FCS FINANCIAL
Growing Relationships. Creating Opportunities.™
A FARM CREDIT COOPERATIVE

Quarterly Report
March 31, 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:

FCS Financial, ACA
1934 East Miller Street
Jefferson City, MO 65101
(573) 635-7956
www.myfcsfinancial.com
jeffersoncitymo@myfcsfinancial.com

AgriBank, FCB
30 East 7th Street, Suite 1600
St. Paul, MN 55101
(651) 282-8800
www.agribank.com
financialreporting@agribank.com

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

Winter conditions for the first quarter rate as mild and dry for most of the state; a plus for our cattle producers and it also allowed for above normal levels of field work for our crop producers. As the state prepares for spring planting, soil temperatures are above normal for the end of March which should enable early planting. However, moisture conditions are also drier than average in the state.

Grain prices remain low relative to levels of a few years ago providing narrow margins for operator profitability. While profits for crop producers improved in 2016, there still has generally been an erosion of working capital and repayment capacity levels as compared to pre-2015 levels. Input costs have come down some, but margins are still challenged.

Cattle prices have recovered from their lower levels in the fourth quarter of 2016 but remain below levels of the recent past. A similar story can be reported for hog and poultry prices. Reasonably strong global meat demand continues supporting US meat exports, but there is elevated trade concern with the new administration as US livestock producers are dependent on meat exports.

Sales of cropland have slowed relative to levels of prior years' although values remain relatively stable. This is especially true of land with higher quality soil types. Crop land that is below average in quality has experienced reduced demand and lower values. Rental rates for crop land are mixed based upon local market situations; generally crop rental rates are stable to nominally lower. Land that is predominately other than crop tracts (pasture, wood land, recreational types of tracts) continue to sell at stable or even slightly higher levels. Overall, values for the primary source of collateral for FCS Financial loans, real estate, is stable.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $3.6 billion at March 31, 2017, a decrease of $24.3 million from December 31, 2016. The decrease was primarily due to a decline in our production and intermediate term loan portfolio.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2016. Adversely classified loans increased to 2.6% of the portfolio at March 31, 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 March 31, 2017, $227.4 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**March 31 2017**	December 31 2016
Loans:		
Nonaccrual	**$7,842**	$5,906
Accruing restructured	**1,408**	1,483
Accruing loans 90 days or more past due	**--**	--
Total risk loans	**9,250**	7,389
Other property owned	**--**	1,067
Total risk assets	**$9,250**	$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	**65.0%**	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 guidelines.

The increase in nonaccrual loans was primarily due to the transfer of several loans in the production and intermediate term loan category to nonaccrual status. Nonaccrual loans remained at an acceptable level at March 31, 2017.

Allowance for Loan Losses

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

Allowance Coverage Ratios

As of:	**March 31 2017**	December 31 2016
Allowance as a percentage of:		
Loans	**0.5%**	0.4%
Nonaccrual loans	**210.6%**	278.2%
Total risk loans	**178.5%**	222.3%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2017.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the three months ended March 31	**2017**	2016
Net income	**$15,425**	$14,159
Return on average assets	**1.6%**	1.6%
Return on average members' equity	**8.1%**	8.0%

Changes in the chart above relate directly to:

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

Changes in Significant Components of Net Income

(in thousands) For the three months ended March 31	2017	2016	Increase (decrease) in net income
Net interest income	**$22,976**	$22,103	**$873**
Provision for loan losses	**--**	1,000	**1,000**
Patronage income	**3,359**	3,230	**129**
Other income, net	**1,058**	1,507	**(449)**
Operating expenses	**11,646**	11,391	**(255)**
Provision for income taxes	**322**	290	**(32)**
Net income	**$15,425**	$14,159	**$1,266**

Changes in Net Interest Income

(in thousands) For the three months ended March 31	2017 vs 2016
Changes in volume	**$1,116**
Changes in interest rates	**(175)**
Changes in nonaccrual income and other	**(68)**
Net change	**$873**

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

The change in other income was primarily related to a decrease in fee income.

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 March 31, 2017 or December 31, 2016.

Total members' equity increased $12.2 million from December 31, 2016 primarily due to net income for the period partially offset by patronage distribution accruals.

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

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section. Refer to Note 6 of the accompanying Consolidated Financial Statements for additional detail regarding the capital ratios effective as of March 31, 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 may allow District Associations and AgriBank to develop and maintain long-term, cost effective technology and business services. If pursued, the service entity formation would require approval by the Farm Credit Administration (FCA) and would be owned by certain District Associations and AgriBank. An application to form the service entity is expected to be submitted to the FCA during the second quarter of 2017.

CERTIFICATION

The undersigned have reviewed the March 31, 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

May 10, 2017

CONSOLIDATED STATEMENTS OF CONDITION

FCS Financial, ACA

(in thousands)

(Unaudited)

As of:	**March 31 2017**	December 31 2016
ASSETS		
Loans	**$3,634,693**	$3,659,032
Allowance for loan losses	**16,513**	16,428
Net loans	**3,618,180**	3,642,604
Investment in AgriBank, FCB	**77,179**	77,179
Accrued interest receivable	**34,484**	37,381
Other property owned	**--**	1,067
Deferred tax assets, net	**2,066**	2,332
Other assets	**52,652**	54,504
Total assets	**$3,784,561**	$3,815,067
LIABILITIES		
Note payable to AgriBank, FCB	**$2,984,886**	$3,017,069
Accrued interest payable	**14,439**	13,772
Patronage distribution payable	**3,100**	12,515
Other liabilities	**16,211**	17,971
Total liabilities	**3,018,636**	3,061,327
Contingencies and commitments (Note 5)		
MEMBERS' EQUITY		
Protected members' equity	**8**	8
Capital stock and participation certificates	**12,455**	12,598
Unallocated surplus	**753,462**	741,134
Total members' equity	**765,925**	753,740
Total liabilities and members' equity	**$3,784,561**	$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	
For the period ended March 31	**2017**	2016
Interest income	**$37,415**	$34,978
Interest expense	**14,439**	12,875
Net interest income	**22,976**	22,103
Provision for loan losses	**--**	1,000
Net interest income after provision for loan losses	**22,976**	21,103
Other income		
Patronage income	**3,359**	3,230
Financially related services income	**246**	297
Fee income	**626**	1,015
Miscellaneous income, net	**186**	195
Total other income	**4,417**	4,737
Operating expenses		
Salaries and employee benefits	**6,908**	6,733
Other operating expenses	**4,738**	4,658
Total operating expenses	**11,646**	11,391
Income before income taxes	**15,747**	14,449
Provision for income taxes	**322**	290
Net income	**$15,425**	$14,159

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	--	--	14,159	14,159
Unallocated surplus designated for patronage distributions	--	--	(2,792)	(2,792)
Capital stock and participation certificates issued	--	219	--	219
Capital stock and participation certificates retired	--	(329)	--	(329)
Balance at March 31, 2016	$9	$12,746	$703,442	$716,197
Balance at December 31, 2016	$8	$12,598	$741,134	$753,740
Net income	**--**	**--**	**15,425**	**15,425**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(3,097)**	**(3,097)**
Capital stock and participation certificates issued	**--**	**217**	**--**	**217**
Capital stock and participation certificates retired	**--**	**(360)**	**--**	**(360)**
Balance at March 31, 2017	**$8**	**$12,455**	**$753,462**	**$765,925**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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:	**March 31, 2017**		December 31, 2016	
	Amount	%	Amount	%
Real estate mortgage	**$2,057,795**	**56.5%**	$2,070,649	56.6%
Production and intermediate term	**670,844**	**18.5%**	760,392	20.8%
Agribusiness	**715,010**	**19.7%**	643,556	17.6%
Other	**191,044**	**5.3%**	184,435	5.0%
Total	**$3,634,693**	**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 March 31, 2017**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total
Real estate mortgage	**$1,774**	**$817**	**$2,591**	**$2,076,823**	**$2,079,414**
Production and intermediate term	**3,048**	**699**	**3,747**	**676,803**	**680,550**
Agribusiness	**--**	**61**	**61**	**717,700**	**717,761**
Other	**--**	**--**	**--**	**191,452**	**191,452**
Total	**$4,822**	**$1,577**	**$6,399**	**$3,662,778**	**$3,669,177**

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 March 31, 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:	**March 31 2017**	December 31 2016
Volume with specific allowance	**$593**	$1,887
Volume without specific allowance	**8,657**	5,502
Total risk loans	**$9,250**	$7,389
Total specific allowance	**$64**	$447
For the three months ended March 31	**2017**	2016
Income on accrual risk loans	**$17**	$17
Income on nonaccrual loans	**149**	217
Total income on risk loans	**$166**	$234
Average risk loans	**$9,116**	$11,475

Note: Accruing loans include accrued interest receivable.

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at March 31, 2017.

Troubled Debt Restructurings (TDRs)

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

We completed TDRs of certain production and intermediate term loans during the three months ended March 31, 2017 and 2016. Our recorded investment in these loans just prior to restructuring was $290 thousand and $27 thousand during the three months ended March 31, 2017 and 2016, respectively. Our recorded investment in these loans immediately following the restructuring was $290 thousand and $27 thousand during the three months ended March 31, 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 extension of maturity and deferral of principal.

TDRs that Occurred Within the Previous 12 Months that Subsequently Defaulted During the Three Months Ended March 31

(in thousands)	**2017**	2016
Real estate mortgage	**$ --**	$348
Production and intermediate term	**--**	107
Total	**$ --**	$455

TDRs Outstanding

(in thousands) As of:	March 31 2017	December 31 2016
Accrual status:		
Real estate mortgage	**$553**	$581
Production and intermediate term	**855**	902
Total TDRs in accrual status	**$1,408**	$1,483
Nonaccrual status:		
Real estate mortgage	**$1,243**	$1,267
Production and intermediate term	**695**	734
Total TDRs in nonaccrual status	**$1,938**	$2,001
Total TDRs:		
Real estate mortgage	**$1,796**	$1,848
Production and intermediate term	**1,550**	1,636
Total TDRs	**$3,346**	$3,484

There were no material commitments to lend to borrowers whose loans have been modified in a TDR at March 31, 2017.

Allowance for Loan Losses

Changes for Allowance for Loan Losses

(in thousands) Three months ended March 31	2017	2016
Balance at beginning of period	**$16,428**	$15,887
Provision for loan losses	**--**	1,000
Loan recoveries	**145**	12
Loan charge-offs	**(60)**	(80)
Balance at end of period	**$16,513**	$16,819

NOTE 3: INVESTMENT IN AGRIBANK, FCB

Effective January 1, 2017, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable, with an additional amount required on growth in excess of a sustainable growth rate. Previously, the required investment was equal to 2.25% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on growth that exceeded a targeted rate.

Investment in AgriBank

(in thousands) As of:	March 31 2017	December 31 2016
Required stock investment	**$77,113**	$77,179
Purchased excess stock investment	**66**	--
Total investment	**$77,179**	$77,179

NOTE 4: OTHER INVESTMENT

We and other Farm Credit Institutions have committed to a Rural Business Investment Company (RBIC) limited partnership, which has aggregate capital commitments of $31.3 million. Our total commitment is $2.0 million which ends on the fourth anniversary of the initial closing date, unless extended to the fifth anniversary. The commitment to this RBIC has been approved by the governing bodies of the various partners and was approved by the United States Department of Agriculture in April 2017.

NOTE 5: MEMBERS' EQUITY

Regulatory Capitalization Requirements

Select Capital Ratios

	As of March 31, 2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:				
Common equity tier 1 ratio	**17.5%**	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**17.5%**	6.0%	2.5%*	8.5%
Total capital ratio	**17.9%**	8.0%	2.5%*	10.5%
Permanent capital ratio	**17.6%**	7.0%	0.0%	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	**18.5%**	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**18.9%**	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 less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the inclusion of the allowance for loan losses as a deduction to risk-adjusted assets for the permanent capital ratio.

These ratios are based on a three-month average daily balance in accordance with FCA Regulations and are calculated as follows:

- Common equity tier 1 ratio is statutory minimum purchased member stock, other required member stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to retirement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required member stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt, and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for credit losses subject to certain limitations, less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt, and preferred stock subject to certain limitations, less certain allocated and purchased investments in other System institutions divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to retirement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

Effective January 1, 2017, the regulatory capital requirements allow for allotment agreements for only the permanent capital ratio and, as such, any stock in excess of our AgriBank required investment was not included in the common equity tier 1, tier 1 capital, total capital, or leverage ratios. We had no allocated excess stock at March 31, 2017 or December 31, 2016.

Refer to Note 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 March 31, 2017 or December 31, 2016.

Non-Recurring

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)	**As of March 31, 2017**				**Three months ended March 31, 2017**
	Fair Value Measurement Using			Total Fair	
	Level 1	Level 2	Level 3	Value	Total Gains
Impaired loans	**$ --**	**$555**	**$ --**	**$555**	**$323**
Other property owned	**--**	**--**	**--**	**--**	**7**
	As of December 31, 2016				Three months ended March 31, 2016
	Fair Value Measurement Using			Total Fair	
	Level 1	Level 2	Level 3	Value	Total Gains
Impaired loans	$ --	$1,512	$ --	$1,512	$53
Other property owned	--	1,110	--	1,110	--

Valuation Technique

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

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

NOTE 8: SUBSEQUENT EVENTS

We have evaluated subsequent events through May 10, 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.