs:				
Real estate mortgage	$	5,063	$	5,113
Production and intermediate term		10,378		9,395
Other		--		1,322
Total TDRs	$	15,441	$	15,830

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

Additional commitments to lend to borrowers whose loans have been modified in a TDR were $3.2 million at June 30, 2017.

Allowance for Loan Losses

Changes for Allowance for Loan Losses

(in thousands) Six months ended June 30		2017		2016
Balance at beginning of period	$	5,748	$	4,359
(Reversal of) provision for loan losses		(1,060)		1,521
Loan recoveries		74		34
Loan charge-offs		(121)		(78)
Balance at end of period	$	4,641	$	5,836

The “(Reversal of) provision for loan 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 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 six months ended June 30		2017		2016
Provision for credit losses	$	40	$	--
As of:		June 30 2017		December 31 2016
Accrued credit losses	$	103	$	--

NOTE 3: INVESTMENT IN AGRIBANK, FCB

Effective July 1, 2017, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable, with an additional amount required on Association growth in excess of a targeted growth rate, if the District is also growing above a targeted growth rate. From January 1 to June 30, 2017, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable, with an additional amount required on growth in excess of a sustainable growth rate. Previously, the required investment was equal to 2.25% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on growth that exceeded a targeted rate.

The balance of our investment in AgriBank, all required stock, was $44.0 million at June 30, 2017, and $23.5 million at December 31, 2016.

NOTE 4: MEMBERS' EQUITY

Regulatory Capitalization Requirements

Select Capital Ratios

	As of June 30, 2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:				
Common equity tier 1 ratio	**15.2%**	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**15.2%**	6.0%	2.5%*	8.5%
Total capital ratio	**15.4%**	8.0%	2.5%*	10.5%
Permanent capital ratio	**15.2%**	7.0%	0.0%	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	**16.5%**	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**17.1%**	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, with some modifications, to align with the new regulations.

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
- Others as applicable

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 June 30, 2017, or December 31, 2016.

Refer to Note 6 in our 2016 Annual Report for a more complete description of the ratios effective as of December 31, 2016.

NOTE 5: 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.

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk not recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At June 30, 2017, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $533.6 million. Additionally, we had $8.5 million of issued standby letters of credit as of June 30, 2017.

Commitments to extend credit and letters of credit generally have fixed expiration dates or other termination clauses and we generally require payment of a fee. If commitments to extend credit and letters of credit remain unfulfilled or have not expired, they may have credit risk not recognized in the financial statements. Many of the commitments to extend credit and letters of credit will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Certain letters of credit may have recourse provisions that would enable us to recover from third parties amounts paid under guarantees, thereby limiting our maximum potential exposure. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers and we apply the same credit policies.

NOTE 6: 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 June 30, 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 June 30, 2017				**Six months ended June 30, 2017**
	Fair Value Measurement Using			Total Fair	Total
	Level 1	Level 2	Level 3	Value	(Losses)
Impaired loans	**$ --**	**$ 9**	**$ 262**	**$ 271**	**$ (305)**
Other property owned	**--**	**58**	**69**	**127**	**--**

	As of December 31, 2016				Six months ended June 30, 2016
	Fair Value Measurement Using			Total Fair	Total (Losses)
	Level 1	Level 2	Level 3	Value	Gains
Impaired loans	$ --	$ 11	$ 291	$ 302	$ (1,307)
Other property owned	--	59	69	128	6

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 7: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 7, 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 as noted below.

On July 1, 2017, United Farm Credit Services, ACA (the Association) merged operations with AgCountry Farm Credit Services, ACA. All shareholders of the Association received capital stock in AgCountry Farm Credit Services, ACA in exchange for their stock, which was then canceled. This exchange was made at the stock's par value. The FCA issued amended charters for the merged association encompassing the territories previously served by the separate associations.