FCS FINANCIAL

Growing Relationships. Creating Opportunities.™

A FARM CREDIT COOPERATIVE

Quarterly Report
June 30, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of FCS Financial, ACA and its subsidiaries FCS Financial, FLCA and FCS Financial, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2016.

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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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

Weather conditions across the state through the first six months of the year have generally provided for crop conditions to be near average. Conditions were not ideal in that excessive rain during the prime planting season resulted in delays, uneven stands, and some areas of replant. Since planting time, temperatures have generally been moderate and rainfall adequate across most of the state providing for good plant pollination and condition. The persistent early rainfall occurred especially in some of the heavier hay crop areas of the state causing harvest delays for first crop hay. This resulted in abundant tonnage but poorer than desired hay quality.

Commodity prices for the primary association crops (corn and soybeans) have shown typical volatility but have generally held at levels above the association target prices used in its loan analysis process. With strong global demand for protein supporting US meat exports, prices for the main meat complex commodities in Missouri (beef, chicken, and pork) have performed better than expected with these prices generally supporting better than break-even levels for most producers.

Land sale activity in the state, especially for crop land, has been slower than in recent years. The limited supply of crop land coming on the market has generally continued to command a level of buyer interest that has provided for land sale values to be maintained close to sale prices seen during the previous year. An area of exception is noted to be lower (poorer) quality crop ground. Sales of below average tracts, from a crop productivity perspective, are selling for lower values (10% - 20% less) than a year ago. Non-crop tracts (pasture, woods) have seen sale prices hold steady or even shown modest increases over prior year price levels.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $3.7 billion at June 30, 2017, an increase of $36.9 million from December 31, 2016. The increase was primarily due to continued demand for mortgage loans across most segments of the portfolio.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2016. Adversely classified loans increased to 3.1% of the portfolio at June 30, 2017, from 2.4% 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 June 30, 2017, $228.2 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**June 30 2017**	December 31 2016
Loans:		
Nonaccrual	**$9,014**	$5,906
Accruing restructured	**1,377**	1,483
Accruing loans 90 days or more past due	**--**	--
Total risk loans	**10,391**	7,389
Other property owned	**--**	1,067
Total risk assets	**$10,391**	$8,456
Total risk loans as a percentage of total loans	**0.3%**	0.2%
Nonaccrual loans as a percentage of total loans	**0.2%**	0.2%
Current nonaccrual loans as a percentage of total nonaccrual loans	**58.3%**	85.6%
Total delinquencies as a percentage of total loans	**0.2%**	0.1%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2016, but remained at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans were well within our established risk management guideline.

The increase in nonaccrual loans was primarily due to the transfer of several loans in the production and intermediate term loan and real estate mortgage categories to nonaccrual status. Nonaccrual loans remained at an acceptable level at June 30, 2017, and December 31, 2016.

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	**0.4%**	0.4%
Nonaccrual loans	**183.1%**	278.2%
Total risk loans	**158.9%**	222.3%

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	**$30,911**	$28,099
Return on average assets	**1.6%**	1.5%
Return on average members' equity	**8.1%**	7.8%

Changes in the chart above relate directly to:

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

Changes in Significant Components of Net Income

(in thousands) For the six months ended June 30	**2017**	2016	**Increase (decrease) in net income**
Net interest income	**$46,020**	$44,319	**$1,701**
Provision for loan losses	**--**	1,000	**1,000**
Patronage income	**6,569**	6,289	**280**
Other income, net	**2,168**	2,054	**114**
Operating expenses	**23,294**	23,007	**(287)**
Provision for income taxes	**552**	556	**4**
Net income	**$30,911**	$28,099	**$2,812**

Changes in Net Interest Income

(in thousands) For the six months ended June 30	**2017 vs 2016**
Changes in volume	**$1,971**
Changes in interest rates	**(222)**
Changes in nonaccrual income and other	**(48)**
Net change	**$1,701**

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

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 December 31, 2019, at which time the note will be renegotiated. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from unallocated surplus.

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

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

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

Total members' equity increased $24.5 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

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.

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. An application to form the service entity was submitted to the FCA for approval in May 2017.

CERTIFICATION

The undersigned have reviewed the June 30, 2017, Quarterly Report of FCS Financial, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

James A. Nivens
Chairperson of the Board
FCS Financial, ACA

David D. Janish
Chief Executive Officer
FCS Financial, ACA

Steve Harrington
Chief Financial Officer
FCS Financial, ACA

August 9, 2017

CONSOLIDATED STATEMENTS OF CONDITION

FCS Financial, ACA
(in thousands)
(Unaudited)

As of:	**June 30 2017**	December 31 2016
ASSETS		
Loans	**$3,695,945**	$3,659,032
Allowance for loan losses	**16,508**	16,428
Net loans	**3,679,437**	3,642,604
Investment in AgriBank, FCB	**77,671**	77,179
Accrued interest receivable	**35,615**	37,381
Other property owned	**--**	1,067
Deferred tax assets, net	**1,897**	2,332
Other assets	**53,910**	54,504
Total assets	**$3,848,530**	$3,815,067
LIABILITIES		
Note payable to AgriBank, FCB	**$3,035,350**	$3,017,069
Accrued interest payable	**15,538**	13,772
Patronage distribution payable	**6,198**	12,515
Other liabilities	**13,184**	17,971
Total liabilities	**3,070,270**	3,061,327
Contingencies and commitments (Note 5)		
MEMBERS' EQUITY		
Protected members' equity	**8**	8
Capital stock and participation certificates	**12,405**	12,598
Unallocated surplus	**765,847**	741,134
Total members' equity	**778,260**	753,740
Total liabilities and members' equity	**$3,848,530**	$3,815,067

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

CONSOLIDATED STATEMENTS OF INCOME

FCS Financial, ACA
(in thousands)
(Unaudited)

	Three Months Ended		*Six Months Ended*	
For the period ended June 30	**2017**	2016	**2017**	2016
Interest income	**$38,584**	$35,663	**$75,999**	$70,641
Interest expense	**15,540**	13,447	**29,979**	26,322
Net interest income	**23,044**	22,216	**46,020**	44,319
Provision for loan losses	**--**	--	**--**	1,000
Net interest income after provision for loan losses	**23,044**	22,216	**46,020**	43,319
Other income				
Patronage income	**3,210**	3,059	**6,569**	6,289
Financially related services income	**308**	150	**554**	447
Fee income	**638**	964	**1,264**	1,979
Miscellaneous income (loss), net	**164**	(567)	**350**	(372)
Total other income	**4,320**	3,606	**8,737**	8,343
Operating expenses				
Salaries and employee benefits	**6,757**	6,692	**13,665**	13,425
Other operating expenses	**4,891**	4,924	**9,629**	9,582
Total operating expenses	**11,648**	11,616	**23,294**	23,007
Income before income taxes	**15,716**	14,206	**31,463**	28,655
Provision for income taxes	**230**	266	**552**	556
Net income	**$15,486**	$13,940	**$30,911**	$28,099

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

FCS Financial, ACA
(in thousands)
(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2015	$9	$12,856	$692,075	$704,940
Net income	--	--	28,099	28,099
Unallocated surplus designated for patronage distributions	--	--	(5,592)	(5,592)
Capital stock and participation certificates issued	--	464	--	464
Capital stock and participation certificates retired	(1)	(628)	--	(629)
Balance at June 30, 2016	$8	$12,692	$714,582	$727,282
Balance at December 31, 2016	$8	$12,598	$741,134	$753,740
Net income	**--**	**--**	**30,911**	**30,911**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(6,198)**	**(6,198)**
Capital stock and participation certificates issued	**--**	**453**	**--**	**453**
Capital stock and participation certificates retired	**--**	**(646)**	**--**	**(646)**
Balance at June 30, 2017	**$8**	**$12,405**	**$765,847**	**$778,260**

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.

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

Recently Issued or Adopted Accounting Pronouncements

We are currently evaluating the impact of accounting standards that have been issued, but are not yet effective on our Consolidated Financial Statements. Refer to Note 2 in our 2016 Annual Report for additional information.

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	**$2,079,159**	**56.2%**	$2,070,649	56.6%
Production and intermediate term	**698,196**	**18.9%**	760,392	20.8%
Agribusiness	**719,759**	**19.5%**	643,556	17.6%
Other	**198,831**	**5.4%**	184,435	5.0%
Total	**$3,695,945**	**100.0%**	$3,659,032	100.0%

The other category is primarily comprised of communication, energy, and other diversified industries in our capital markets portfolio.

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
Real estate mortgage	**$2,992**	**$982**	**$3,974**	**$2,097,776**	**$2,101,750**
Production and intermediate term	**2,257**	**544**	**2,801**	**705,112**	**707,913**
Agribusiness	**26**	**61**	**87**	**722,650**	**722,737**
Other	**33**	**--**	**33**	**199,127**	**199,160**
Total	**$5,308**	**$1,587**	**$6,895**	**$3,724,665**	**$3,731,560**

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
Real estate mortgage	$3,320	$366	$3,686	$2,089,402	$2,093,088
Production and intermediate term	1,446	247	1,693	770,512	772,205
Agribusiness	3	--	3	646,249	646,252
Other	161	--	161	184,707	184,868
Total	$4,930	$613	$5,543	$3,690,870	$3,696,413

Note: Accruing loans include accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest at June 30, 2017, and December 31, 2016.

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	**$1,499**	$1,887
Volume without specific allowance	**8,892**	5,502
Total risk loans	**$10,391**	$7,389
Total specific allowance	**$814**	$447
For the six months ended June 30	**2017**	2016
Income on accrual risk loans	**$33**	$35
Income on nonaccrual loans	**233**	281
Total income on risk loans	**$266**	$316
Average risk loans	**$9,428**	$10,281

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 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.

We completed TDRs of certain production and intermediate term loans during the six months ended June 30, 2017, and 2016. Our recorded investment in these loans just prior to restructuring was $667 million and $194 million during the six months ended June 30, 2017, and 2016, respectively. Our recorded investment in these loans immediately following the restructuring was $667 million and $192 million during the six months ended June 30, 2017, and 2016, respectively. The recorded investment of the loan is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off.

The primary types of modification included deferral of principal and extension of maturity.

There were no TDRs that defaulted during the six months ended June 30, 2017, or 2016 in which the modification was within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:	**June 30 2017**	December 31 2016
Accrual status:		
Real estate mortgage	**$563**	$581
Production and intermediate term	**814**	902
Total TDRs in accrual status	**$1,377**	$1,483
Nonaccrual status:		
Real estate mortgage	**$1,267**	$1,267
Production and intermediate term	**592**	734
Total TDRs in nonaccrual status	**$1,859**	$2,001
Total TDRs:		
Real estate mortgage	**$1,830**	$1,848
Production and intermediate term	**1,406**	1,636
Total TDRs	**$3,236**	$3,484

There were no material commitments to lend to borrowers whose loans have been modified in a TDR 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	**$16,428**	$15,887
Provision for loan losses	**--**	1,000
Loan recoveries	**165**	642
Loan charge-offs	**(85)**	(1,076)
Balance at end of period	**$16,508**	$16,453

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 $77.7 million at June 30, 2017, and $77.2 million at December 31, 2016.

NOTE 4: OTHER INVESTMENTS

We and other Farm Credit Institutions are among the limited partners for a $31.3 million Rural Business Investment Company (RBIC), Innova Ag Innovation Fund IV, L.P., established in April 2017. Our total commitment is $2.0 million, which ends on the fourth anniversary of the initial closing date, unless extended to the fifth anniversary. Our investment in the RBIC is recorded in “Other assets” in the Consolidated Statements of Condition, and totaled $45 thousand at June 30, 2017.

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

NOTE 5: 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	**17.7%**	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**17.7%**	6.0%	2.5%*	8.5%
Total capital ratio	**18.2%**	8.0%	2.5%*	10.5%
Permanent capital ratio	**17.8%**	7.0%	0.0%	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	**18.7%**	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**19.2%**	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.

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 (not all items below may be applicable to our Association):

- 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 6: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

NOTE 7: FAIR VALUE MEASUREMENTS

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

We did not have any assets or liabilities measured at fair value on a recurring basis at 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 (Losses)
	Level 1	Level 2	Level 3	Value	Gains
Impaired loans	**$ --**	**$719**	**$ --**	**$719**	**($452)**
Other property owned	**--**	**--**	**--**	**--**	**7**

	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	$ --	$1,512	$ --	$1,512	($465)
Other property owned	--	1,110	--	1,110	502

Valuation Techniques

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

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

NOTE 8: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 9, 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.