United FCS, ACA

Quarterly Report
March 31, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of United FCS, ACA (the parent) and United FCS, FLCA and United FCS, PCA (the subsidiaries). 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, 2015 (2015 Annual Report).

AgriBank, FCB's (AgriBank) financial condition and results of operations materially impact members' investment in United FCS, ACA. To request free copies of the AgriBank and combined AgriBank and affiliated Associations' 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 2015 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

Informa Economics, in its January 2016 Agribusiness Outlook states: world GDP growth is forecast to grow 2.7% in 2016. However, downside risks are a concern as a result of faltering growth in China, plummeting oil prices, and weak U.S. inflation. Growth in the U.S. economy is forecast at 3.3% in 2016. The question is to what extent the U.S. economy is insulated from low energy prices combined with weak foreign demand and a strong dollar, which continue to pressure exports.

The United States Department of Agriculture (USDA), in its February 2016 Farm Sector Income Forecast, is forecasting that net farm income will decline to $54.8 billion in 2016, down 3.0% from 2015. This forecast would be the lowest since 2002 and a drop of 56.0% from the recent high of $123.3 billion in 2013. USDA's report highlights a 0.9% decrease in crop receipts in 2016 and a 4.3% decrease in 2016 livestock receipts. The value of total farm sector equity is forecast to decline by $54.9 billion, or 2.2%, in 2016 as farm sector assets are seen declining and debt levels increasing relative to 2015. The balance sheet changes result in a worsening for farm solvency measures, which nevertheless remain near historic lows. Liquidity positions have likewise deteriorated, on average.

The following reflect economic conditions for various commodities based on various USDA March 2016 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:

Cash Grain-Corn/Soybeans: The USDA is projecting ending 2015/16 U.S. corn stocks at 1.8 billion bushels (bu), 6.1% higher than the 2014/15 estimated ending stocks. Projected U.S. corn production for 2015/16 is 13.6 billion bu., 4.3% below last year's record levels. USDA is projecting a season average corn price of $3.35-$3.85/bu. USDA is projecting ending U.S soybean stocks for 2015/16 at 460 million bu., vs. the 2014/15 estimated ending stocks of 191 million bu. USDA projects the season average soybean price of $8.25-$9.25/bu. Global soybean production for 2015/16 is projected at 320.5 million tons, 0.6% higher than the estimated 2014/15 production. Current and projected 2016 corn and soybean prices are below average break-even levels for area producer's based on projected input costs. Area producers in general produced record yielding corn and soybean crops in 2015. Even with these strong yields we anticipate that due to the drop in corn and soybean prices, many producers operated at or below break-even levels.

Dairy: USDA forecasts class III milk prices at $13.60 -$14.20 per cwt in 2016, a decrease from their year-end projection for 2016 and down from 2015 levels. This price forecast, even with lower feed prices and strong forage production in 2015, will still likely have area dairy producers operating at break-even to moderate losses for 2016. Wisconsin and Minnesota milk production continues to be strong in 2016 with both states showing increases in production of 5.1% for Minnesota and 8.9% for Wisconsin in February vs. the prior year.

Sugar: U.S. Sugar production for 2015/16 is forecast at 8.83 million short tons, raw value (STRV), up 2.1% from 2014/15, including a forecast of record U.S. sugar beet yields. The USDA is forecasting a 10.6% decrease in sugar imports for 2015/16. Total U.S. ending stocks for 2015/16 are forecast to be 9.0% lower than the prior year due to lower supply and little overall change in use. Area beet growers harvested a record crop in 2015 as a result of an ideal growing season. Strong beet yields combined with higher sugar prices allowed area producers to operate at break-even to slightly profitable levels for their sugar enterprise in 2015.

General Livestock: The USDA states, "The export share of red meat and poultry production is expected to rise in 2016 to 16%, from 15% in 2015; Dairy's share is expected to decline from 18% to 17%."

The March Cold Storage report showed that frozen meat stocks were down 5.0% from the prior year and down 3.0% from the prior month. The report showed that (compared to year-ago levels), frozen beef stocks were down fractionally, frozen pork stocks were down 8.0%, frozen chicken stocks were up 11.0% and frozen turkey stocks were up 5.0%.

The March Hogs and Pigs report showed the March 1, 2016 U.S. hogs and pigs inventory was up fractionally from one year ago, and down 1.0% from the prior quarter. Breeding stock inventory was down fractionally from year-ago levels and marketing hog inventory was up fractionally from year-ago levels. The December 2015-February 2016 pig crop was down fractionally from year-ago levels. Sows farrowing during this period were down 1.0% from 2015. The average pigs saved per litter was a record high for the December-February period. The hog industry is projected to show slight profits in 2015 as increased pork production has outpaced pork demand and caused hog prices to decline significantly from 2014 levels. Per Iowa State calculations at November hog prices, producers were losing in excess of $14/head on hogs marketed in November. The industry's 2016 outlook is for profitability due to production at flat to slightly below 2015 levels coupled with an increase in pork demand and significantly lower feed prices.

In 2015 the U.S. Poultry industry was confronted with multiple outbreaks of Highly-Pathogenic Avian Influenza (HPAI). To date, the heaviest incidence of the virus in our market area has fallen on turkeys. The virus has affected production, trade and prices.

U.S. Turkey meat production is forecast to total 6.0 billion pounds, 7.0% higher than in 2015, when production was depressed by the HPAI outbreak in the first half of 2015. Turkey production is also expected to be sharply higher during the second half of 2016. Turkey production is expected to increase as producers continue to restock after last year's HPAI losses. Support for increased production will likely come from lower feed costs, higher exports, and domestic economic conditions. With turkey meat production expected to be higher in 2016, stocks of whole turkeys and turkey products are expected to increase seasonally and remain above their 2015 levels. These higher stock levels, along with relatively low exports, are expected to place downward pressure on prices.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.6 billion at March 31, 2016, a decrease of $15.6 million from December 31, 2015. The decrease was primarily due to normal customer seasonal cash flow, resulting in lower use of operating commitments and higher principal payments, partially offset by higher usage of available commitments on our agribusiness portfolio.

Portfolio Credit Quality

The credit quality of our portfolio declined slightly from December 31, 2015 but remains in good condition. Adversely classified loans increased to 2.4% of the portfolio at March 31, 2016, from 2.2% of the portfolio at December 31, 2015. Adversely classified loans are loans and leases with serious contractual performance deficiencies and/or borrowers that exhibit serious weakness in repayment capacity, equity and/or collateral. 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, 2016, $135.6 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Risk assets are comprised of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due, and other property owned.

Components of Risk Assets

(dollars in thousands) As of:	**March 31** **2016**	December 31 2015
Loans:		
Nonaccrual	**$ 12,646**	$ 6,154
Accruing restructured	**4,395**	2,761
Accruing loans 90 days or more past due	**29**	623
Total risk loans	**17,070**	9,538
Other property owned	**118**	118
Total risk assets	**$ 17,188**	$ 9,656
Total risk loans as a percentage of total loans	**1.0%**	0.6%
Nonaccrual loans as a percentage of total loans	**0.8%**	0.4%
Current nonaccrual loans as a percentage of total nonaccrual loans	**51.5%**	59.8%
Total delinquencies as a percentage of total loans	**0.6%**	0.2%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2015, but remain at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans remains well within our established risk management guidelines.

The increase in nonaccrual loans and total delinquencies as a percentage of loans was due to a decline in credit quality primarily as a result of continued low commodity prices. Nonaccrual loans remained at an acceptable level at March 31, 2016.

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

Allowance for Loan Losses

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

Allowance Coverage Ratios

As of:	**March 31** **2016**	December 31 2015
Allowance as a percentage of:		
Loans	**0.3%**	0.3%
Nonaccrual loans	**43.7%**	70.8%
Total risk loans	**32.4%**	45.7%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2016.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the three months ended March 31	**2016**	2015
Net income	**$ 5,515**	$ 6,156
Return on average assets	**1.3%**	1.7%
Return on average members' equity	**7.6%**	9.0%

Changes in these ratios are directly related to the changes in income discussed in this section, 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	2016	2015	Increase (decrease) in net income
Net interest income	$ **10,707**	$ 9,766	$ **941**
Provision for (reversal of) loan losses	**1,165**	(1)	**(1,166)**
Patronage income	**1,914**	2,222	**(308)**
Other income, net	**1,838**	1,779	**59**
Operating expenses	**7,700**	7,239	**(461)**
Provision for income taxes	**79**	373	**294**
Net income	$ **5,515**	$ 6,156	$ **(641)**

The following table quantifies changes in net interest income for the three months ended March 31, 2016 compared to the same period in 2015.

Changes in Net Interest Income

(in thousands)	2016 vs 2015
Changes in volume	$ **1,185**
Changes in interest rates	**(299)**
Changes in nonaccrual income and other	**55**
Net change	$ **941**

The change in the provision for (reversal of) loan losses is related to our estimate of losses in our portfolio for the applicable quarters. See note 2 for additional information.

The decrease in patronage income was primarily related to a lower AgriBank patronage rate compared to the prior year.

The change in operating expenses was primarily related to ongoing/annual planned compensation/benefits adjustments for employees. In addition, Farm Credit System Insurance Corporation (FCSIC) expense increased in 2016 primarily due to an increase in the premium rate charged on accrual loans by FCSIC from 13 basis points in 2015 to 16 basis points for the first half and 18 basis points for the second half of 2016.The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable matures October 31, 2016, 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.

Cost of funds associated with our note payable includes a marginal cost of debt component, a spread component, which includes cost of servicing, cost of liquidity, bank profit, and, if applicable, a risk premium component. However, we were not subject to a risk premium at March 31, 2016 or December 31, 2015.

Total members' equity increased $4.0 million from December 31, 2015 primarily due to net income for the period which was partially offset by patronage distribution accruals.

Farm Credit Administration regulations require us to maintain a certain level for our permanent capital ratio, total surplus ratio, and core surplus ratio. Refer to Note 6 in our 2015 Annual Report for a more complete description of these ratios.

Select Capital Ratios

As of	Regulatory Minimums	March 31 2016	December 31 2015
Permanent capital ratio	7.0%	**15.1%**	15.4%
Total surplus ratio	7.0%	**14.8%**	15.1%
Core surplus ratio	3.5%	**14.8%**	15.1%

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.

REGULATORY MATTERS

On March 10, 2016, the FCA Board approved a final rule to modify the regulatory capital requirements for System Banks and Associations. The stated objectives of the proposed rule are to:

- Modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise
- Ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System
- Make System regulatory capital requirements more transparent
- Meet the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act

The final rule replaces existing core surplus and total surplus requirements with common equity tier 1, tier 1 and total capital risk-based capital ratio requirements. The final rule also adds a tier 1 leverage ratio. The permanent capital ratio continues to remain in effect with the final rule.

The effective date of the new capital requirements is January 1, 2017. We are currently evaluating the impact of the recently announced changes.

On June 12, 2014, the FCA Board approved a proposed rule to revise the requirements governing the eligibility of investments for System Banks and Associations. The stated objectives of the proposed rule are to:

- Strengthen the safety and soundness of System Banks and Associations
- Ensure that System Banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption
- Enhance the ability of the System Banks to supply credit to agricultural and aquatic producers
- Comply with the requirements of section 939A of the Dodd-Frank Act
- Modernize the investment eligibility criteria for System Banks
- Revise the investment regulation for System Associations to improve their investment management practices so they are more resilient to risk

The public comment period ended on October 23, 2014.

CERTIFICATION

The undersigned have reviewed the March 31, 2016 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.

Bradley Sunderland
Chairperson of the Board
United FCS, ACA

Marcus L. Knisely
Chief Executive Officer
United FCS, ACA

Robert M. Haines
Chief Financial Officer
United FCS, ACA

May 10, 2016

CONSOLIDATED STATEMENTS OF CONDITION

United FCS, ACA
(in thousands)
(Unaudited)

As of:	March 31 2016	December 31 2015
ASSETS		
Loans	**$ 1,617,280**	$ 1,632,914
Allowance for loan losses	**5,524**	4,359
Net loans	**1,611,756**	1,628,555
Investment in AgriBank, FCB	**23,455**	23,455
Accrued interest receivable	**12,427**	12,963
Other property owned	**118**	118
Deferred tax assets, net	**832**	584
Other assets	**18,377**	20,277
Total assets	**$ 1,666,965**	$ 1,685,952
LIABILITIES		
Note payable to AgriBank, FCB	**$ 1,362,759**	$ 1,378,968
Accrued interest payable	**5,202**	4,719
Patronage distribution payable	**1,500**	6,000
Other liabilities	**6,004**	8,787
Total liabilities	**1,375,465**	1,398,474
Contingencies and commitments (Note 4)		
MEMBERS' EQUITY		
Capital stock and participation certificates	**5,047**	5,045
Unallocated surplus	**286,453**	282,433
Total members' equity	**291,500**	287,478
Total liabilities and members' equity	**$ 1,666,965**	$ 1,685,952

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	
For the period ended March 31	**2016**	2015
Interest income	**$ 16,318**	$ 14,147
Interest expense	**5,611**	4,381
Net interest income	**10,707**	9,766
Provision for (reversal of) loan losses	**1,165**	(1)
Net interest income after provision for loan losses	**9,542**	9,767
Other income		
Patronage income	**1,914**	2,222
Financially related services income	**907**	765
Fee income	**663**	593
Miscellaneous income, net	**268**	421
Total other income	**3,752**	4,001
Operating expenses		
Salaries and employee benefits	**5,045**	4,942
Other operating expenses	**2,655**	2,297
Total operating expenses	**7,700**	7,239
Income before income taxes	**5,594**	6,529
Provision for income taxes	**79**	373
Net income	**$ 5,515**	$ 6,156

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, 2014	$ 5,071	$ 264,983	$ 270,054
Net income	--	6,156	6,156
Unallocated surplus designated for patronage distributions	--	(1,496)	(1,496)
Capital stock and participation certificates issued	86	--	86
Capital stock and participation certificates retired	(69)	--	(69)
Balance at March 31, 2015	$ 5,088	$ 269,643	$ 274,731
Balance at December 31, 2015	$ 5,045	$ 282,433	$ 287,478
Net income	**--**	**5,515**	**5,515**
Unallocated surplus designated for patronage distributions	**--**	**(1,495)**	**(1,495)**
Capital stock and participation certificates issued	**91**	**--**	**91**
Capital stock and participation certificates retired	**(89)**	**--**	**(89)**
Balance at March 31, 2016	**$ 5,047**	**$ 286,453**	**$ 291,500**

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 accompanying 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, 2016 are not necessarily indicative of the results to be expected for the year ending December 31, 2016. 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, 2015 (2015 Annual Report).

The Consolidated Financial Statements present the consolidated financial results of United FCS, ACA (the parent) and 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 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 2015 Annual Report for additional information.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	**March 31, 2016**		December 31, 2015	
	Amount	%	Amount	%
Real estate mortgage	**$ 710,219**	**43.9%**	$ 708,611	43.3%
Production and intermediate term	**504,801**	**31.2%**	554,698	34.0%
Agribusiness	**257,252**	**15.9%**	222,988	13.7%
Other	**145,008**	**9.0%**	146,617	9.0%
Total	**$ 1,617,280**	**100.0%**	$ 1,632,914	100.0%

The other category is primarily comprised of energy, communication, international, 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 March 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	**$ 3,176**	**$ 686**	**$ 3,862**	**$ 713,035**	**$ 716,897**	**$ --**
Production and intermediate term	**3,219**	**3,023**	**6,242**	**503,225**	**509,467**	**29**
Agribusiness	**52**	**41**	**93**	**257,936**	**258,029**	**--**
Other	**--**	**--**	**--**	**145,314**	**145,314**	**--**
Total	**$ 6,447**	**$ 3,750**	**$ 10,197**	**$ 1,619,510**	**$ 1,629,707**	**$ 29**

As of December 31, 2015	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	$ 740	$ 381	$ 1,121	$ 714,287	$ 715,408	$ 17
Production and intermediate term	444	2,479	2,923	556,833	559,756	606
Agribusiness	--	41	41	223,775	223,816	--
Other	--	--	--	146,897	146,897	--
Total	$ 1,184	$ 2,901	$ 4,085	$ 1,641,792	$ 1,645,877	$ 623

Note: Accruing loans include accrued interest receivable.

Risk Loans

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

Risk Loan Information

(in thousands) As of:	**March 31 2016**	December 31 2015
Volume with specific reserves	**$ 3,293**	$ 1,171
Volume without specific reserves	**13,777**	8,367
Total risk loans	**$ 17,070**	$ 9,538
Total specific reserves	**$ 1,302**	$ 560
For the three months ended March 31	**2016**	2015
Income on accrual risk loans	**$ 36**	$ 27
Income on nonaccrual loans	**155**	100
Total income on risk loans	**$ 191**	$ 127
Average risk loans	**$ 10,330**	$ 6,991

Note: Accruing loans include accrued interest receivable.

The increase in risk loans is primarily due to the increase in nonaccrual loans which was due to further deterioration in credit quality and repayment performance.

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at March 31, 2016.

Troubled Debt Restructurings (TDRs)

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

We completed TDRs of certain Production and intermediate term loans during the three months ended March 31, 2016 and 2015. Our recorded investment in these loans just prior to restructuring was $1.8 million and $1 thousand during the three months ended March 31, 2016 and 2015, respectively. Our recorded investment in these loans immediately following the restructuring was $1.5 million and $1 thousand during the three months ended March 31, 2016 and 2015, respectively. The recorded investment of the loan is the face amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off.

The primary type of modification was an interest rate reduction below market.

TDRs that Subsequently Defaulted within the Previous 12 Months

(in thousands)	**2016**	2015
Real estate mortgage	**$ --**	$ 3
Production and intermediate term	**11**	--
Total	**$ 11**	$ 3

TDRs Outstanding

(in thousands) As of:	March 31 2016	December 31 2015
Accrual status:		
Real estate mortgage	$ 561	$ 636
Production and intermediate term	3,707	2,002
Total TDRs in accrual status	$ 4,395	$ 2,761
Nonaccrual status:		
Real estate mortgage	$ 1,026	$ 961
Production and intermediate term	431	151
Other	1,277	1,316
Total TDRs in nonaccrual status	$ 2,734	$ 2,428
Total TDRs status:		
Real estate mortgage	$ 1,587	$ 1,597
Production and intermediate term	4,138	2,153
Agribusiness	127	123
Other	1,277	1,316
Total TDRs	$ 7,129	$ 5,189

Additional commitments to lend to borrowers whose loans have been modified in a TDR were $7 thousand at March 31, 2016.

Allowance for Loan Losses

Changes for Allowance for Loan Losses

(in thousands) Three months ended March 31	2016	2015
Balance at beginning of period	$ 4,359	$ 3,280
Provision for (reversal of) loan losses	1,165	(1)
Loan recoveries	16	2
Loan charge-offs	(16)	(3)
Balance at end of period	$ 5,524	$ 3,278

The increase in allowance for loan losses was related to $1.2 million provision for loan losses recorded in 2016 due to declining credit quality and outlooks for key commodities.

NOTE 3: MEMBERS' EQUITY

Regulatory Capitalization Requirements

On March 10, 2016, the FCA Board approved a final rule to modify the regulatory capital requirements for System Banks and Associations. The final rule replaces existing core surplus and total surplus requirements with common equity tier 1, tier 1 and total capital risk-based capital ratio requirements. The final rule also adds a tier 1 leverage ratio. The permanent capital ratio continues to remain in effect with the final rule. The effective date of the new capital requirements is January 1, 2017.

FCA Revised Capital Requirements

	Regulatory Minimums	Capital Conservation Buffer	Total
Risk adjusted:			
Common equity Tier 1 ratio	4.5%	2.5%	7.0%
Tier 1 capital ratio	6.0%	2.5%	8.5%
Total capital ratio	8.0%	2.5%	10.5%
Non-risk adjusted:			
Tier 1 leverage ratio	4.0%	1.0%	5.0%

If 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.

NOTE 4: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have contingent liabilities and outstanding commitments, 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 lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, we were not aware of any such actions that would have a material impact on our financial condition.

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 March 31, 2016, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $486.8 million. Additionally, we had $8.2 million of issued standby letters of credit as of March 31, 2016.

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 5: 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 2015 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, 2016 or December 31, 2015.

Non-Recurring Basis

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, 2016**				**Three months ended March 31, 2016**
	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Impaired loans	**$ --**	**$ 1,580**	**$ 510**	**$ 2,090**	**$ (758)**
Other property owned	**--**	**59**	**69**	**128**	**6**
	As of December 31, 2015				Three months ended March 31, 2015
	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Impaired loans	$ --	$ --	$ 641	$ 641	$ (16)
Other property owned	--	59	69	128	--

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 6: SUBSEQUENT EVENTS

We have evaluated subsequent events through May 10, 2016 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.