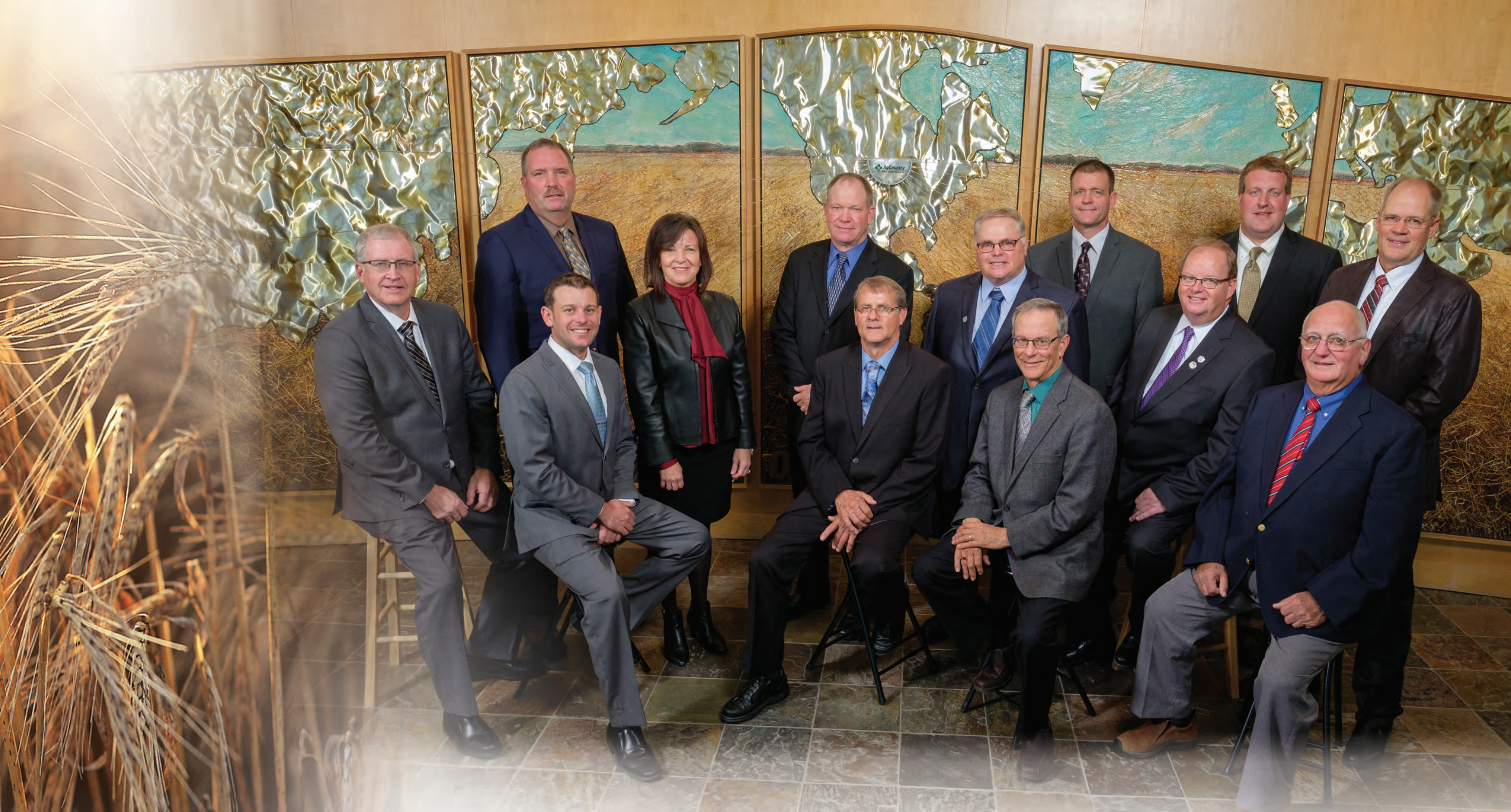
2016 Annual Report
AgCountry Farm Credit Services, ACA

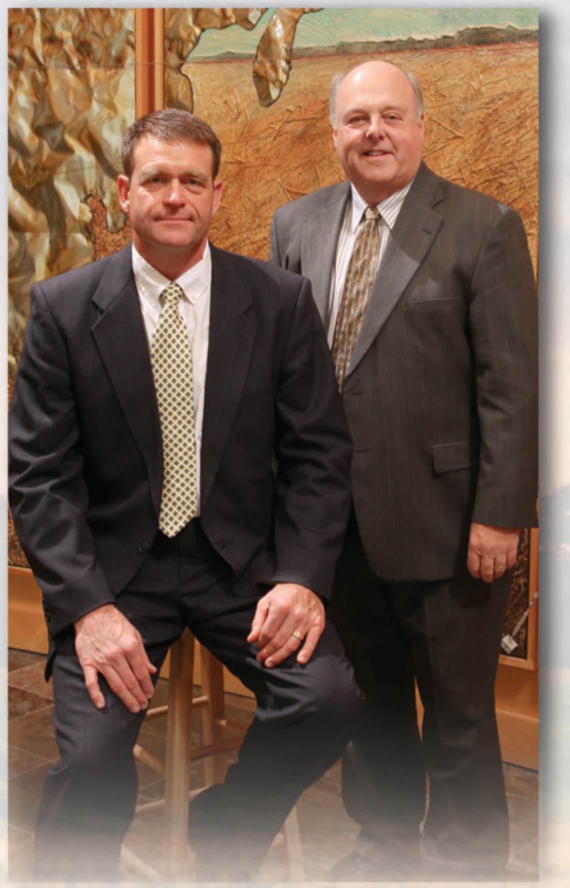


Our role is to look forward and make decisions that position the organization to be viable, strong, and in a position to provide value to our customers well into the future.

AgCountry Farm Credit Services Board of Directors

Back Row Standing: (left to right)
Kurt Elliott, Rynell Schock, Dale Zahradka, Glen Brandt, Greg Nelson (Chair), Greg Sabolik and Michael Long

Front Row Sitting: (left to right)
Mark Ellison, Michael Zenker, Leif Aakre (Vice-Chair) William Muhs, Alton Hermunslie and Jack Hansen



Left to right:

Greg Nelson
AgCountry Farm Credit Services
Chair of the Board

Robert C. Bahl
President and
Chief Executive Officer

Agriculture Today

Agriculture saw some significant challenges again in 2016 as the commodity markets continued to be lower than ideal. Likewise, many areas in our territory were hit with excess precipitation that caused some headaches. Fortunately, the majority of our farmers saw record yields in the 2016 growing season, which compensated for the low commodity prices and enabled many producers to exceed breakeven. As for your cooperative, AgCountry FCS enjoyed a solid year of growth and earnings. Our financial strength as an association positions us very well to continue to work with our member-owners as you go through these times.

Patronage Payment

Because of the results we achieved, in January 2017 we were happy to announce the Board's decision to declare a $21 million patronage distribution to member-owners based on 2016 business. We work hard to maintain a stable cooperative, and being able to share a portion of our income is something that gives us great pride. While other businesses may send their profits off to investors across the globe, ours go to the farmers, ranchers, and agribusinesses that we serve to benefit the communities in which they live and work. The payment will be distributed in March of 2017.

Looking Ahead...

In November 2016, your AgCountry Board and the United FCS Board unanimously approved a merger proposal for the two associations. It is anticipated that the merged association will have more than $7 billion in assets, a diversified portfolio across North Dakota, Minnesota and Wisconsin, and strong levels of capital. Although achieving a successful merger requires many steps, the final decision on the merger rests with the voting stockholders of each association. If the merger receives the required approvals and there are no unexpected delays, the anticipated merger date is July 1, 2017.

Our people, our success

First, we want to thank you, our customers. Our mission is to provide ag financial expertise to help you succeed. All that we do is directed at bringing more value to you and your operation to help you achieve your goals. We're proud to be associated with the farmers, farm families, and agribusinesses we serve. Please accept our deepest appreciation for your business and relationship.

We also want to thank our dedicated team, who are committed to providing our customers with the highest level of service. We're fortunate to have a team of exceptional individuals who understand agriculture, rural America, and the value of working together.

We also want to recognize the leadership of our Board of Directors. Their direction positions AgCountry for tomorrow, and we thank them for their commitment to our cooperative.

Thank you for entrusting us with your business, and we wish you the best in 2017 and beyond.

Greg Nelson

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

Robert C Bahl

Robert C. Bahl
President/CEO

AgCountry Farm Credit Services Senior Leadership Team

Left to Right:

Mark Rehovsky - SVP Chief Marketplace Officer, Becky Thibert - VP Strategic Technology, Robert C. Bahl - President/Chief Executive Officer, Jeni Strand - VP Human Resources, Howard Olson - SVP Insurance and Communications, Jeremy Oliver - SVP Finance & Operations/CFO, Jessica Fyre - SVP General Counsel, Kenneth C. Knudsen - SVP Credit/Chief Credit Officer, Randy Aberle - SVP Agribusiness and Capital Markets

Our mission at AgCountry is to provide ag financial expertise to help our customers succeed.

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AgCountry Farm Credit Services, ACA

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

AgCountry Farm Credit Services, ACA

(dollars in thousands)

	2016	2015	2014	2013	2012
Statement of Condition Data					
Loans	**$ 5,049,534**	$ 4,811,872	$ 4,518,880	$ 4,202,521	$ 3,812,734
Allowance for loan losses	**14,284**	13,394	16,458	15,741	12,309
Net loans held to maturity	**5,035,250**	4,798,478	4,502,422	4,186,780	3,800,425
Finance leases held for sale	**70,356**	--	--	--	--
Net loans	**5,105,606**	4,798,478	4,502,422	4,186,780	3,800,425
Investment in AgriBank, FCB	**111,196**	109,986	100,562	104,690	96,977
Investment securities	**7,059**	7,059	7,059	2,756	720
Other assets	**238,609**	277,815	292,542	256,270	221,233
Total assets	**$ 5,462,470**	$ 5,193,338	$ 4,902,585	$ 4,550,496	$ 4,119,355
Obligations with maturities of one year or less	**$ 4,293,754**	$ 4,109,096	$ 3,901,460	$ 3,637,431	$ 3,287,103
Total liabilities	**4,293,754**	4,109,096	3,901,460	3,637,431	3,287,103
Capital stock and participation certificates	**7,370**	7,516	7,621	8,065	8,049
Unallocated surplus	**1,161,346**	1,076,726	993,504	905,000	824,203
Total members' equity	**1,168,716**	1,084,242	1,001,125	913,065	832,252
Total liabilities and members' equity	**$ 5,462,470**	$ 5,193,338	$ 4,902,585	$ 4,550,496	$ 4,119,355
Statement of Income Data					
Net interest income	**$ 131,193**	$ 120,906	$ 120,589	$ 109,573	$ 99,642
Provision for (reversal of) credit losses	**4,088**	(1,235)	828	(553)	1,120
Other expenses, net	**21,485**	23,919	19,257	18,729	21,379
Net income	**$ 105,620**	$ 98,222	$ 100,504	$ 91,397	$ 77,143
Key Financial Ratios					
Return on average assets	**2.0%**	2.0%	2.2%	2.2%	2.1%
Return on average members' equity	**9.4%**	9.5%	10.5%	10.5%	9.7%
Net interest income as a percentage of average earning assets	**2.6%**	2.7%	2.8%	2.8%	3.0%
Members' equity as a percentage of total assets	**21.4%**	20.9%	20.4%	20.1%	20.2%
Net charge-offs (recoveries) as a percentage of average loans	**0.1%**	0.0%	0.0%	(0.1%)	0.1%
Allowance for loan losses as a percentage of loans	**0.3%**	0.3%	0.4%	0.4%	0.3%
Permanent capital ratio	**17.2%**	16.6%	16.2%	15.8%	16.6%
Total surplus ratio	**17.1%**	16.5%	16.0%	15.7%	16.4%
Core surplus ratio	**17.1%**	16.5%	16.0%	15.7%	16.4%
Net Income Distributed					
Patronage distributions payable to members	**$ 21,000**	$ 15,000	$ 12,000	$ 10,600	$ --

The patronage distribution to members accrued for the year ended December 31, 2016, is distributed in cash during the first quarter of 2017. The patronage distributions accrued for the years ended December 31, 2015, 2014, and 2013, were distributed in cash during the first quarter of the subsequent year. No income was distributed to members in the form of cash patronage, dividends, stock, or allocated surplus for the year ended December 31, 2012.

MANAGEMENT'S DISCUSSION AND ANALYSIS

AgCountry Farm Credit Services, ACA

The following commentary reviews the consolidated financial condition and consolidated results of operations of AgCountry Farm Credit Services, ACA (the Association) and its subsidiaries, AgCountry Farm Credit Services, FLCA and AgCountry Farm Credit Services, PCA (subsidiaries) and provides additional specific information. The accompanying Consolidated Financial Statements and Notes to the Consolidated Financial Statements also contain important information about our financial condition and results of operations.

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of January 1, 2017, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 73 customer-owned cooperative lending institutions (associations). The System serves all 50 states, Washington D.C., and Puerto Rico. This network of financial cooperatives is owned and governed by the rural customers the System serves.

AgriBank, FCB (AgriBank), a System bank, and its affiliated Associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). We are an affiliated Association in the District.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System. The Farm Credit System Insurance Corporation (FCSIC) ensures the timely payment of principal and interest on Systemwide debt obligations and the retirement of protected borrower capital at par value.

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of AgriBank's or the AgriBank District's financial reports, contact us at:

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Fargo, ND 58108-6020	St. Paul, MN 55101
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www.agcountry.com	www.agribank.com
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Our Annual Report is available on our website no later than 75 days after the end of the calendar year and members are provided a copy of such report no later than 90 days after the end of the calendar year. The Quarterly Reports are available on our website no later than 40 days after the end of each calendar quarter. To request free copies of our Annual or Quarterly Reports, contact us as stated above.

MERGER ACTIVITY

Under a June 2016 letter of intent, the Boards of Directors of AgCountry Farm Credit Services, ACA and United FCS, ACA made a strategic decision to pursue a merger of the two organizations. The consolidated association would be named AgCountry Farm Credit Services, ACA and would be headquartered in Fargo, ND. Upon completion of the merger, our association would serve nearly 18,000 customers in 65 counties in Minnesota, North Dakota, and Wisconsin, and have assets of over $7 billion.

We are currently working on this initiative. Providing that approval is received from FCA, our regulator, in the anticipated timeframe, customer-owners will vote on the merger in early 2017. Should they approve, the merger will be effective July 1, 2017.

FORWARD-LOOKING INFORMATION

This Annual Report includes forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. Words such as "anticipate", "believe", "estimate", "may", "expect", "intend", "outlook", and similar expressions are used to identify such forward-looking statements. These statements reflect our current views with respect to future events. However, actual results may differ materially from our expectations due to a number of risks and uncertainties that may be beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, financial markets, international, and economic conditions and developments in the United States (U.S.) and abroad,
- economic fluctuations in the agricultural and farm-related business sectors,
- unfavorable weather, disease, and other adverse climatic or biological conditions that periodically occur and impact agricultural productivity and income,
- changes in U.S. government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency actions relating to events involving the U.S. government, other government-sponsored enterprises, and other financial institutions,
- actions taken by the Federal Reserve System in implementing monetary policy,
- credit, interest rate, and liquidity risks inherent in our lending activities, and
- changes in our assumptions for determining the allowance for loan losses, other-than-temporary impairment, and fair value measurements.

AGRICULTURAL AND ECONOMIC CONDITIONS

World Gross Domestic Product (GDP) is projected to grow 3.1% in 2017 compared to 2.5% in 2016 and 2.8% in 2015. Global economic growth in 2016 was relatively static due to lower commodity prices, weakening currency valuations for emerging market economies, slower growth in China, and uneven rates of growth in developed economies around the world. Emerging Asia's economy is projected to expand 6.1% in 2017 compared to 6.0% in 2016 and 6.6% in

2015. Growth is expected to remain relatively flat from 2016 due to softer global demand for many export dependent economies. Although still experiencing high levels of growth, the Chinese economy is expected to grow at a slower rate than in the past due to the government's willingness to keep struggling state-owned enterprises afloat and the allocation of capital to less dynamic firms. Latin America's economy is projected to have stagnant growth in 2016 compared to a contraction of 1.0% in 2015, primarily due to Brazil's recession. A weak external environment coupled with political uncertainty, high inflation, and public and private sector debt concerns will make it difficult for the region to avoid a period of very slow growth. Latin America's economy is projected to rebound in 2017 with growth of 2.5%. As a result of the United Kingdom's (UK) vote to leave the European Union (EU), UK GDP is projected to grow 1.4% in 2017 compared to 1.8% in 2016 and 2.3% in 2015. The UK vote is also expected to slow growth for other EU countries, particularly those that have close trading relationships with the UK. The EU GDP is projected to grow 1.8% in 2017 compared to 1.8% in 2016 and 1.9% in 2015.

U.S. GDP is projected to grow 2.7% in 2017 compared to 1.6% in 2016 and 2.6% in 2015. Growth in 2016 was impacted by weak foreign demand and a strong dollar putting pressure on exports. The strength of the U.S. dollar is expected to affect competitiveness of U.S. exports in 2017. Continued improvement in labor markets and rising wages should support consumer spending in 2017 and the last quarter of 2016. Inflation is expected to increase 1.1% in 2016 and could increase 1.9% in 2017. Household spending has been rising moderately but business fixed investment has remained soft through the fourth quarter of 2016.

The Federal Reserve decided to raise the target range for the federal funds rate to 0.50% to 0.75% during its December 2016 meeting. The Federal Reserve expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate. The federal funds rate is likely to remain below levels that are expected to prevail in the longer run for some time. In determining the timing and size of future adjustments to the target range for the federal funds rate, the Federal Reserve will assess realized and expected economic conditions relative to its objectives of maximum employment and 2.00% inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. The unemployment rate has been relatively static during 2016, with an estimated unemployment rate (seasonally adjusted) of 4.60% in November 2016. Inflation has increased since earlier in 2016 but is still below the Federal Reserve's 2.00% objective, partly reflecting declines in energy prices and in prices of non-energy imports. The Federal Reserve's economic projections released during the December 2016, meeting project three 0.25% rate increases in 2017 and three rate increases in 2018 with year-end target average rates of 1.38% and 2.13%, respectively.

Net farm income for 2016 is projected to decrease 11.5% from 2015, to $71.5 billion. If realized, net farm income for 2016 would be the lowest since 2009. The decrease in net farm income is primarily due to lower crop and livestock receipts, but production expenses are expected to ease the reduction in profitability. Production expenses are projected to decrease 2.7% in 2016. Farm asset values are projected to decline 2.2% in 2016 due to the value of farm real estate, animal and animal product inventories, financial assets, and machinery.

Specific Production Conditions

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

Corn: The December 9, 2016, World Agricultural Supply and Demand Estimates (WASDE) report projected total U.S. corn production for 2016/17 at 15.2 billion bushels with 86.8 million harvested acres and a projected yield of 175.3 bushels per acre. Ending stocks are projected at 2.4 billion bushels compared to 1.7 billion bushels for the 2015/16 crop. The projected average farm price for corn is $3.05 to $3.65 per bushel.

Current world ending stocks are projected at 222.3 million metric tons and were increased slightly from November's forecast. Higher projected ending stocks are the result of increased production in Brazil and Southeast Asia.

Soybeans: The December 9, 2016, WASDE report projected total U.S. oilseed production for 2016/17 at 4.4 billion bushels with 83.0 million harvested acres and a projected yield of 52.5 bushels per acre. Soybean supply (4.6 billion bushels) and use (4.1 billion bushels) projections for 2016/17 remain unchanged from November estimates. Ending stocks are projected at 0.5 billion bushels compared to 0.2 billion bushels for the 2015/16 crop. The U.S. season-average soybean price for 2016/17 is forecast at $8.70 to $10.20 per bushel.

Sugar Beets: Growing and harvest conditions were generally favorable in 2016 and produced an above average crop overall. The crop in the northern region of our territory was poor due to excess moisture, and the crop in the southern region approached record levels. Leaf spot disease was prevalent in some areas, which was a large factor in the crop's lower sugar content. Beet sugar price is lower due to oversupply and flat-to-declining demand. By-product prices are competing against the drop in price of corn feed stocks. Lower sugar content, relatively low prices for sugar and by-products, and higher operating costs have contributed to lower payments to growers for the 2016 crop. The final payment for the 2015 crop was less than expected for many growers as the quality of beet piles deteriorated due to warm fall temperatures. Cooperatives have increased deep-freeze capacity through more ventilated piles to avoid deterioration issues in the future. Sugar beet stock prices have softened in recent months due to lower profitability of the crop. Nearly the entire U.S. beet sugar crop is from genetically modified organisms (GMO) sugar beets. With an ongoing shift towards foods that are non-GMO, there is an increased demand for cane sugar, which is not a GMO crop. Scientific studies have shown beet sugar is no different chemically than sugarcane sugar. However, public perception of GMO products has been negative and this is having an effect on the beet sugar industry.

Wheat: The December 9, 2016, WASDE report indicated total U.S. wheat production for 2016/17 is forecast at 2.3 billion bushels with 43.9 million harvested acres and a projected yield of 52.6 bushels per acre. Wheat supply (3.4 billion bushels) and use (2.3 billion bushels) projections for 2016/17 remain unchanged from November estimates. Ending stocks are projected at 1.1 billion bushels compared to 1.0 billion bushels for the 2015/16 crop. The U.S. season-average wheat price for 2016/17 is forecast at $3.60 to $3.80 per bushel.

Current world ending stocks are projected at 252.1 million metric tons and increased slightly from November's forecast. Higher projected 2016/17 wheat production for Australia, China, Brazil, and the European Union further expands the world wheat supply. Total consumption is also projected to increase in December but will not keep pace with increasing supply.

Cattle: According to the December 15, 2016, United States Department of Agriculture (USDA) Livestock, Dairy, and Poultry Outlook, cattle placements were 5% lower in October 2016 compared to the prior year. The reduced pace of placements is offset by supplies of slaughter ready cattle and higher dressed weights, which is expected to result in increased beef supplies in the first half of 2017. Production is projected to increase from 2016 with 6.2 billion pounds in the first quarter and 6.3 billion pounds projected for the second quarter. Cattle prices in the first half of 2017 are expected to be more than 18% below the first half of 2016.

Hogs: The December 23, 2016, USDA Quarterly Hogs and Pigs Report reported the market hog inventory increased 4% from 2015 to 65.4 million head as of December 1, 2016. As of December 1, 2016, the breeding inventory increased 1% from the prior year and 1% from the prior quarter. The total all hogs and pig inventory at 71.5 million head is the highest inventory of all hogs and pigs since quarterly U.S. estimates began in 1988. The average pigs saved per litter was a record high 10.63 for the September to November 2016 time period, compared to 10.53 a year ago. Sows farrowing during the September to November 2016 time period increased 4% from the prior year to 3.0 million head. Barrow and gilt prices for 2016 are projected at $45.78 per cwt and prices are projected to decrease slightly at $39.00 to $41.00 per cwt in 2017.

Dairy: According to the December 15, 2016, USDA Livestock, Dairy, and Poultry Outlook, the milk production forecast for 2017 is 216.8 billion pounds and is a 2.1% year-over-year increase. Milk per cow in the fourth quarter of 2016 is forecast at 5,620 pounds per head. Milk per cow for the first quarter of 2017 is forecast 10 pounds higher but is unchanged for the remainder of 2017. The number of cows in milk is projected to increase from 9.3 million head in the fourth quarter of 2016 to 9.4 million head in 2017. The all-milk price for 2016 is projected at $16.05 to $16.15 per cwt and the all-milk price for 2017 is estimated at $16.85 to $17.65 per cwt.

Ethanol: Under the Clean Air Act, the Environmental Protection Agency (EPA) is required to set the annual standards for the Renewable Fuel Standard (RFS) program each year. On November 23, 2016, the EPA announced the final Renewable Volume Obligations (RVOs) for 2017. The final RVO for conventional ethanol (corn based) was set at 15.0 billion gallons for 2017 compared to the proposed amount of 14.8 billion gallons in May. According to the Energy Information Administration, the largest effect of the finalized 2017 RFS targets will be on biomass-based diesel consumption, which includes both biodiesel and renewable diesel and helps to meet the RFS targets for use of biomass-based diesel, advanced biofuel, and total renewable fuel. Ethanol production is forecast to average about 990,000 b/d in 2016 and to increase to 1.0 million b/d in 2017. Ethanol consumption is projected to average 940,000 b/d in 2016 and 2017, resulting in the ethanol share of the total gasoline pool averaging 10% in both years.

LOANS HELD TO MATURITY

Loan Portfolio

Total loans held to maturity were $5.0 billion at December 31, 2016, an increase of $237.7 million from December 31, 2015.

Components of Loans

(in thousands)

As of December 31	2016	2015	2014
Accrual loans:			
Real estate mortgage	$ **1,952,401**	$ 1,707,553	$ 1,639,704
Production and intermediate term	**1,667,772**	1,746,521	1,708,371
Agribusiness	**1,119,204**	944,014	792,201
Other	**297,911**	388,518	364,030
Nonaccrual loans	**12,246**	25,266	14,574
Total loans	$ **5,049,534**	$ 4,811,872	$ 4,518,880

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

The increase in total loans from December 31, 2015, was primarily due to increases in our real estate mortgage loans and volume from our AgriBusiness and Capital Markets department and Commercial Finance Group (CFG) alliance. These increases were partially offset by decreased production and intermediate term volume and a portion of our lease portfolio being transferred to held for sale.

We offer variable, fixed, indexed, and adjustable interest rate loan programs and variable and fixed rate lease programs to our borrowers. We determine interest margins charged on each lending program based on cost of funds, credit risk, market conditions, and the need to generate sufficient earnings.

As part of the AgriBank Asset Pool program, we have sold participation interests in real estate loans to AgriBank. The total participation interests in this program were $228.1 million, $267.4 million, and $197.5 million at December 31, 2016, 2015, and 2014, respectively.

Portfolio Distribution

We are chartered to serve eighteen counties in North Dakota and twenty-five counties in Minnesota. Approximately 34.0% of our total loan portfolio was in the twelve counties in our territory bordering the Red River in North Dakota and Minnesota at December 31, 2016. Our territory is geographically dispersed as no other counties in our territory had more than 5.0% concentration in loans. Based upon volume, approximately 41.2% and 32.2% of our loans are to borrowers in the states of North Dakota and Minnesota, respectively, at December 31, 2016. We purchase the remainder of our portfolio outside of North Dakota and Minnesota to support rural America and to diversify our portfolio risk.

Agricultural Concentrations

As of December 31	**2016**	2015	2014
Cash grains	**52.7%**	54.3%	56.0%
Sugar beets	**11.5%**	10.9%	11.2%
Livestock	**6.1%**	5.4%	4.9%
Ethanol	**4.1%**	3.9%	3.0%
Dairy	**3.9%**	3.7%	3.8%
Rural electric and utilities	**3.3%**	3.2%	2.8%
Forestry	**2.9%**	2.6%	2.5%
Telecom	**1.5%**	1.6%	1.5%
Poultry and eggs	**0.8%**	0.9%	0.9%
Other	**13.2%**	13.5%	13.4%
Total	**100.0%**	100.0%	100.0%

Commodities are based on the borrower's primary intended commodity at the time of loan origination and may change due to borrower business decisions as a result of changes in weather, prices, input costs, and other circumstances.

Our production and intermediate term loan portfolio shows some seasonality. Borrowings increase throughout the planting and growing seasons to meet operating and capital needs. These loans are normally at their lowest levels following the harvest and then increase in the spring and throughout the rest of the year as borrowers fund operating needs.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2015. Adversely classified loans increased to 3.0% of the portfolio at December 31, 2016, from 2.2% of the portfolio at December 31, 2015. The increase in adverse loans is due to challenges agricultural producers are experiencing and the resulting trend in our loan portfolio to slightly weaker credit performance classifications. 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 December 31, 2016, $142.7 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands)

As of December 31	**2016**	2015	2014
Loans:			
Nonaccrual	**$ 12,246**	$ 25,266	$ 14,574
Accruing restructured	**1,765**	59	53
Accruing loans 90 days or more past due	**59**	1,036	--
Total risk loans	**14,070**	26,361	14,627
Other property owned	**--**	--	--
Total risk assets	**$ 14,070**	$ 26,361	$ 14,627
Total risk loans as a percentage of total loans	**0.3%**	0.5%	0.3%
Nonaccrual loans as a percentage of total loans	**0.2%**	0.5%	0.3%
Current nonaccrual loans as a percentage of total nonaccrual loans	**64.9%**	38.3%	80.8%
Total delinquencies as a percentage of total loans	**0.2%**	0.7%	0.2%

Note: Accruing loans include accrued interest receivable.

Our risk assets have decreased from December 31, 2015, and remained at acceptable levels. Total risk loans as a percentage of total loans were well within our established risk management guidelines.

The decrease in nonaccrual loans was primarily due to a large relationship in our agribusiness loan category settling during the first quarter of 2016. Nonaccrual loans remained at an acceptable level at December 31, 2016, 2015, and 2014.

The increase in accruing restructured loans was primarily the result of upgrading a nonaccrual relationship in our communications loan category to accrual status.

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.

The decrease in total delinquencies as a percentage of total loans was primarily due to a large relationship in our agribusiness loan category that was delinquent at December 31, 2015, settling during the first quarter of 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 the 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 December 31	**2016**	2015	2014
Allowance as a percentage of:			
Loans	**0.3%**	0.3%	0.4%
Nonaccrual loans	**116.6%**	53.0%	112.9%
Total risk loans	**101.5%**	50.8%	112.5%
Net charge-offs as a percentage of average loans	**0.1%**	0.0%	0.0%
Adverse assets to risk funds	**14.6%**	11.3%	9.6%

The allowance for loan losses increased from $13.4 million at December 31, 2015, to $14.3 million at December 31, 2016, an increase of $0.9 million. The increase was primarily due to higher loan portfolio balances and a decline in overall portfolio credit quality. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2016.

Additional loan information is included in Notes 3, 13, 14, and 15 to the accompanying Consolidated Financial Statements.

LEASES HELD FOR SALE

Effective January 1, 2017, we sold $69.7 million of our finance lease volume and $79.0 million of our equipment/operating lease volume to Farm Credit Leasing (FCL), a System entity specializing in leasing products and providing industry leasing expertise. We simultaneously purchased approximately 66% interest in the cash flows of the leases sold. This transaction resulted in a gain of $1.2 million during 2016 as a result of writing up the leases to fair value. On the basis of the sales agreement, the fair value of assets relating to the sale were reported as “Finance leases held for sale” and “Leased assets held for sale” on our Consolidated Statements of Condition at December 31, 2016.

INVESTMENT SECURITIES

As part of our earning asset mix, we held investment securities. Investment securities totaled $7.1 million at December 31, 2016, 2015, and 2014. Our investment securities consisted of Agricultural and Rural Community bonds.

The investment portfolio is evaluated for other-than-temporary impairment. To date, we have not recognized any impairment on our investment portfolio.

Additional investment securities information is included in Note 6 to the accompanying Consolidated Financial Statements.

OTHER INVESTMENT

We and other Farm Credit Institutions are among the limited partners for a $154.5 million Rural Business Investment Company (RBIC) established on October 3, 2014. The RBIC facilitates equity and debt investments in agriculture-related businesses that create growth and job opportunities in rural America. Our total commitment is $7.0 million through October 2019. Our investment in the RBIC totaled $2.6 million, $1.5 million, and $0.3 million at December 31, 2016, 2015, and 2014, respectively.

The investment was evaluated for impairment. No impairments were recognized on this investment during 2016, 2015, or 2014. During the year ended December 31, 2016, we received a distribution of $0.1 million as the RBIC sold an investment. The distribution was a return of contributed capital and, therefore, reduced our recorded investment. To date, no income has been distributed from the RBIC. We received no distributions during the years ended December 31, 2015, or 2014.

Additional other investment information is included in Note 7 to the accompanying Consolidated Financial Statements.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands)

For the year ended December 31	**2016**	2015	2014
Net income	**$ 105,620**	$ 98,222	$ 100,504
Return on average assets	**2.0%**	2.0%	2.2%
Return on average members' equity	**9.4%**	9.5%	10.5%

Changes in the chart above relate directly to:

- changes in income discussed below,
- changes in assets discussed in the Loan Portfolio, Investment Securities, and Other Investment sections, and
- changes in capital discussed in the Capital Adequacy section.

Changes in Significant Components of Net Income

	For the year ended December 31			Increase (decrease) in net income	
(in thousands)	**2016**	2015	2014	**2016 vs 2015**	2015 vs 2014
Net interest income	**$ 131,193**	$ 120,906	$ 120,589	**$ 10,287**	$ 317
Provision for (reversal of) credit losses	**4,088**	(1,235)	828	**(5,323)**	2,063
Patronage income	**18,204**	15,332	17,266	**2,872**	(1,934)
Other income, net	**39,050**	38,438	39,049	**612**	(611)
Operating expenses	**79,034**	77,034	72,966	**(2,000)**	(4,068)
(Benefit from) provision for income taxes	**(295)**	655	2,606	**950**	1,951
Net income	**$ 105,620**	$ 98,222	$ 100,504	**$ 7,398**	$ (2,282)

Net Interest Income

Changes in Net Interest Income

(in thousands)

For the year ended December 31	**2016 vs 2015**	2015 vs 2014
Changes in volume	**$ 12,504**	$ 7,437
Changes in interest rates	**(2,653)**	(3,816)
Changes in nonaccrual income and other	**436**	(3,304)
Net change	**$ 10,287**	$ 317

Net interest income included income on nonaccrual loans that totaled $1.0 million, $0.5 million, and $3.8 million in 2016, 2015, and 2014, respectively. Nonaccrual income is recognized when received in cash, collection of the recorded investment is fully expected, and prior charge-offs have been recovered.

Net interest margin (net interest income as a percentage of average earning assets) was 2.6%, 2.7%, and 2.8% in 2016, 2015, and 2014, respectively.

Provision for (Reversal of) Credit Losses

The provision for (reversal of) credit losses in the Consolidated Statements of Income includes a provision for loan losses and a provision for credit losses on unfunded commitments. The provision for loan losses of $3.9 million at December 31, 2016, is primarily due to growth in our loan portfolio combined with a decline in overall portfolio credit quality. During 2016, a $0.2 million provision for credit losses on unfunded commitments was recorded to increase the reserve on unfunded commitments. Additional discussion is included in Note 3 to the accompanying Consolidated Financial Statements.

Patronage Income

We received patronage income based on the average balance of our note payable to AgriBank. The patronage rates were 25.6 basis points, 26.0 basis points, and 33.5 basis points in 2016, 2015, and 2014, respectively. We recorded patronage income from AgriBank of $10.6 million, $9.9 million, and $12.1 million in 2016, 2015, and 2014, respectively.

Since 2009, we have participated in the AgriBank Asset Pool program in which we sell participation interests in certain real estate loans to AgriBank. As part of this program, we received earnings generated by the loans placed in the Asset Pool in an amount that approximated the net earnings of the loans. Net earnings represents the net interest income associated with these loans adjusted for certain fees and costs specific to the related loans as well as adjustments deemed appropriate by AgriBank related to the credit performance of the loans, as applicable. In addition, we received patronage income in an amount that approximated the wholesale patronage had we retained the volume. We recorded asset pool income of $5.4 million, $5.2 million, and $4.9 million in 2016, 2015, and 2014, respectively.

Beginning in 2016, we also received patronage of $2.1 million related to an increase in the wholesale spread on our note payable.

Patronage distributions for the programs discussed above are declared solely at the discretion of AgriBank's Board of Directors.

We also received patronage from CoBank, ACB (CoBank), a System bank, Farm Credit Foundations (Foundations), and Northwest Farm Credit Services, ACA totaling $0.2 million in each of the years ended 2016, 2015, and 2014.

Operating Expenses

Components of Operating Expenses

(dollars in thousands)

For the year ended December 31	**2016**	2015	2014
Salaries and employee benefits	**$ 45,769**	$ 47,025	$ 43,163
Purchased and vendor services	**9,818**	8,361	7,305
Communications	**881**	887	911
Occupancy and equipment	**5,020**	4,778	4,955
Advertising and promotion	**1,208**	1,042	1,318
Examination	**1,516**	1,286	1,192
Farm Credit System insurance	**7,235**	5,196	4,543
Other	**7,587**	8,459	9,579
Total	**$ 79,034**	$ 77,034	$ 72,966
Less: Related services and certain miscellaneous income, net	**33,609**	33,780	34,512
Net operating expense	**$ 45,425**	$ 43,254	$ 38,454
Net operating rate	**0.9%**	0.9%	0.9%

The calculation of net operating rate is operating expenses less related services and certain miscellaneous income as a percentage of average earning assets.

Salaries and employee benefits expense decreased primarily due to reduced employee incentives compared to the prior year and lower pension expense. However, we expect pension expense to decrease in 2017 primarily driven by a plan amendment during 2016 and increased return on assets as a result of increased funding, partially offset by decreases in discount rate and expected return on plan assets assumptions.

Purchased and vendor services increased primarily due to higher cost services from our technology provider.

We have been notified by our regulator, the FCA, that our examination fees are expected to substantially increase in 2017.

FCSIC insurance expense increased in 2016 primarily due to an increase in the premium rate charged by FCSIC on accrual loans 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 has announced premiums will be 15 bps basis points for 2017. The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time.

(Benefit from) Provision for Income Taxes

The variance in (benefit from) provision for income taxes was related to our estimate of taxes based on taxable income. Patronage distributions to members reduced our tax liability in 2016, 2015, and 2014. Additional discussion is included in Note 11 to the accompanying Consolidated Financial Statements.

FUNDING AND LIQUIDITY

We borrow from AgriBank, under a note payable, in the form of a line of credit, as described in Note 9 to the accompanying Consolidated Financial Statements. This line of credit is our primary source of liquidity and is used to fund operations and meet current obligations. At December 31, 2016, we had $482.5 million available under our line of credit. We generally apply excess cash to this line of credit.

Note Payable Information

(dollars in thousands)

For the year ended December 31	**2016**	2015	2014
Average balance	**$ 4,124,471**	$ 3,801,165	$ 3,615,358
Average interest rate	**1.4%**	1.2%	1.2%

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.

We have entered into a Standby Commitment to Purchase Agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac), a System institution, to help manage credit risk. If a loan covered by the agreement goes into default, subject to certain conditions, we have the right to sell the loan to Farmer Mac. This agreement remains in place until the loan is paid in full. The guaranteed volume of loans subject to the purchase agreement was $42.7 million, $41.5 million, and $63.8 million at December 31, 2016, 2015, and 2014, respectively. We paid Farmer Mac commitment fees totaling $0.2 million, $0.4 million, and $0.7 million in 2016, 2015, and 2014, respectively. These amounts are included in “Other operating expenses” in the Consolidated Statements of Income. Sales of loans to Farmer Mac under this agreement were $13.5 million in 2015. There were no loans sold to Farmer Mac under this agreement in 2016 or 2014.

CAPITAL ADEQUACY

Total members' equity increased $84.5 million from December 31, 2015, primarily due to net income for the year partially offset by patronage distribution accruals.

Members' Equity Position Information

(dollars in thousands) As of December 31	**2016**	2015	2014	Regulatory Minimums
Members' equity	**$ 1,168,716**	$ 1,084,242	$ 1,001,125	
Surplus as a percentage of members' equity	**99.4%**	99.3%	99.2%	
Permanent capital ratio	**17.2%**	16.6%	16.2%	7.0%
Total surplus ratio	**17.1%**	16.5%	16.0%	7.0%
Core surplus ratio	**17.1%**	16.5%	16.0%	3.5%

Our capital plan is designed to maintain an adequate amount of surplus and allowance for loan losses, which represents our reserve to capitalize growth and for adversity prior to impairment of stock. We manage our capital to allow us to meet member needs and protect member interests, both now and in the future.

Additional discussion of these regulatory ratios, along with discussion of new regulations and capital requirements which became effective January 1, 2017, are included in the Regulatory Matters section and in Note 10 to the accompanying Consolidated Financial Statements.

In addition to these regulatory requirements, we established an optimum common equity tier 1 (CET1) target range. This target allows us to maintain a capital base adequate for sound risk bearing capacity, future growth and investment in new products and services. The target is subject to revision as circumstances change. As of December 31, 2016, our optimum CET1 target range was 10% to 18%, as defined in our 2017 capital plan. We anticipate that we will exceed all regulatory requirements, including the capital conservation buffer. Further, we expect we will be within or exceed our targeted range for capital adequacy measures.

The changes in our capital ratios reflect changes in capital and assets. Refer to the Loan Portfolio, Investment Securities, and Other Investment sections for further discussion of the changes in assets. Additional members' equity information is included in Note 10 to the accompanying Consolidated Financial Statements.

RELATIONSHIP WITH AGRIBANK

Borrowing

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement (GFA), as discussed in Note 9 to the accompanying Consolidated Financial Statements, governs this lending relationship.

The components of cost of funds under the GFA include:

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

In the periods presented, we were not subject to the risk premium component. Certain factors may impact our cost of funds, which primarily includes market interest rate changes impacting marginal cost of debt as well as changes to pricing methodologies impacting the spread components described above.

The marginal cost of debt approach simulates matching the cost of underlying debt with similar terms as the anticipated terms of our loans to borrowers. This approach substantially protects us from market interest rate risk. We may occasionally engage in funding strategies that result in limited interest rate risk with approval by AgriBank's Asset Liability Committee.

Investment

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing distributed AgriBank surplus. As of December 31, 2016, we were required by AgriBank to maintain an investment 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. AgriBank's current bylaws allow AgriBank to increase the required investment to 4.0%. In December 2016, AgriBank's Board approved the 2017 capital plan, which amended the required stock investments for affiliated Associations, effective January 1, 2017. The new required investment will be the lesser of 4.0% or a multiple component calculation based on a percentage of our average quarterly balance of our note payable to AgriBank with a higher percentage on balances above a sustainable growth rate and includes a component for additional investments under the asset pool program. The 2017 component requirements are currently 2.25% on average note payable, with an additional 4.5% on growth in excess of a 5.5% sustainable growth rate and an 8.0% investment under the asset pool program.

As of December 31, 2016, we were required to hold AgriBank stock equal to 8.0% of the quarter end balance in the AgriBank Asset Pool program.

At December 31, 2016, $70.9 million of our investment in AgriBank consisted of stock representing distributed AgriBank surplus and $40.3 million consisted of purchased investment. For the periods presented in this report, we have received no dividend income on this stock investment, and we do not anticipate any in future years.

Patronage

We receive different types of discretionary patronage from AgriBank, which is paid in cash. AgriBank's Board of Directors sets the level of:

- patronage on our note payable with AgriBank and
- patronage based on the balance and net earnings of loans in the AgriBank Asset Pool program.

Purchased Services

We purchase various services from AgriBank including certain financial and retail systems, financial reporting services, tax reporting services, technology services, insurance services, and internal audit services.

The total cost of services we purchased from AgriBank was $0.3 million, $0.3 million, and $0.4 million in 2016, 2015, and 2014, respectively. Costs of services purchased from AgriBank are partially dependent on the number of clients utilizing the services. If the number of clients decreases, the cost of services may increase.

During 2016, District Associations and AgriBank conducted research related to the creation of a separate service entity to provide many of the business services offered by AgriBank. A separate service entity may allow District Associations and AgriBank to develop and maintain long term cost effective technology and business services. If pursued, the service entity formation would require approval by the FCA and would be owned by certain District Associations and AgriBank. We expect to have a decision to submit an application to the FCA by the end of the first quarter of 2017.

Impact on Members' Investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our members' investment.

OTHER RELATIONSHIPS AND PROGRAMS

Relationships with Other Farm Credit Institutions

FCS Commercial Finance Group: We participate in the CFG alliance with certain other associations in the AgriBank District to better meet the financial needs of agricultural producers and agribusiness operations. CFG is directed by representatives from participating associations. The income, expense, and credit risks are allocated based on each association's participation interest of the CFG volume. Each association determines its commitment for new volume opportunities based on its capacity and preferences. We had $1.1 billion, $905.3 million, and $693.5 million of CFG volume at December 31, 2016, 2015, and 2014, respectively. We also had $562.7 million of available commitment on CFG loans at December 31, 2016.

ProPartners Financial: We participate in ProPartners Financial (ProPartners) alliance with certain other associations in the Farm Credit System to provide producer financing through agribusiness that sells crop inputs. ProPartners is directed by representatives from participating associations. The income, expense, and credit risks are allocated based on each association's participation interest of the ProPartners volume. Each association's allocation is established based on mutual agreement of the owners. We had $141.1 million, $146.0 million, and $130.7 million of ProPartners volume at December 31, 2016, 2015, and 2014, respectively. We also had $170.9 million of available commitment on ProPartners loans at December 31, 2016.

Federal Agricultural Mortgage Corporation: We have entered into a Standby Commitment to Purchase Agreement with Farmer Mac. This agreement allows us to sell loans identified under the agreement to Farmer Mac. Refer to the Funding and Liquidity section for further discussion of this agreement.

Farm Credit Leasing: We have an agreement with FCL to originate and service all new lease transactions. We purchase a participation interest in the cash flows of the transaction. Effective January 1, 2017, we sold $69.7 million of our finance lease volume and $79.0 million of our equipment/operating lease volume to FCL. We simultaneously purchased approximately 66% interest in the cash flows of the leases sold. This transaction resulted in a gain of $1.2 million during 2016 as a result of writing up the leases to fair value. On the basis of the sale agreement, the fair value of assets relating to the sale has been classified as held for sale on the Consolidated Statements of Condition. This arrangement provides our members with a broad selection of product offerings and enhanced lease expertise.

Farm Credit Financial Partners, Inc.: Our customer relationship, reporting, internet, network security, loan accounting, loan origination, online banking, mobile banking, and general ledger systems are provided by or through Farm Credit Financial Partners, Inc. (FPI), a System service corporation, which provides technology and other operational services to its owners. As part of this relationship, we had an equity investment in FPI of $2.8 million, $2.7 million, and $2.7 million as of December 31, 2016, 2015, and 2014, respectively. The total cost of services we purchased from FPI was $8.3 million, $6.9 million, and $5.8 million in 2016, 2015, and 2014, respectively.

CoBank, ACB: We have a relationship with CoBank, ACB (CoBank), a System bank, which involves purchasing and selling participation interests in loans. As part of this relationship, our equity investment in CoBank was $1.1 million, $1.1 million, and $1.0 million at December 31, 2016, 2015, and 2014, respectively.

Farm Credit Foundations: We have a relationship with Farm Credit Foundations (Foundations), which involves purchasing human resource information systems, and benefit, payroll, and workforce management services. As of December 31, 2016, 2015, and 2014, our investment in Foundations was $0.1 million. The total cost of services we purchased from Foundations was $0.3 million, $0.4 million, and $0.4 million in 2016, 2015, and 2014, respectively.

Rural Business Investment Company: We and other Farm Credit Institutions are among the limited partners for a $154.5 million RBIC established on October 3, 2014. Refer to the Other Investment section for further discussion.

Programs

We are involved in a number of programs designed to improve our technology platform, credit delivery, related services, and marketplace presence.

Equipment Financing: We have entered into agreements with certain dealer networks to provide alternative service delivery channels to borrowers. These trade credit opportunities create more flexible and accessible financing options to borrowers through dealer point-of-purchase financing programs.

Farm Cash Management: We offer Farm Cash Management to our members. Farm Cash Management links members' revolving lines of credit with an AgriBank investment bond to optimize members' use of funds.

FCC Services: We have a strategic support agreement with FCC Services to enable FCC Services to provide reinsurance to crop insurance companies that includes a loss/gain sharing agreement.

REGULATORY MATTERS

Regulatory Capital Requirements

Effective January 1, 2017, the regulatory capital requirements for System banks and associations were modified. The stated objectives of the revised requirements 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, and
- meet the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

The final rule replaced existing core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The final rule also added a tier 1 leverage ratio and an unallocated retained earnings equivalents leverage ratio. The permanent capital ratio continues to remain in effect with the final rule. Refer to Note 10 to the accompanying Consolidated Financial Statements for additional information regarding these ratios.

Investment Securities Eligibility

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 Wall Street Reform and Consumer Protection Act,
- modernize the investment eligibility criteria for System Banks, and
- 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. The FCA has not issued any further information regarding this proposed rule.

REPORT OF MANAGEMENT

AgCountry Farm Credit Services, ACA

We prepare the Consolidated Financial Statements of AgCountry Farm Credit Services, ACA (the Association) and are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Consolidated Financial Statements, in our opinion, fairly present the financial condition of the Association. Other financial information included in the Annual Report is consistent with that in the Consolidated Financial Statements.

To meet our responsibility for reliable financial information, we depend on accounting and internal control systems designed to provide reasonable, but not absolute assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the benefits derived when designing accounting and internal control systems. Financial operations audits are performed to monitor compliance. PricewaterhouseCoopers LLP, our independent auditors, audit the Consolidated Financial Statements. They also conduct a review of internal controls to the extent necessary to comply with auditing standards generally accepted in the United States of America. The Farm Credit Administration also performs examinations for safety and soundness as well as compliance with applicable laws and regulations.

The Board of Directors has overall responsibility for our system of internal control and financial reporting. The Board of Directors and its Audit Committee consults regularly with us and meets periodically with the independent auditors and other auditors to review the scope and results of their work. The independent auditors have direct access to the Board of Directors, which is composed solely of directors who are not officers or employees of the Association.

The undersigned certify we have reviewed the Association's Annual Report, which has been prepared in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

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

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

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

March 2, 2017

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

AgCountry Farm Credit Services, ACA

The AgCountry Farm Credit Services, ACA (the Association) principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2016. In making the assessment, management used the 2013 framework in Internal Control — Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2016, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2016.

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

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

March 2, 2017

REPORT OF AUDIT COMMITTEE

AgCountry Farm Credit Services, ACA

The Consolidated Financial Statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of a subset of the Board of Directors of AgCountry Farm Credit Services, ACA (the Association). The Audit Committee oversees the scope of the Association's internal audit program, the approval, and independence of PricewaterhouseCoopers LLP (PwC) as independent auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's actions with respect to recommendations arising from those auditing activities. The Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

Management is responsible for internal controls and the preparation of the Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the Consolidated Financial Statements in accordance with auditing standards generally accepted in the United States of America and to issue their report based on their audit. The Audit Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Audit Committee reviewed and discussed the audited Consolidated Financial Statements for the year ended December 31, 2016, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards AU-C 260, *The Auditor's Communication with Those Charged with Governance*, and both PwC and the internal auditors directly provided reports on any significant matters to the Audit Committee.

The Audit Committee had discussions with and received written disclosures from PwC confirming its independence. The Audit Committee also reviewed the non-audit services provided by PwC, if any, and concluded these services were not incompatible with maintaining PwC's independence. The Audit Committee discussed with management and PwC any other matters and received any assurances from them as the Audit Committee deemed appropriate.

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended that the Board of Directors include the audited Consolidated Financial Statements in the Annual Report for the year ended December 31, 2016.

Jack Hansen

Jack Hansen
Chairperson of the Audit Committee
AgCountry Farm Credit Services, ACA

Members of the Audit Committee:
Glen Brandt
Kurt Elliott
Michael Long
William Muhs
Michael Zenker

March 2, 2017

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Report of Independent Auditors

To the Board of Directors of AgCountry Farm Credit Services, ACA,

We have audited the accompanying Consolidated Financial Statements of AgCountry Farm Credit Services, ACA (the Association) and its subsidiaries, which comprise the consolidated statements of condition as of December 31, 2016, 2015 and 2014, and the related consolidated statements of income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the Consolidated Financial Statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Association's preparation and fair presentation of the Consolidated Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of AgCountry Farm Credit Services, ACA and its subsidiaries as of December 31, 2016, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 2, 2017

PricewaterhouseCoopers LLP, 45 South Seventh Street, Suite 3400, Minneapolis, MN 55402
T: (612) 596 6000, www.pwc.com/us

CONSOLIDATED STATEMENTS OF CONDITION

AgCountry Farm Credit Services, ACA

(in thousands)

As of December 31	**2016**	2015	2014
ASSETS			
Loans	**$ 5,049,534**	$ 4,811,872	$ 4,518,880
Allowance for loan losses	**14,284**	13,394	16,458
Net loans held to maturity	**5,035,250**	4,798,478	4,502,422
Finance leases held for sale	**70,356**	--	--
Net loans	**5,105,606**	4,798,478	4,502,422
Investment in AgriBank, FCB	**111,196**	109,986	100,562
Investment securities	**7,059**	7,059	7,059
Accrued interest receivable	**62,041**	57,450	52,749
Premises and equipment, net	**36,109**	33,732	32,558
Assets held for lease, net	**19,646**	152,945	171,023
Leased assets held for sale	**79,623**	--	--
Other assets	**41,190**	33,688	36,212
Total assets	**$ 5,462,470**	$ 5,193,338	$ 4,902,585
LIABILITIES			
Note payable to AgriBank, FCB	**$ 4,201,744**	$ 4,015,690	$ 3,807,629
Accrued interest payable	**15,398**	12,343	11,655
Deferred tax liabilities, net	**26,211**	33,952	34,005
Patronage distribution payable	**21,000**	15,000	12,000
Other liabilities	**29,401**	32,111	36,171
Total liabilities	**4,293,754**	4,109,096	3,901,460
Contingencies and commitments (Note 14)			
MEMBERS' EQUITY			
Capital stock and participation certificates	**7,370**	7,516	7,621
Unallocated surplus	**1,161,346**	1,076,726	993,504
Total members' equity	**1,168,716**	1,084,242	1,001,125
Total liabilities and members' equity	**$ 5,462,470**	$ 5,193,338	$ 4,902,585

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

CONSOLIDATED STATEMENTS OF INCOME

AgCountry Farm Credit Services, ACA

(in thousands)

For the year ended December 31	**2016**	2015	2014
Interest income	**$ 190,486**	$ 168,394	$ 165,116
Interest expense	**59,293**	47,488	44,527
Net interest income	**131,193**	120,906	120,589
Provision for (reversal of) credit losses	**4,088**	(1,235)	828
Net interest income after provision for (reversal of) credit losses	**127,105**	122,141	119,761
Other income			
Patronage income	**18,204**	15,332	17,266
Financially related services income	**26,264**	26,924	26,857
Fee income	**6,930**	6,375	7,333
Miscellaneous income, net	**5,856**	5,139	4,859
Total other income	**57,254**	53,770	56,315
Operating expenses			
Salaries and employee benefits	**45,769**	47,025	43,163
Other operating expenses	**33,265**	30,009	29,803
Total operating expenses	**79,034**	77,034	72,966
Income before income taxes	**105,325**	98,877	103,110
(Benefit from) provision for income taxes	**(295)**	655	2,606
Net income	**$ 105,620**	$ 98,222	$ 100,504

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

AgCountry Farm Credit Services, ACA

(in thousands)

	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance as of December 31, 2013	$ 8,065	$ 905,000	$ 913,065
Net income	--	100,504	100,504
Unallocated surplus designated for patronage distributions	--	(12,000)	(12,000)
Capital stock and participation certificates issued	396	--	396
Capital stock and participation certificates retired	(840)	--	(840)
Balance as of December 31, 2014	7,621	993,504	1,001,125
Net income	--	98,222	98,222
Unallocated surplus designated for patronage distributions	--	(15,000)	(15,000)
Capital stock and participation certificates issued	356	--	356
Capital stock and participation certificates retired	(461)	--	(461)
Balance as of December 31, 2015	7,516	1,076,726	1,084,242
Net income	**--**	**105,620**	**105,620**
Unallocated surplus designated for patronage distributions	**--**	**(21,000)**	**(21,000)**
Capital stock and participation certificates issued	**320**	**--**	**320**
Capital stock and participation certificates retired	**(466)**	**--**	**(466)**
Balance as of December 31, 2016	**$ 7,370**	**$ 1,161,346**	**$ 1,168,716**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

AgCountry Farm Credit Services, ACA

(in thousands)

For the year ended December 31	**2016**	2015	2014
Cash flows from operating activities			
Net income	**$ 105,620**	$ 98,222	$ 100,504
Depreciation on premises and equipment	**2,141**	2,126	2,520
Gain on sale of premises and equipment, net	**(912)**	(112)	(14)
Depreciation on assets held for lease	**28,212**	32,868	30,693
(Gain) loss on disposal of assets held for lease, net	**(471)**	12	(407)
Gain on transfer of lease assets to held for sale	**(1,246)**	--	--
Amortization of discounts on loans	**--**	(168)	(1,111)
Provision for (reversal of) credit losses	**4,088**	(1,235)	828
Stock patronage received from AgriBank, FCB	**--**	--	(2,529)
Stock patronage received from Farm Credit Institutions	**(53)**	(54)	(57)
Gain on other property owned, net	**--**	--	(358)
Changes in operating assets and liabilities:			
Increase in accrued interest receivable	**(4,597)**	(4,701)	(7,692)
(Increase) decrease in other assets	**(7,289)**	2,585	2,966
Increase in accrued interest payable	**3,055**	688	1,315
(Decrease) increase in other liabilities	**(10,451)**	(4,113)	4,974
Net cash provided by operating activities	**118,097**	126,118	131,632
Cash flows from investing activities			
Increase in loans, net	**(310,587)**	(294,653)	(314,977)
(Purchases) redemptions of investment in AgriBank, FCB, net	**(1,210)**	(9,424)	6,657
Purchases of investment in other Farm Credit Institutions, net	**(157)**	--	(1,490)
Increase in investment securities, net	**--**	--	(4,303)
Sales (purchases) of assets held for lease, net	**26,558**	(14,802)	(58,876)
Proceeds from sales of other property owned	**--**	--	358
Purchases of premises and equipment, net	**(3,606)**	(3,188)	(4,089)
Net cash used in investing activities	**(289,002)**	(322,067)	(376,720)
Cash flows from financing activities			
Increase in note payable to AgriBank, FCB, net	**186,054**	208,061	256,118
Patronage distributions paid	**(15,000)**	(12,000)	(10,600)
Capital stock and participation certificates retired, net	**(146)**	(105)	(444)
Net cash provided by financing activities	**170,908**	195,956	245,074
Net change in cash	**3**	7	(14)
Cash at beginning of year	**16**	9	23
Cash at end of year	**$ 19**	$ 16	$ 9
Supplemental schedule of non-cash activities			
Interest transferred to loans	**$ 6**	$ --	$ 160
Patronage distributions payable to members	**$ 21,000**	$ 15,000	$ 12,000
Finance leases transferred to finance leases held for sale	**$ 69,733**	$ --	$ --
Assets held for lease, net transferred to leased assets held for sale	**$ 79,000**	$ --	$ --
Deferred gain related to financed sales of other property owned	**$ --**	$ --	$ 222
Supplemental information			
Interest paid	**$ 56,238**	$ 46,800	$ 43,212
Taxes paid	**$ 4,808**	$ 2,715	$ 1,105

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AgCountry Farm Credit Services, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

Farm Credit System and District

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of January 1, 2017, the System consisted of three Farm Credit Banks (FCB), one Agricultural Credit Bank (ACB), and 73 customer-owned cooperative lending institutions (associations). AgriBank, FCB (AgriBank), a System bank, and its affiliated Associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). At January 1, 2017, the District consisted of 17 Agricultural Credit Associations (ACA) that each have wholly-owned Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries.

FLCAs are authorized to originate long-term real estate mortgage loans. PCAs are authorized to originate short-term and intermediate-term loans. ACAs are authorized to originate long-term real estate mortgage loans and short-term and intermediate-term loans either directly or through their subsidiaries. Associations are authorized to provide lease financing options for agricultural purposes and are also authorized to purchase and hold certain types of investments. AgriBank provides funding to all associations chartered within the District.

Associations are authorized to provide, either directly or in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers may include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related service businesses. In addition, associations can participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a System lending institution, but have operations that are functionally similar to the activities of eligible borrowers.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System banks and associations. We are examined by the FCA and certain association actions are subject to the prior approval of the FCA and/or AgriBank.

The Farm Credit Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used to ensure the timely payment of principal and interest on Farm Credit Systemwide debt obligations, to ensure the retirement of protected borrower capital at par or stated value, and for other specified purposes.

At the discretion of the FCSIC, the Insurance Fund is also available to provide assistance to certain troubled System institutions and for the operating expenses of the FCSIC. Each System bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2.0% of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. This percentage of aggregate obligations can be changed by the FCSIC, at its sole discretion, to a percentage it determines to be actuarially sound. The basis for assessing premiums is debt outstanding with adjustments made for nonaccrual loans and impaired investment securities, which are assessed a surcharge while guaranteed loans and investment securities are deductions from the premium base. AgriBank, in turn, assesses premiums to District associations each year based on similar factors.

Association

AgCountry Farm Credit Services, ACA (the Association) and its subsidiaries, AgCountry Farm Credit Services, FLCA and AgCountry Farm Credit Services, PCA (subsidiaries) are lending institutions of the System. We are a customer-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Barnes, Cass, Cavalier, Dickey, Grand Forks, Griggs, LaMoure, Nelson, Pembina, Ramsey, Ransom, Richland, Sargent, Steele, Stutsman, Towner, Traill, and Walsh in the state of North Dakota and Becker, Beltrami, Big Stone, Clay, Clearwater, Douglas, Grant, Hubbard, Kittson, Koochiching, Lake of the Woods, Mahnomen, Marshall, Norman, Otter Tail, Pennington, Polk, Pope, Red Lake, Roseau, Stevens, Todd, Traverse, Wadena, and Wilkin in the state of Minnesota.

We borrow from AgriBank and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans and holds certain types of investments. The PCA makes short-term and intermediate-term loans for agricultural production or operating purposes. We also facilitate lease financing options through our alliance partner, Farm Credit Leasing (FCL).

We offer credit life, term life, credit disability, crop hail, multi-peril crop, and livestock insurance to borrowers and those eligible to borrow. We also offer farm accounting, fee appraisals, income tax planning and preparation services, retirement and succession planning, and producer education services to our members.

Merger Activity

Under a June 2016 letter of intent, the Boards of Directors of AgCountry Farm Credit Services, ACA and United FCS, ACA made a strategic decision to pursue a merger of the two organizations. The consolidated association would be named AgCountry Farm Credit Services, ACA and would be headquartered in Fargo, ND. Upon completion of the merger, our association would serve nearly 18,000 customers in 65 counties in Minnesota, North Dakota, and Wisconsin, and have assets of over $7 billion.

We are currently working on this initiative. Providing that approval is received from FCA, our regulator, in the anticipated timeframe, customer-owners will vote on the merger in early 2017. Should they approve, the merger will be effective July 1, 2017.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Reporting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. Preparing financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Principles of Consolidation

The Consolidated Financial Statements present the consolidated financial results of AgCountry Farm Credit Services, ACA and its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

Loans Held to Maturity: Loans are carried at their principal amount outstanding net of any unearned income, cumulative charge-offs, and unamortized deferred fees and costs on originated loans. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Loan fees, net of direct loan origination costs, are deferred and recognized over the life of the loan as an adjustment to net interest income.

Generally we place loans in nonaccrual status when principal or interest is delinquent for 90 days or more (unless the loan is well secured and in the process of collection) or circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status, we reverse current year accrued interest to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment of the loan, unless the net realizable value is less than the recorded investment in the loan, then it is charged-off against the allowance for loan losses. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior charge-offs. In these circumstances interest is credited to income when cash is received. Loans are charged-off at the time they are determined to be uncollectible. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, the borrower has demonstrated payment performance, and the loan is not classified as doubtful or loss.

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 formally restructured loan for regulatory purposes. 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 troubled debt restructurings are considered risk loans (as defined below).

Loans that are sold as participations are transferred as entire financial assets, groups of entire financial assets, or participating interests in the loans. The transfers of such assets or participating interests are structured such that control over the transferred assets, or participating interests have been surrendered and that all of the conditions have been met to be accounted for as a sale.

Allowance for Loan Losses: The allowance for loan losses is an estimate of losses in our loan 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.

Loans in our portfolio that are considered impaired are analyzed individually to establish a specific allowance. A loan is impaired when it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. We generally measure impairment based on the net realizable value of the collateral. Risk loans include nonaccrual loans, accruing restructured loans, and accruing loans 90 days or more past due. All risk loans are considered to be impaired loans.

We record a specific allowance to reduce the carrying amount of the risk loan by the amount the recorded investment exceeds the net realizable value of collateral. When we deem a loan to be uncollectible, we charge the loan principal and prior year(s) accrued interest against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses.

An allowance is recorded for probable and estimable credit losses as of the financial statement date for loans that are not individually assessed as impaired. We use a two-dimensional loan risk rating model that incorporates a 14-point rating scale to identify and track the probability of borrower default and a separate 6-point scale addressing the loss severity. The combination of estimated default probability and loss severity is the primary basis for recognition and measurement of loan collectability of these pools of loans. These estimated losses may be adjusted for relevant current environmental factors.

Changes in the allowance for loan losses consist of provision activity, recorded in “Provision for (reversal of) credit losses” in the Consolidated Statements of Income, recoveries, and charge-offs.

Leases Held for Sale: We elected the fair value option for all finance leases held for sale and leased assets held for sale. Leases are valued on an individual basis and gains or losses are recorded in “Miscellaneous income, net” in the Consolidated Statements of Income.

Investment in AgriBank: Our stock investment in AgriBank is on a cost plus allocated equities basis.

Investment Securities: We are authorized to purchase and hold certain types of investments, and we have the positive intent and ability to hold these investments to maturity. They have been classified as held-to-maturity and are carried at cost adjusted for the amortization of premiums and accretion of discounts. If an investment is determined to be other-than-temporarily impaired, the carrying value of the security is written down to fair value. The impairment loss is separated into credit related and non-credit related components. The credit related component is expensed through "Miscellaneous income, net" in the Consolidated Statements of Income in the period of impairment. The non-credit related component is recognized in other comprehensive income. Purchased premiums and discounts are amortized or accreted using the straight-line method, which approximates the interest method, over the terms of the respective securities. Realized gains and losses are determined using specific identification method and are recognized in current operations.

Other Property Owned: Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at the fair value less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less costs to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Related income, expenses, and gains or losses from operations and carrying value adjustments are included in "Miscellaneous income, net" in the Consolidated Statements of Income. We had no other property owned at December 31, 2016, 2015, or 2014.

Other Investment: The carrying amount of the investment in the Rural Business Investment Company, in which we are a limited partner and hold a non-controlling interest, is at cost and is included in "Other assets" in the Consolidated Statements of Condition. The investment is assessed for impairment. If impairment exists, losses are included in "Miscellaneous income, net" in the Consolidated Statements of Income in the year of impairment. Income on the investment is limited to distributions received. In circumstances when distributions exceed our share of earnings after the date of the investment, these distributions are applied to reduce the carrying value of the investment and are not recognized as income.

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets. Gains or losses on disposition are included in "Miscellaneous income, net" in the Consolidated Statements of Income. Depreciation and maintenance and repair expenses are included in "Other operating expenses" in the Consolidated Statements of Income and improvements are capitalized in accordance with GAAP.

Leases: Beginning in 2017, we offer finance and operating leases through our alliance partner, Farm Credit Leasing. Under the existing portfolio of finance leases, unearned income from lease contracts represents the excess of gross lease receivables plus residual receivables over the cost of leased equipment. We amortize net unearned finance lease income to earnings using the interest method. The carrying amount of finance leases is included in "Loans" in the Consolidated Statements of Condition and represents lease rent and residual receivables net of the unearned income. Under the existing portfolio of operating leases, property is recorded at cost and depreciated on a straight-line basis over the lease term to an estimated residual value. We recognize operating lease revenue evenly over the term of the lease and charge depreciation and other expenses against revenue as incurred in "Miscellaneous income, net" in the Consolidated Statements of Income. The amortized cost of operating leases is included in "Assets held for lease, net" in the Consolidated Statements of Condition and represents the asset cost net of accumulated depreciation.

Post-Employment Benefit Plans: The District has various post-employment benefit plans in which our employees participate. Expenses related to these plans are included in "Salaries and employee benefits" in the Consolidated Statements of Income.

Certain employees participate in the AgriBank District Retirement Plan. The plan is comprised of two benefit formulas. At their option, employees hired prior to October 1, 2001, are on the cash balance formula or on the final average pay formula. Benefits eligible employees hired between October 1, 2001, and December 31, 2006, are on the cash balance formula. Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. The AgriBank District Retirement Plan utilizes the "Projected Unit Credit" actuarial method for financial reporting and funding purposes.

Certain employees also participate in the AgriBank District Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits.

We also provide certain health insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated cost of these benefits is accrued during the employees' active service period.

The defined contribution plan allows eligible employees to save for their retirement either pre-tax, post-tax, or both, with an employer match on a percentage of the employee's contributions. We provide benefits under this plan for those employees that do not participate in the AgriBank District Retirement Plan in the form of a fixed percentage of salary contribution in addition to the employer match. Employer contributions are expensed when incurred.

Income Taxes: The ACA and PCA accrue federal income taxes. State income taxes are also accrued by the ACA and PCA for the state of North Dakota, but the ACA and PCA are exempt from Minnesota state income tax. Deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance. The expected future tax consequences of uncertain income tax positions are accrued.

The FLCA is exempt from federal and other taxes to the extent provided in the Farm Credit Act.

Patronage Program: We accrue patronage distributions according to a prescribed formula approved by the Board of Directors. Generally, we pay the accrued patronage during the first quarter of the following year.

Off-Balance Sheet Credit Exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. Any reserve for unfunded lending commitments and unexercised letters of credit is based on management's best estimate of losses inherent in these instruments, but the commitments have not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement are utilized in determining a reserve, if needed. Based on our assessment, any reserve is recorded in "Other liabilities" in the Consolidated Statements of Condition and a corresponding loss is recorded in "Provision for (reversal of) credit losses" in the Consolidated Statements of Income.

Cash: For purposes of reporting cash flow, cash includes cash on hand and deposits in banks. Cash is recorded in “Other assets” in the Consolidated Statements of Condition.

Fair Value Measurement: The accounting guidance describes three levels of inputs that may be used to measure fair value.

Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include:

- quoted prices for similar assets or liabilities in active markets,
- quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, quoted prices that are not current, or principal market information that is not released publicly,
- inputs that are observable such as interest rates and yield curves, prepayment speeds, credit risks, and default rates, and
- inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity’s own judgments about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business:

Standard	Description	Effective date and financial statement impact
In June 2016, the FASB issued ASU 2016-13 “Financial Instruments – Credit Losses.”	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021. Early adoption is permitted as of annual reporting periods beginning after December 15, 2018, including interim periods within those annual periods. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.
In February 2016, the FASB issued ASU 2016-02 “Leases.”	The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2019, and interim periods the subsequent year. Early adoption is permitted and modified retrospective adoption is required. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.
In January 2016, the FASB issued ASU 2016-01 “Recognition and Measurement of Financial Assets and Financial Liabilities.”	The guidance is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments address certain aspects of recognition, measurement, presentation, and disclosure of financial statements.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2018, and interim periods with annual periods beginning after December 15, 2019. Certain disclosure changes are permitted to be immediately adopted for annual reporting periods that have not yet been made available for issuance. Nonpublic entities are no longer required to include certain fair value of financial instruments disclosures as part of these disclosure changes. We have immediately adopted this guidance and have excluded such disclosures from our Notes to Consolidated Financial Statements. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2017, for other applicable sections of the guidance. We are currently evaluating the impact of the remaining guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.

Standard	Description	Effective date and financial statement impact
In February 2015, the FASB issued ASU 2015-02 “Consolidation-Amendments to the Consolidation Analysis.”	The guidance modifies the assessment of Variable Interest Entity (VIE) characteristics as well as the assessment of related parties. Additional clarifying guidance was issued in October 2016 under ASU 2016-17 “Consolidation-Interests Held through Related Parties That are under Common Control.”	The guidance is effective for nonpublic entities for annual reporting after December 15, 2016, and interim periods within annual periods beginning after December 15, 2017. Early adoption is allowed, including in any interim period. The adoption of this guidance did not have a material impact on our financial condition, results of operations, cash flows, and financial statement disclosures.
In August 2014, the FASB issued ASU 2014-15 “Presentation of Financial Statements-Going Concern.”	The guidance requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year after the date the Financial Statements are issued or within one year after the Financial Statements are available to be issued, when applicable. Substantial doubt to continue as a going concern exists if it is probable that the entity will be unable to meet its obligations for the assessed period.	This guidance became effective for all entities for interim and annual periods ending after December 15, 2016. The adoption of this guidance did not have a material impact on our financial condition, results of operations, cash flows, or financial statement disclosures.
In May 2014, the FASB issued ASU 2014-09 “Revenue from Contracts with Customers."	The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. In March 2016, the FASB issued ASUs 2016-08 and 2016-10, which provided further clarifying guidance on the previously issued standard. We are in the process of reviewing contracts to determine the effect, if any, on our financial condition and results of operations.

NOTE 3: LOANS HELD TO MATURITY AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)	**2016**		2015		2014	
As of December 31	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 1,959,692**	**38.8%**	$ 1,712,899	35.6%	$ 1,645,192	36.4%
Production and intermediate term	**1,671,230**	**33.1%**	1,751,047	36.4%	1,711,128	37.9%
Agribusiness	**1,119,744**	**22.2%**	956,974	19.9%	793,113	17.6%
Other	**298,868**	**5.9%**	390,952	8.1%	369,447	8.1%
Total	**$ 5,049,534**	**100.0%**	$ 4,811,872	100.0%	$ 4,518,880	100.0%

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

Portfolio Concentrations

Concentrations exist when there are amounts loaned to multiple borrowers engaged in similar activities, which could cause them to be similarly impacted by economic conditions. We lend primarily within agricultural industries.

As of December 31, 2016, volume plus commitments to our ten largest borrowers totaled an amount equal to 6.8% of total loans and commitments. Approximately 9.8% of this volume is in the Standby Commitment to Purchase Agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac), which mitigates our risk in these loans (discussed in further detail in the Risk Loans section).

While these concentrations represent our maximum potential credit risk, as it relates to recorded loan principal, a substantial portion of our lending activities are collateralized. This reduces our exposure to credit loss associated with our lending activities. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management’s credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock. Long-term real estate loans are secured by the first liens on the underlying real property. FCA regulations state that long-term real estate loans are not to exceed 85% (97% if guaranteed by a government agency) of the property’s appraised value at origination and our underwriting standards generally limit lending to no more than 65% at origination. However, a decline in a property’s market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the lender in the collateral, may result in loan-to-value ratios in excess of the regulatory maximum. The District has an internally maintained database, which uses market data to estimate market values of collateral for a significant portion of the real estate mortgage portfolio. We consider credit risk exposure in establishing the allowance for loan losses.

Participations

We may purchase or sell participation interests to other parties in order to diversify risk, manage loan volume, or comply with the FCA Regulations or General Financing Agreement (GFA) limitations.

Participations Purchased and Sold

(in thousands)	AgriBank Participations		Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations		Total Participations	
As of December 31, 2016	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (254,622)	$ 73,139	$ (68,123)	$ 141	$ (22,823)	$ 73,280	$ (345,568)
Production and intermediate term	--	(16,152)	294,878	(46,774)	133,090	(18,172)	427,968	(81,098)
Agribusiness	--	(13,726)	780,098	(133,673)	346	(98,072)	780,444	(245,471)
Other	--	(102)	295,890	--	--	--	295,890	(102)
Total	$ --	$ (284,602)	$ 1,444,005	$ (248,570)	$ 133,577	$ (139,067)	$ 1,577,582	$ (672,239)

	AgriBank Participations		Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations		Total Participations	
As of December 31, 2015	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (294,862)	$ 57,277	$ (71,952)	$ 86	$ (23,606)	$ 57,363	$ (390,420)
Production and intermediate term	--	(17,932)	226,190	(51,150)	165,296	(19,865)	391,486	(88,947)
Agribusiness	--	(15,222)	658,177	(179,737)	23,858	(152,355)	682,035	(347,314)
Other	--	(108)	298,589	--	--	--	298,589	(108)
Total	$ --	$ (328,124)	$ 1,240,233	$ (302,839)	$ 189,240	$ (195,826)	$ 1,429,473	$ (826,789)

	AgriBank Participations		Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations		Total Participations	
As of December 31, 2014	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (195,497)	$ 68,444	$ (88,456)	$ 2,232	$ (14,026)	$ 70,676	$ (297,979)
Production and intermediate term	--	(1,368)	202,706	(28,585)	199,784	(7,326)	402,490	(37,279)
Agribusiness	--	--	502,111	(179,777)	43,199	(96,274)	545,310	(276,051)
Other	--	(114)	263,068	--	--	--	263,068	(114)
Total	$ --	$ (196,979)	$ 1,036,329	$ (296,818)	$ 245,215	$ (117,626)	$ 1,281,544	$ (611,423)

Information in the preceding chart excludes leases entered into under our leasing authority.

Credit Quality and Delinquency

We utilize the FCA Uniform Classification System to categorize loans into five credit quality categories. The categories are:

- Acceptable – loans are non-criticized loans representing the highest quality. They are expected to be fully collectible. This category is further differentiated into various probabilities of default.
- Other assets especially mentioned (Special Mention) – are currently collectible but exhibit some potential weakness. These loans involve increased credit risk, but not to the point of justifying a substandard classification.
- Substandard – loans exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – loans exhibit similar weaknesses as substandard loans. Doubtful loans have additional weaknesses in existing factors, conditions, and values that make collection in full highly questionable.
- Loss – loans are considered uncollectible.

No loans were categorized as loss at December 31, 2016, 2015, or 2014.

Credit Quality of Loans

(dollars in thousands)	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2016	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 1,827,668**	**91.9%**	**$ 80,119**	**4.0%**	**$ 81,817**	**4.1%**	**$ 1,989,604**	**100.0%**
Production and intermediate term	**1,585,669**	**93.4%**	**56,685**	**3.3%**	**55,861**	**3.3%**	**1,698,215**	**100.0%**
Agribusiness	**1,089,986**	**97.0%**	**19,561**	**1.7%**	**14,602**	**1.3%**	**1,124,149**	**100.0%**
Other	**284,309**	**94.9%**	**13,434**	**4.5%**	**1,852**	**0.6%**	**299,595**	**100.0%**
Total	**$ 4,787,632**	**93.7%**	**$ 169,799**	**3.3%**	**$ 154,132**	**3.0%**	**$ 5,111,563**	**100.0%**

	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2015	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 1,658,113	95.4%	$ 30,791	1.8%	$ 49,722	2.8%	$ 1,738,626	100.0%
Production and intermediate term	1,709,058	96.1%	38,338	2.2%	31,660	1.7%	1,779,056	100.0%
Agribusiness	927,128	96.6%	11,318	1.2%	21,677	2.2%	960,123	100.0%
Other	380,003	97.1%	7,456	1.9%	4,047	1.0%	391,506	100.0%
Total	$ 4,674,302	96.0%	$ 87,903	1.8%	$ 107,106	2.2%	$ 4,869,311	100.0%

	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2014	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 1,642,945	98.5%	$ 10,753	0.6%	$ 14,685	0.9%	$ 1,668,383	100.0%
Production and intermediate term	1,684,565	97.0%	35,405	2.0%	16,878	1.0%	1,736,848	100.0%
Agribusiness	747,805	93.9%	723	0.1%	47,936	6.0%	796,464	100.0%
Other	360,394	97.4%	4,038	1.1%	5,491	1.5%	369,923	100.0%
Total	$ 4,435,709	97.0%	$ 50,919	1.1%	$ 84,990	1.9%	$ 4,571,618	100.0%

Note: Accruing loans include accrued interest receivable.

Aging Analysis of Loans

(in thousands) **As of December 31, 2016**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	90 Days Past Due and Accruing
Real estate mortgage	**$ 513**	**$ 1,315**	**$ 1,828**	**$ 1,987,776**	**$ 1,989,604**	**$ --**
Production and intermediate term	**5,624**	**1,934**	**7,558**	**1,690,657**	**1,698,215**	**59**
Agribusiness	**--**	**--**	**--**	**1,124,149**	**1,124,149**	**--**
Other	**482**	**216**	**698**	**298,897**	**299,595**	**--**
Total	**$ 6,619**	**$ 3,465**	**$ 10,084**	**$ 5,101,479**	**$ 5,111,563**	**$ 59**

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 Past Due and Accruing
Real estate mortgage	$ 5,080	$ 37	$ 5,117	$ 1,733,509	$ 1,738,626	$ --
Production and intermediate term	13,549	3,330	16,879	1,762,177	1,779,056	1,036
Agribusiness	2,832	9,405	12,237	947,886	960,123	--
Other	383	28	411	391,095	391,506	--
Total	$ 21,844	$ 12,800	$ 34,644	$ 4,834,667	$ 4,869,311	$ 1,036

As of December 31, 2014	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 Past Due and Accruing
Real estate mortgage	$ 886	$ --	$ 886	$ 1,667,497	$ 1,668,383	$ --
Production and intermediate term	5,705	1,153	6,858	1,729,990	1,736,848	--
Agribusiness	912	--	912	795,552	796,464	--
Other	552	276	828	369,095	369,923	--
Total	$ 8,055	$ 1,429	$ 9,484	$ 4,562,134	$ 4,571,618	$ --

Note: Accruing loans include accrued interest receivable.

All loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection and, as such, were eligible to remain in accruing status.

Risk Loans

Risk loans are loans for which all principal and interest may not be collected according to the contractual terms. Interest income recognized and cash payments received on nonaccrual risk loans are applied as described in Note 2.

Risk Loan Information

(in thousands)

As of December 31	**2016**	2015	2014
Nonaccrual loans:			
Current as to principal and interest	**$ 7,942**	$ 9,670	$ 11,773
Past due	**4,304**	15,596	2,801
Total nonaccrual loans	**12,246**	25,266	14,574
Accruing restructured loans	**1,765**	59	53
Accruing loans 90 days or more past due	**59**	1,036	--
Total risk loans	**$ 14,070**	$ 26,361	$ 14,627
Volume with specific reserves	**$ 6,180**	$ 18,472	$ 9,885
Volume without specific reserves	**7,890**	7,889	4,742
Total risk loans	**$ 14,070**	$ 26,361	$ 14,627
Total specific reserves	**$ 1,586**	$ 3,702	$ 3,532

For the year ended December 31	**2016**	2015	2014
Income on accrual risk loans	**$ 191**	$ 64	$ 37
Income on nonaccrual loans	**961**	525	3,829
Total income on risk loans	**$ 1,152**	$ 589	$ 3,866
Average recorded risk loans	**$ 19,295**	$ 30,559	$ 20,295

Note: Accruing loans include accrued interest receivable.

The decrease in nonaccrual loans was primarily due to a large relationship in our agribusiness loan category settling during the first quarter of 2016.

To mitigate credit risk, we have entered into a Standby Commitment to Purchase Agreement with Farmer Mac. In the event of default, subject to certain conditions, we have the right to sell the loans identified in the agreement to Farmer Mac. This agreement remains in place until the loan is paid in full. The guaranteed volume of loans subject to the purchase agreement was $42.7 million, $41.5 million, and $63.8 million at December 31, 2016, 2015, and 2014, respectively. Fees paid to Farmer Mac for these commitments totaled $0.2 million, $0.4 million, and $0.7 million in 2016, 2015, and 2014, respectively. These amounts are included in “Other operating expenses” in the Consolidated Statements of Income. Sales of loans to Farmer Mac under this agreement were $13.5 million in 2015. There were no loans sold to Farmer Mac under this agreement in 2016 or 2014.

Nonaccrual Loans by Loan Type

(in thousands)

As of December 31	**2016**	2015	2014
Real estate mortgage	**$ 7,291**	$ 5,346	$ 5,487
Production and intermediate term	**3,458**	4,526	2,756
Agribusiness	**540**	12,960	912
Other	**957**	2,434	5,419
Total	**$ 12,246**	$ 25,266	$ 14,574

Additional Impaired Loan Information by Loan Type

(in thousands)	As of December 31, 2016 Recorded Investment	As of December 31, 2016 Unpaid Principal Balance	As of December 31, 2016 Related Allowance	For the year ended December 31, 2016 Average Impaired Loans	For the year ended December 31, 2016 Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 3,714	$ 4,841	$ 358	$ 4,457	$ --
Production and intermediate term	1,605	1,941	949	3,139	--
Agribusiness	--	--	--	--	--
Other	861	861	279	744	--
Total	$ 6,180	$ 7,643	$ 1,586	$ 8,340	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 3,578	$ 3,620	$ --	$ 4,294	$ 95
Production and intermediate term	1,920	4,178	--	3,757	565
Agribusiness	540	1,060	--	1,097	414
Other	1,852	2,231	--	1,807	78
Total	$ 7,890	$ 11,089	$ --	$ 10,955	$ 1,152
Total impaired loans:					
Real estate mortgage	$ 7,292	$ 8,461	$ 358	$ 8,751	$ 95
Production and intermediate term	3,525	6,119	949	6,896	565
Agribusiness	540	1,060	--	1,097	414
Other	2,713	3,092	279	2,551	78
Total	$ 14,070	$ 18,732	$ 1,586	$ 19,295	$ 1,152

	As of December 31, 2015 Recorded Investment	As of December 31, 2015 Unpaid Principal Balance	As of December 31, 2015 Related Allowance	For the year ended December 31, 2015 Average Impaired Loans	For the year ended December 31, 2015 Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 3,966	$ 4,945	$ 639	$ 2,700	$ --
Production and intermediate term	1,663	1,922	1,008	1,925	--
Agribusiness	12,232	13,502	1,871	15,449	--
Other	611	611	184	660	--
Total	$ 18,472	$ 20,980	$ 3,702	$ 20,734	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 1,432	$ 1,501	$ --	$ 975	$ 66
Production and intermediate term	3,907	5,660	--	4,523	378
Agribusiness	727	1,289	--	931	145
Other	1,823	2,290	--	3,396	--
Total	$ 7,889	$ 10,740	$ --	$ 9,825	$ 589
Total impaired loans:					
Real estate mortgage	$ 5,398	$ 6,446	$ 639	$ 3,675	$ 66
Production and intermediate term	5,570	7,582	1,008	6,448	378
Agribusiness	12,959	14,791	1,871	16,380	145
Other	2,434	2,901	184	4,056	--
Total	$ 26,361	$ 31,720	$ 3,702	$ 30,559	$ 589

	As of December 31, 2014			For the year ended December 31, 2014	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 4,242	$ 5,033	$ 838	$ 4,639	$ --
Production and intermediate term	1,192	1,216	612	1,382	--
Agribusiness	912	985	163	6,921	--
Other	3,539	3,589	1,919	2,178	--
Total	$ 9,885	$ 10,823	$ 3,532	$ 15,120	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 1,298	$ 1,322	$ --	$ 1,420	$ 148
Production and intermediate term	1,564	2,333	--	1,813	3,718
Agribusiness	--	509	--	--	--
Other	1,880	2,152	--	1,942	--
Total	$ 4,742	$ 6,316	$ --	$ 5,175	$ 3,866
Total impaired loans:					
Real estate mortgage	$ 5,540	$ 6,355	$ 838	$ 6,059	$ 148
Production and intermediate term	2,756	3,549	612	3,195	3,718
Agribusiness	912	1,494	163	6,921	--
Other	5,419	5,741	1,919	4,120	--
Total	$ 14,627	$ 17,139	$ 3,532	$ 20,295	$ 3,866

The recorded investment in the loan is the unpaid principal amount 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 of the investment.

Unpaid principal balance represents the contractual principal balance of the loan.

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

Troubled Debt Restructurings (TDRs)

Included within our loans are troubled debt restructurings (TDRs). These loans have been modified by granting a concession in order to maximize the collection of amounts due when a borrower is experiencing financial difficulties. All risk loans, including TDRs, are analyzed within our allowance for loan losses.

TDR Activity

(in thousands)

For the year ended December 31	**2016**		2015		2014	
	Pre-modification	Post-modification	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	**$ 37**	**$ 37**	$ --	$ --	$ --	$ --
Production and intermediate term	**117**	**118**	448	449	35	33
Agribusiness	**--**	**--**	26,888	26,888	--	--
Total	**$ 154**	**$ 155**	$ 27,336	$ 27,337	$ 35	$ 33

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

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

TDRs that Occurred Within the Previous 12 Months that Subsequently Defaulted

(in thousands)	2015
Production and intermediate term	$ 23
Agribusiness	12,232
Total	$ 12,255

There were no TDRs that defaulted during the years ended December 31, 2016, or 2014, in which the modification was within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of December 31	**2016**	2015	2014
Accrual status:			
Real estate mortgage	**$ --**	$ 52	$ 53
Production and intermediate term	**9**	7	--
Agribusiness	**--**	--	--
Other	**1,756**	--	--
Total TDRs in accrual status	**$ 1,765**	$ 59	$ 53
Nonaccrual status:			
Real estate mortgage	**$ 3,996**	$ 4,365	$ 4,700
Production and intermediate term	**252**	505	193
Agribusiness	**540**	12,960	912
Other	**--**	1,754	1,880
Total TDRs in nonaccrual status	**$ 4,788**	$ 19,584	$ 7,685
Total TDRs:			
Real estate mortgage	**$ 3,996**	$ 4,417	$ 4,753
Production and intermediate term	**261**	512	193
Agribusiness	**540**	12,960	912
Other	**1,756**	1,754	1,880
Total TDRs	**$ 6,553**	$ 19,643	$ 7,738

The decrease in TDRs outstanding from December 31, 2015, was primarily due to the settlement of a large troubled debt relationship in our agribusiness loan category during 2016.

There were no material commitments to lend to borrowers whose loans have been modified in a TDR at December 31, 2016.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) For the year ended December 31	**2016**	2015	2014
Balance at beginning of year	**$ 13,394**	$ 16,458	$ 15,741
Provision for (reversal of) loan losses	**3,865**	(1,313)	1,188
Loan recoveries	**480**	232	308
Loan charge-offs	**(3,455)**	(1,983)	(779)
Balance at end of year	**$ 14,284**	$ 13,394	$ 16,458

The allowance for loan losses increased from $13.4 million at December 31, 2015, to $14.3 million at December 31, 2016, an increase of $0.9 million. The increase was primarily due to higher loan portfolio balances and a decline in overall portfolio credit quality.

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

Credit Loss Information on Unfunded Commitments

(in thousands) For the year ended December 31	**2016**	2015	2014
Provision for (reversal of) credit losses	**$ 223**	$ 78	$ (360)
As of December 31	**2016**	2015	2014
Accrued credit losses	**$ 1,593**	$ 1,370	$ 1,293

Changes in Allowance for Loan Losses and Year End Recorded Investments by Loan Type

(in thousands)	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2015	**$ 1,459**	**$ 3,636**	**$ 5,824**	**$ 2,475**	**$ 13,394**
Provision for (reversal of) loan losses	**2,159**	**1,011**	**(58)**	**753**	**3,865**
Loan recoveries	**--**	**342**	**138**	**--**	**480**
Loan charge-offs	**--**	**(1,426)**	**(2,029)**	**--**	**(3,455)**
Balance as of December 31, 2016	**$ 3,618**	**$ 3,563**	**$ 3,875**	**$ 3,228**	**$ 14,284**
Ending balance: individually evaluated for impairment	**$ 358**	**$ 949**	**$ --**	**$ 279**	**$ 1,586**
Ending balance: collectively evaluated for impairment	**$ 3,260**	**$ 2,614**	**$ 3,875**	**$ 2,949**	**$ 12,698**
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2016	**$ 1,989,604**	**$ 1,698,215**	**$ 1,124,149**	**$ 299,595**	**$ 5,111,563**
Ending balance: individually evaluated for impairment	**$ 7,292**	**$ 3,525**	**$ 540**	**$ 2,713**	**$ 14,070**
Ending balance: collectively evaluated for impairment	**$ 1,982,312**	**$ 1,694,690**	**$ 1,123,609**	**$ 296,882**	**$ 5,097,493**

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2014	$ 1,061	$ 2,116	$ 10,430	$ 2,851	$ 16,458
Provision for (reversal of) loan losses	397	2,707	(4,728)	311	(1,313)
Loan recoveries	1	81	134	16	232
Loan charge-offs	--	(1,268)	(12)	(703)	(1,983)
Balance as of December 31, 2015	$ 1,459	$ 3,636	$ 5,824	$ 2,475	$ 13,394
Ending balance: individually evaluated for impairment	$ 639	$ 1,008	$ 1,871	$ 184	$ 3,702
Ending balance: collectively evaluated for impairment	$ 820	$ 2,628	$ 3,953	$ 2,291	$ 9,692
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2015	$ 1,738,626	$ 1,779,056	$ 960,123	$ 391,506	$ 4,869,311
Ending balance: individually evaluated for impairment	$ 5,398	$ 5,570	$ 12,959	$ 2,434	$ 26,361
Ending balance: collectively evaluated for impairment	$ 1,733,228	$ 1,773,486	$ 947,164	$ 389,072	$ 4,842,950

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2013	$ 1,251	$ 1,616	$ 9,700	$ 3,174	$ 15,741
(Reversal of) provision for loan losses	(194)	930	616	(164)	1,188
Loan recoveries	4	190	114	--	308
Loan charge-offs	--	(620)	--	(159)	(779)
Balance as of December 31, 2014	$ 1,061	$ 2,116	$ 10,430	$ 2,851	$ 16,458
Ending balance: individually evaluated for impairment	$ 838	$ 612	$ 163	$ 1,919	$ 3,532
Ending balance: collectively evaluated for impairment	$ 223	$ 1,504	$ 10,267	$ 932	$ 12,926
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2014	$ 1,668,383	$ 1,736,848	$ 796,464	$ 369,923	$ 4,571,618
Ending balance: individually evaluated for impairment	$ 5,540	$ 2,756	$ 912	$ 5,419	$ 14,627
Ending balance: collectively evaluated for impairment	$ 1,662,843	$ 1,734,092	$ 795,552	$ 364,504	$ 4,556,991

The recorded investment in the loan is the unpaid principal amount 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 of the investment.

NOTE 4: FINANCE LEASES HELD FOR SALE

Effective January 1, 2017, we sold $69.7 million of our finance lease volume and $79.0 million of our equipment/operating lease volume to Farm Credit Leasing (FCL), a System entity specializing in leasing products and providing industry leasing expertise. We simultaneously purchased approximately 66% interest in the cash flows of the leases sold. This transaction resulted in a gain of $1.2 million during 2016 as a result of writing up the leases to fair value. On the basis of the sales agreement, the fair value of assets relating to the sale were reported as “Finance leases held for sale” and “Leased assets held for sale” on our Consolidated Statements of Condition at December 31, 2016.

NOTE 5: INVESTMENT IN AGRIBANK

As of December 31 2016, we were required by AgriBank to maintain an investment 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. In December 2016, AgriBank’s Board approved the 2017 capital plan, which amended the required stock investments for affiliated Associations, effective January 1, 2017. The new required investment will be the lesser of 4.0% or a multiple component calculation based on a percentage of our average quarterly balance of our note payable to AgriBank with a higher percentage on balances above a sustainable growth rate and includes a component for additional investments under the asset pool program. The 2017 component requirements are currently 2.25% on average note payable, with an additional 4.5% on growth in excess of a 5.5% sustainable growth rate and an 8.0% investment under the asset pool program.

As of December 31, 2016, we were also required by AgriBank to maintain an investment equal to 8.0% of the quarter end balance of the participation interests in real estate loans sold to AgriBank under the AgriBank Asset Pool program.

The balance of our investment in AgriBank, all required stock, was $111.2 million, $110.0 million, and $100.6 million at December 31, 2016, 2015, and 2014, respectively.

NOTE 6: INVESTMENT SECURITIES

We held investment securities of $7.1 million at December 31, 2016, 2015, and 2014. Our investment securities consisted of Agricultural and Rural Community bonds.

The investment securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. To date, we have not recognized any impairment on our investment portfolio.

The amortized cost and fair value of investment securities was $7.1 million at December 31, 2016, 2015, and 2014. The weighted average yield of the investment securities was 2.0%, 1.8%, and 1.7% at December 31, 2016, 2015, and 2014, respectively.

Investment Income is recorded in “Interest income” in the Consolidated Statements of Income and totaled $0.1 million in each of the years ended 2016, 2015, and 2014.

NOTE 7: OTHER INVESTMENT

We and other Farm Credit Institutions are among the limited partners for a $154.5 million Rural Business Investment Company (RBIC) established on October 3, 2014. The RBIC facilitates equity and debt investments in agriculture-related businesses that create growth and job opportunities in rural America. Our total commitment is $7.0 million through October 2019. Our investment in the RBIC totaled $2.6 million, $1.5 million, and $0.3 million at December 31, 2016, 2015, and 2014, respectively.

The investment was evaluated for impairment. No impairments were recognized on this investment during 2016, 2015, or 2014. During the year ended December 31, 2016, we received a distribution of $0.1 million as the RBIC sold an investment. The distribution was a return of contributed capital and, therefore, reduced our recorded investment. To date, no income has been distributed from the RBIC. We received no distributions during the years ended December 31, 2015, or 2014.

NOTE 8: ASSETS HELD FOR LEASE, NET

We also hold property for the purpose of agricultural leasing, primarily farm equipment and livestock facilities. Net operating lease assets totaled $19.6 million, $152.9 million, and $171.0 million at December 31, 2016, 2015, and 2014, respectively. Net operating lease income totaled $3.3 million, $4.8 million, and $4.3 million in 2016, 2015, and 2014, respectively. Refer to Note 4 for discussion regarding leased assets held for sale.

NOTE 9: NOTE PAYABLE TO AGRIBANK

Our note payable to AgriBank represents borrowings, in the form of a line of credit, to fund our loan portfolio. The line of credit is governed by a GFA and our assets serve as collateral.

Note Payable Information

(dollars in thousands)

As of December 31	2016	2015	2014
Line of credit	**$ 4,700,000**	$ 4,620,000	$ 4,430,000
Outstanding principal under the line of credit	**4,201,744**	4,015,690	3,807,629
Interest rate	**1.5%**	1.3%	1.2%

Our note payable matures May 31, 2017, at which time the note will be renegotiated.

The GFA provides for limitations on our ability to borrow funds based on specified factors or formulas relating primarily to outstanding balances, credit quality, and financial condition. At December 31, 2016, and throughout the year, we materially complied with the GFA terms and were not declared in default under any GFA covenants or provisions.

NOTE 10: MEMBERS' EQUITY

Capitalization Requirements

In accordance with the Farm Credit Act, each borrower is required to invest in us as a condition of obtaining a loan. As authorized by the Agricultural Credit Act and our capital bylaws, our Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2.0% of the customer's total loan(s) or one thousand dollars, whichever is less, or such greater amount of such borrower's aggregate outstanding loan balance as may be determined by the Board from time to time. The Board of Directors has established a stock requirement for loans of one thousand dollars at a customer level. The investment requirement for each lessee that is not a current stock or participation certificate holder is a single $5.00 participation certificate in the ACA. The ACA and its subsidiaries, PCA and FLCA, are also authorized by FCA to offer approved financial services to persons eligible to borrow from the System. The investment requirement for each purchaser of crop insurance that is not a stock or participation certificate holder is a single $5.00 participation certificate in the ACA. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws.

The borrower acquires ownership of the capital stock at the time the loan or lease is made, but does not usually make a cash investment. We retain a first lien on the stock or participation certificates owned by customers. We issue one thousand dollars of stock to all loan customers and establish an offsetting stock receivable account. We also issue one participation certificate to those customers required to own one participation certificate and establish an offsetting participation certificate receivable account.

Regulatory Capitalization Requirements

Select Capital Ratios

As of December 31	2016	2015	2014	Regulatory Minimums
Permanent capital ratio	**17.2%**	16.6%	16.2%	7.0%
Total surplus ratio	**17.1%**	16.5%	16.0%	7.0%
Core surplus ratio	**17.1%**	16.5%	16.0%	3.5%

These ratios are calculated in accordance with FCA Regulations and are discussed below:

- The permanent capital ratio is average at-risk capital plus any allocated excess stock divided by average risk-adjusted assets.
- The total surplus ratio is average unallocated surplus less any deductions made in the computation of permanent capital divided by average risk-adjusted assets.
- The core surplus ratio is average unallocated surplus less any deductions made in the computation of total surplus and less any allocated excess stock investment in AgriBank divided by average risk-adjusted assets.

Risk-adjusted assets have been defined by 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.

Effective January 1, 2017, the regulatory capital requirements for System Banks and Associations were modified. The final rule replaced existing core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The final rule 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 the final rule.

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%
UREE leverage ratio	1.5%	0.0%	1.5%

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.

Regulatory capital included any allocated investment in AgriBank that is in excess of the required investment under an allotment agreement with AgriBank. We had no allocated excess stock at December 31, 2016, 2015, or 2014. 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 will not be included in the common equity tier 1, tier 1 capital, total capital, or leverage ratios.

Description of Equities

The following represents information regarding classes and number of shares of stock and participation certificates outstanding. All shares and participation certificates are stated at a $5.00 par value.

	Number of Shares		
As of December 31	**2016**	2015	2014
Class B common stock (at-risk)	**1,448,800**	1,479,600	1,499,800
Class E participation certificates (at-risk)	**25,388**	23,534	24,425

Under our bylaws, we are also authorized to issue Class C common stock and Class D common stock. Each of these classes of stock is at-risk and nonvoting with a $5.00 par value per share. Currently, no stock of these classes has been issued.

Only holders of Class B common stock have voting rights. Our bylaws do not prohibit us from paying dividends on any classes of stock. However, no dividends have been declared to date.

Our bylaws generally permit stock and participation certificates to be retired at the discretion of our Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2016, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

In the event of our liquidation or dissolution, according to our bylaws, any assets remaining after payment or retirement of all liabilities shall be distributed pro rata to all holders of stock.

In the event of impairment, losses will be absorbed by concurrent impairment of all classes of stock.

All classes of stock are transferable to other customers who are eligible to hold such class as long as we meet the regulatory minimum capital requirements.

Patronage Distributions

We accrued patronage distributions of $21.0 million, $15.0 million, and $12.0 million at December 31, 2016, 2015, and 2014, respectively. Generally, the patronage distributions are paid in cash during the first quarter in the following year. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements.

The FCA Regulations prohibit patronage distributions to the extent they would reduce our permanent capital ratio below the minimum permanent capital adequacy standards. Additionally, effective January 1, 2017, patronage distributions may be restricted or prohibited without prior FCA approval if capital ratios fall below the total requirements, including the buffer amounts. We do not foresee any events that would result in this prohibition in 2017.

NOTE 11: INCOME TAXES

(Benefit from) Provision for Income Taxes

(Benefit from) Provision for Income Taxes

(dollars in thousands)

For the year ended December 31		2016		2015		2014
Current:						
Federal	$	**7,293**	$	708	$	15
State		**153**		--		--
Total current	$	**7,446**	$	708	$	15
Deferred:						
Federal	$	**(7,442)**	$	(378)	$	2,472
State		**(299)**		325		119
Total deferred		**(7,741)**		(53)		2,591
(Benefit from) provision for income taxes	$	**(295)**	$	655	$	2,606
Effective tax rate		**(0.3%)**		0.7%		2.5%

Reconciliation of Taxes at Federal Statutory Rate to (Benefit from) Provision for Income Taxes

(in thousands)

For the year ended December 31		2016		2015		2014
Federal tax at statutory rates	$	**36,864**	$	33,618	$	35,058
State tax, net		**(14)**		29		104
Patronage distributions		**(7,350)**		(5,100)		(4,080)
Effect of non-taxable entity		**(29,850)**		(27,834)		(28,541)
Other		**55**		(58)		65
(Benefit from) provision for income taxes	$	**(295)**	$	655	$	2,606

Deferred Income Taxes

Tax laws require certain items to be included in our tax returns at different times than the items are reflected on our Consolidated Statements of Income. Some of these items are temporary differences that will reverse over time. We record the tax effect of temporary differences as deferred tax assets and liabilities netted on our Consolidated Statements of Condition.

Deferred Tax Assets and Liabilities

(in thousands)

As of December 31		2016		2015		2014
Allowance for loan losses	$	**1,288**	$	942	$	788
Postretirement benefit accrual		**860**		831		778
Net operating loss carryforwards		**--**		194		7,408
Accrued incentive		**1,129**		1,354		1,296
Leasing related, net		**(26,987)**		(35,349)		(42,488)
Accrued patronage income not received		**(669)**		(407)		(685)
AgriBank 2002 allocated stock		**(1,236)**		(1,237)		(1,238)
Accrued pension asset		**(1,132)**		(524)		(628)
Depreciation		**(228)**		(391)		(493)
Other assets		**1,021**		885		1,510
Other liabilities		**(257)**		(250)		(253)
Deferred tax liabilities, net	$	**(26,211)**	$	(33,952)	$	(34,005)
Gross deferred tax assets	$	**4,298**	$	4,206	$	11,780
Gross deferred tax liabilities	$	**(30,509)**	$	(38,158)	$	(45,785)

A valuation allowance for the deferred tax assets was not necessary at December 31, 2016, 2015, or 2014.

We have not provided for deferred income taxes on patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. Our total permanent investment in AgriBank is $39.9 million. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $905.7 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

Our income tax returns are subject to review by various United States taxing authorities. We record accruals for items that we believe may be challenged by these taxing authorities. However, we had no uncertain income tax positions at December 31, 2016. In addition, we believe we are no longer subject to income tax examinations for years prior to 2013.

NOTE 12: EMPLOYEE BENEFIT PLANS

Pension and Post-Employment Benefit Plans

Complete financial information for the pension and post-employment benefit plans may be found in the Combined AgriBank and affiliated Associations 2016 Annual Report (District financial statements).

The Farm Credit Foundations Plan Sponsor and Trust Committees provide oversight of the benefit plans. These governance committees are comprised of elected or appointed representatives (senior leadership and/or Board of Director members) from the participating organizations. The Coordinating Committee (a subset of the Plan Sponsor Committee comprised of AgriBank District representatives) is responsible for decisions regarding retirement benefits at the direction of the AgriBank District participating employers. The Trust Committee is responsible for fiduciary and plan administrative functions.

Pension Plan: Certain employees participate in the AgriBank District Retirement Plan, a District-wide multi-employer defined benefit retirement plan. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan's termination is contingent on the sufficiency of the plan's net assets to provide benefits at that time. This Plan is noncontributory and covers certain eligible District employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if we choose to stop participating in the plan, we may be required to pay an amount based on the underfunded status of the plan. Because of the nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee transfers to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. No collective bargaining agreement is in place as part of this plan.

AgriBank District Retirement Plan Information

(in thousands)

As of December 31	2016	2015	2014
Unfunded liability	**$ 374,305**	$ 453,825	$ 423,881
Projected benefit obligation	**1,269,625**	1,255,259	1,234,960
Fair value of plan assets	**895,320**	801,434	811,079
Accumulated benefit obligation	**1,096,913**	1,064,133	1,051,801

For the year ended December 31	2016	2015	2014
Total plan expense	**$ 53,139**	$ 63,800	$ 45,827
Our allocated share of plan expenses	**5,140**	6,105	4,216
Contributions by participating employers	**90,000**	62,722	52,032
Our allocated share of contributions	**8,640**	6,004	4,772

The unfunded liability reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these Consolidated Financial Statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The accumulated benefit obligation is the actuarial present value of the benefits attributed to employee service rendered before the measurement date and based on current employee service and compensation. The funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. We recognize our proportional share of expense and contribute a proportional share of funding. Our allocated share of plan expenses is included in "Salaries and employee benefits" in the Consolidated Statements of Income.

Benefits paid to participants in the District were $56.4 million in 2016. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total District employer contributions expected to be paid into the pension plan during 2017 is $90.0 million. Our allocated share of these pension contributions is expected to be $8.5 million. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the District financial statements.

Nonqualified Retirement Plan: We also participate in the District-wide nonqualified defined benefit Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits.

Pension Restoration Plan Information

(in thousands) As of December 31		2016		2015		2014
Unfunded liability	$	**28,514**	$	31,650	$	27,695
Projected benefit obligation		**28,514**		31,650		27,695
Accumulated benefit obligation		**22,778**		26,323		22,959

For the year ended December 31		2016		2015		2014
Total plan expense	$	**5,767**	$	3,776	$	3,652
Our allocated share of plan expenses		**467**		408		444

The nonqualified plan is funded as the benefits are paid; therefore, there are no assets in the plan and the unfunded liability is equal to the projected benefit obligation. The amount of the pension benefits funding status is subject to many variables including interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their participants in the plan. Our allocated share of plan expenses is included in "Salaries and employee benefits" in the Consolidated Statements of Income. The Pension Restoration Plan is unfunded; however, we contributed $1.0 million to a Rabbi Trust to fund our future liability under this plan. A Rabbi Trust is a trust created for the purpose of supporting the nonqualified benefit obligation of employers to their employees. There were no benefits paid under the Pension Restoration Plan to our senior officers who were actively employed during the year. We had no cash contributions and paid no benefits during 2016, 2015, and 2014.

Retiree Medical Plans: District employers also provide certain health insurance benefits to eligible retired employees according to the terms of the benefit plans. The anticipated costs of these benefits are accrued during the period of the employee's active status.

Retiree Medical Plan Information

(in thousands) For the year ended December 31		2016		2015		2014
Postretirement benefit expense	$	**150**	$	266	$	191
Our cash contributions		**125**		114		115

Postretirement benefit costs are included in "Salaries and employee benefits" in the Consolidated Statements of Income. Our cash contributions are equal to the benefits paid.

Defined Contribution Plans

We participate in a District-wide defined contribution plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2.0% and 50 cents on the dollar on the next 4.0% on both pre-tax and post-tax contributions. The maximum employer match is 4.0%. For employees hired after December 31, 2006, we contribute 3.0% of the employee's compensation and will match employee contributions dollar for dollar up to a maximum of 6.0% on both pre-tax and post-tax contributions. The maximum employer contribution is 9.0%.

We also participate in a District-wide Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the IRS, are either a Chief Executive Officer or President of a participating employer, or have previously elected pre-tax deferrals in 2006 under predecessor nonqualified deferred compensation plans. Under this plan the employee may defer a portion of his/her salary, bonus, and other compensation. Additionally, the plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the defined contribution plan if it were not for certain IRS limitations.

Employer contribution expenses for the defined contribution plan, included in "Salaries and employee benefits" in the Consolidated Statements of Income, were $1.7 million, $1.7 million, and $1.6 million in 2016, 2015, and 2014, respectively. These expenses were equal to our cash contributions for each year.

Additionally, we participate in a District-wide Pre-409A Frozen Nonqualified Deferred Compensation Plan. This plan serves the same purpose as the Nonqualified Deferred Compensation Plan. However, the plan was frozen effective January 1, 2007. As such, no additional participants are eligible to enter the plan and no additional employer contributions will be made to the plan.

NOTE 13: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members, and other organizations with which such persons may be associated. Such transactions may be subject to special approval requirements contained in the FCA Regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with other persons. In our opinion, none of these loans outstanding at December 31, 2016, involved more than a normal risk of collectability.

Related Party Loans and Leases Information

(in thousands)		**2016**		2015		2014
As of December 31:						
Total related party loans and leases	**$**	**23,100**	$	30,617	$	18,451
For the year ended December 31:						
Advances to related parties	**$**	**17,041**	$	63,047	$	15,921
Repayments by related parties		**17,416**		57,196		15,997

The related parties can be different each year end primarily due to changes in the composition of the Board of Directors and the mix of organizations with which such persons may be associated. Advances and repayments on loans and leases in the preceding chart are related to those considered related parties at year end.

As discussed in Note 9, we borrow from AgriBank, in the form of a line of credit, to fund our loan portfolio.

Our customer relationship, reporting, internet, network, security, loan accounting, loan origination, online banking, mobile banking, and general ledger systems are provided by Farm Credit Financial Partners, Inc. (FPI), a System service corporation, which provides technology and other operational services to its owners. As part of this relationship, we had an equity investment in FPI of $2.8 million, $2.7 million, and $2.7 million as of December 31, 2016, 2015, and 2014, respectively. The total cost of services we purchased from FPI was $8.3 million, $6.9 million, and $5.8 million in 2016, 2015, and 2014, respectively.

We purchase various services from AgriBank including certain financial and retail systems, financial reporting services, tax reporting services, technology services, insurance services, and internal audit services. The total cost of services we purchased from AgriBank was $0.3 million, $0.3 million, and $0.4 million in 2016, 2015, and 2014, respectively.

We also purchase human resource information systems and benefit, payroll, and workforce management services from Farm Credit Foundations (Foundations). As of December 31, 2016, 2015, and 2014, our investment in Foundations was $0.1 million. The total cost of services purchased from Foundations was $0.3 million, $0.4 million, and $0.4 million in 2016, 2015, and 2014, respectively.

NOTE 14: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, 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.

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 that may be 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 December 31, 2016, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $2.1 billion. Additionally, we had $30.9 million of issued standby letters of credit as of December 31, 2016.

Commitments to extend credit and letters of credit generally have fixed expiration dates or other termination clauses and we may 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. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on management's credit evaluation of the borrower.

We are among the limited partners in a RBIC. Refer to Note 7 for additional discussion regarding this commitment.

NOTE 15: 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 input levels that may be used to measure fair value. Refer to Note 2 for a more complete description of the three input levels.

Recurring

The following represents a summary of the assets, valuation techniques, and inputs used to measure fair value on a recurring basis:

Leases held for sale: The leases held for sale are held at fair value. Fair value is based on the sales agreement. We had finance leases held for sale of $70.4 million and leased assets held for sale of $79.6 million as of December 31, 2016, which were valued using Level 3 inputs. Total fair value gains related to these leases of $1.2 million in 2016, were recognized in "Miscellaneous income, net" in the Consolidated Statements of Income.

We did not have any assets or liabilities measured at fair value on a recurring basis at December 31, 2015, or 2014.

Non-Recurring

We may also 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 December 31, 2016	Fair Value Measurement Using				
	Level 1	Level 2	Level 3	Total Fair Value	Total Losses
Impaired loans	**$ --**	**$ 1,117**	**$ 3,707**	**$ 4,824**	**$ (1,339)**
Other property owned	**--**	**--**	**--**	**--**	**--**

As of December 31, 2015	Fair Value Measurement Using				
	Level 1	Level 2	Level 3	Total Fair Value	Total Losses
Impaired loans	$ --	$ 985	$ 14,524	$ 15,509	$ (2,153)
Other property owned	--	--	--	--	--

As of December 31, 2014	Fair Value Measurement Using				Total (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	Gains
Impaired loans	$ --	$ 787	$ 5,884	$ 6,671	$ (595)
Other property owned	--	--	--	--	358

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 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. We had no other property owned at December 31, 2016, 2015, or 2014.

NOTE 16: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 2, 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 2016 Consolidated Financial Statements or disclosures in the Notes to Consolidated Financial Statements.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

AgCountry Farm Credit Services, ACA
(Unaudited)

Description of Business

General information regarding the business is incorporated herein by reference from Note 1 to the accompanying Consolidated Financial Statements.

The description of significant business developments, if any, is incorporated herein by reference from the "Management's Discussion and Analysis" section of the accompanying Consolidated Financial Statements.

Description of Property

Property Information

Location	Description	Usage
Ada, MN	Owned	Branch
Alexandria, MN	Owned	Branch
Cavalier, ND	Owned	Branch
Cooperstown, ND	Leased	Branch
Crookston, MN	Owned	Branch
Detroit Lakes, MN	Owned	Branch
Devils Lake, ND	Owned	Branch
Elbow Lake, MN	Owned	Branch
Fargo, ND	Owned	Headquarters/Branch
Fergus Falls, MN	Owned	Branch
Fosston, MN	Owned	Branch
Graceville, MN	Owned	Branch
Grafton, ND	Owned	Branch
Grand Forks, ND	Owned	Branch
Hallock, MN	Owned	Branch
Hillsboro, ND	Owned	Branch
Jamestown, ND	Owned	Branch
LaMoure, ND	Owned	Branch
Langdon, ND	Owned	Branch
Lisbon, ND	Owned	Branch
Morris, MN	Owned	Branch
Roseau, MN	Owned	Branch
Thief River Falls, MN	Leased	Branch
Valley City, ND	Owned	Branch
Wahpeton, ND	Owned	Branch
Warren, MN	Owned	Branch

We own property in West Fargo for future development options.

Legal Proceedings

Information regarding legal proceedings is discussed in Note 14 to the accompanying Consolidated Financial Statements. We were not subject to any enforcement actions as of December 31, 2016.

Description of Capital Structure

Information regarding our capital structure is discussed in Note 10 to the accompanying Consolidated Financial Statements.

Description of Liabilities

Information regarding liabilities is discussed in Notes 9, 10, 11, 12, and 14 to the accompanying Consolidated Financial Statements.

Selected Financial Data

The "Consolidated Five-Year Summary of Selected Financial Data" is presented at the beginning of the accompanying Consolidated Financial Statements.

Management's Discussion and Analysis

Information regarding any material aspects of our financial condition, changes in financial condition, and results of operations are discussed in the "Management's Discussion and Analysis" section of the accompanying Consolidated Financial Statements.

Board of Directors

Our Board of Directors is organized into the following committees to carry out Board responsibilities:

- The **Audit Committee** fulfills oversight responsibilities in relation to the quality of financial reporting and internal controls including those relating to accounting and reporting practices of the association; those relating to the internal and external auditor; and to serve as an independent and objective party to review the financial information presented by management to shareholders, regulators, and the general public. The Committee also oversees the adequacy of management's actions with respect to recommendations arising from auditing activities.

- The **Human Resources and Compensation Committee** assists the Board in fulfilling its responsibilities concerning evaluation, development, and compensation of the CEO. The Committee reviews and approves the overall compensation policy and programs for senior officers and reviews compensation programs for all other association employees. The Committee also provides overall direction and/or recommendations concerning benefit programs and other human resource areas.

- The **Governance Committee** addresses corporate governance issues and continuing efforts to strengthen and renew the Board. The Committee assists the Board in fulfilling its fiduciary responsibilities relating to the director nomination and election process, membership representation, Board education and development, policies, bylaws, and standards of conduct/ethics development and review. Committee members also identify, attract, and recommend appointed director candidates as openings occur.

Board of Directors as of December 31, 2016, including business experience during the last five years

Name	Term	Principal occupation and other business interests
Greg Nelson Chairperson of the Board	2014 - 2018	**Principal occupation:** Self-employed grain farmer
Leif Aakre Vice Chairperson of the Board	2015 - 2019	**Principal occupation:** Self-employed grain farmer
Glen Brandt	2014 - 2018	**Principal occupation:** Self-employed grain and sugar beet farmer
Kurt Elliott	2016 - 2020	**Principal occupation:** Self-employed grain and livestock farmer **Other affiliations:** Director: Traill County Commission Representative Director: Lake Agassiz Regional Development Board
Mark Ellison	2016 - 2020	**Principal occupation:** Self-employed grain farmer President: Ellison Farm, Inc **Other affiliations:** Director: Farm Credit Council
Jack Hansen Appointed Director Financial Expert	2016 - 2020	**Principal occupation:** Retired Prior to retirement he was the President and CEO of Norwest Bank in Hillsboro, ND
Alton Hermunslie	2013 - 2017	**Principal occupation:** Self-employed grain farmer Off Farm Employment: Tecton Products in Fargo, ND
Michael Long	2013 - 2017	**Principal occupation:** Self-employed grain and livestock farmer
William Muhs	2015 - 2019	**Principal occupation:** Self-employed grain farmer
Greg Sabolik	2013 - 2017	**Principal occupation:** Self-employed grain and dairy farmer President: Bred and Butter Dairy Vice President: Sabolik Brothers, a grain farm
Rynell Schock Appointed Director	2013 - 2017	**Principal occupation:** Self-employed grain farmer Off Farm Employment: Manager of Education Solutions at National Joint Powers Alliance in Staples, MN

Name	Term	Principal Occupation and Other Affiliations
Dale Zahradka	2014 - 2018	**Principal occupation:** Self-employed grain farmer
Michael Zenker	2015 - 2019	**Principal occupation:** Self-employed grain farmer Seed dealer

AgCountry Farm Credit Services, ACA has one open outside appointed director position and intends to fill this position upon the effective date of the merger between United FCS, ACA and AgCountry Farm Credit Services, ACA, or as soon as possible if the merger is not approved by the stockholders.

Pursuant to our bylaws, directors are paid a reasonable amount for attendance at board meetings, committee meetings, or other special assignments. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or assignments. The Board of Directors has adopted a rate of $400 per day and a per diem rate of $150 per conference call. Each director receives an annual retainer of $20,000. In addition, the Board Chairperson receives an additional $4,000, the Vice Chairperson receives an additional $3,000, the Audit Committee Chairperson receives an additional $3,000, and the Human Resources and Compensation Committee Chairperson and Governance Committee Chairperson receive an additional $1,500. All retainer fees are paid in equal quarterly payments.

Information regarding compensation paid to each director who served during 2016 follows:

	Number of Days Served		Compensation Paid for Service on a Board Committee		Total Compensation Earned in 2016
Name	Board Meetings	Other Official Activities		Name of Committee[2]	
Leif Aakre	13.5	18.5	$ 1,200	Governance/Compensation	$ 37,900
Glen Brandt	14.0	25.5	1,900	Audit	37,600
Kurt Elliott	10.0	5.0	1,250	Audit	18,867
Mark Ellison	13.5	31.5	1,350	Governance/Compensation	40,800
Jack Hansen	13.5	15.5	2,150	Audit	36,500
Alton Hermunslie	13.5	19.5	1,200	Governance/Compensation	34,300
Ryan Larsen[1]	4.0	9.0	700	Audit	15,800
Michael Long	14.0	23.5	2,250	Audit	39,100
William Muhs	13.5	18.5	2,100	Audit	34,800
Greg Nelson	12.0	22.5	1,150	Governance/Compensation	39,050
Greg Sabolik	11.5	20.0	850	Audit	34,100
			800	Governance/Compensation	
Rynell Schock	12.5	14.5	1,200	Governance/Compensation	31,900
Roger Weinlaeder[1]	3.0	7.0	400	Governance/Compensation	12,733
Dale Zahradka	13.5	22.0	1,200	Governance/Compensation	36,850
Michael Zenker	13.0	22.0	1,950	Audit	35,850
					$ 486,150

[1]No longer on the Board at December 31, 2016

[2]The same directors serve on the governance and compensation committees

Senior Officers

Senior Officers as of December 31, 2016, including business experience during the last five years

Name and Position	Business experience and other business interests
Robert C. Bahl President/Chief Executive Officer	**Business experience:** President/Chief Executive Officer from April 2008 to present **Other business affiliations:** Board Chairperson of Farm Credit Financial Partners, Inc Board Member of FCS Commercial Finance Group
Randy Aberle SVP Agribusiness and Capital Markets	**Business experience:** SVP Agribusiness and Capital Markets from November 2011 to present **Other business affiliations:** Board Vice Chairperson for ProPartners Financial
Jessica Fyre SVP General Counsel	**Business experience:** SVP General Counsel from July 2013 to present Prior to beginning her employment with AgCountry in 2012, Ms. Fyre's business experience was with a law firm **Other business affiliations:** Board Member of the Fargo-Moorhead Junior League, a not for profit volunteer organization for women
Kenneth C. Knudsen SVP Credit/Chief Credit Officer	**Business experience:** SVP Credit/Chief Credit Officer from January 2008 to present
Jeremy W. Oliver SVP Finance and Operations/CFO	**Business experience:** SVP Finance and Operations/CFO from January 2008 to present
Howard Olson SVP Insurance and Communications	**Business experience:** SVP Insurance and Communications from August 2016 to present SVP Financial Services from January 2008 to July 2016 **Other business affiliations:** Secretary for ULTRA Snowmobile Club Board of Directors
Mark Rehovsky SVP Chief Marketplace Officer	**Business experience:** SVP Chief Marketplace Officer from February 2012 to present
Jeni Strand VP Human Resources	**Business experience:** VP Human Resources from January 2008 to present
Becky Thibert VP Strategic Technology	**Business experience:** VP Strategic Technology from June 2014 to present Prior to beginning her employment with AgCountry in 2014, Ms. Thibert was a technology consultant for AgCountry

Senior Officer Compensation

Compensation Risk Management: We believe the design and governance of our CEO and senior officer compensation program is consistent with and promotes the accomplishment of our key business objective of ensuring sound risk management for the benefit of our shareholders. The philosophy underlying our program is to provide a total compensation package that attracts and retains highly qualified senior officers who are incented to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America. The Human Resources and Compensation Committee of the Board has established a compensation program that focuses on achieving both annual and long-term business results that are consistent with the best interests of our shareholders. The design of our senior officer compensation program supports our goals through a set of checks and balances, including (1) a balanced mix of base and variable pay, (2) a balanced use of financial, credit, and marketplace performance measures that are risk-adjusted where appropriate, and (3) individual pay awards based on both results and how those results were achieved.

Elements of Compensation: The CEO and senior officers are compensated with a mix of salary and variable pay in the form of direct cash, short-term incentives, as well as retirement plans generally available to all employees. The variable pay and retirement plans are not available to part-time employees working less than an average of 20 hours per week. Our Board of Directors determines the appropriate balance of base salary and short-term incentives, which are intended to be competitive with annual compensation for comparable positions at peer organizations.

Base Salary: The CEO and senior officer base salaries reflect the market, individual performance results, officer's experience, and level of responsibility. Association performance relative to objectives established in the annual business plan is reflected in base salary adjustments, varying consistent with the responsibility of each position. The CEO and each senior officer are compensated consistent with achievement of individual and association key business objectives. The base salary for the CEO is approved by our Board of Directors and the base salaries for other senior officers are approved by the CEO subject to the terms of the compensation program approved by the Human Resources and Compensation Committee of the Board. Salaries are also subject to adjustment based on changes in responsibilities and/or competitive market conditions.

Short-term Incentives: The CEO and senior officer incentives are paid annually based on performance criteria established by our Board of Directors. The criteria related to the overall association performance provides a balanced approach that includes: financial measures, which are permanent capital ratio, pre-tax return on assets and efficiency ratio; credit quality measured by the adversely classified assets ratio; and marketplace measured by average daily balance change for loans, leases, and investments in rural America. Additionally, criteria related to personal performance include attainment of personal objectives and individual performance ratings. The CEO and senior officer short-term incentive is based 70% on the overall association performance and

30% on individual performance measures. The Board of Directors establishes the CEO individual performance measures and ratings. The CEO establishes the senior officer performance measures and ratings. Incentives are calculated after the end of the plan year (the plan year is the calendar year) and are paid within 90 days of year end. In addition, any employee who achieves performance levels above and beyond the criteria in the short-term incentive plan may be awarded an additional bonus as approved by their supervisor, the VP Human Resources, and the CEO, or by the Board if the bonus is for the CEO.

Retirement Plans: We have various post-employment benefit plans, which are generally available to all association employees, including the CEO and senior officers, based on dates of service to the association and are not otherwise differentiated by position, unless specifically stated. Information regarding the post-employment benefit plans is included in Notes 2 and 12 of this Annual Report.

Other Components of Compensation: Additionally, compensation associated with any company-paid vehicles, group term life insurance premiums, disability insurance premiums, years of service awards for retirees, or other taxable reimbursements may be made available to the CEO and senior officers based on job criteria or similar plans available to all employees.

Compensation to the CEO and Senior Officers

(in thousands) Name	Year	Salary	Variable Pay	Deferred/ Perquisites	Other	Total
Robert C. Bahl, CEO	**2016**	**$ 546**	**$ 446**	**$ 64**	**$ 409**	**$ 1,465**
Robert C. Bahl, CEO	2015	567	340	23	369	1,299
Robert C. Bahl, CEO	2014	506	308	45	607	1,466
Aggregate Number of Senior Officers, excluding CEO						
Eight	**2016**	**$ 1,696**	**$ 883**	**$ 30**	**$ 1,469**	**$ 4,078**
Eight	2015	1,648	721	25	1,424	3,818
Nine[1]	2014	1,559	621	26	2,380	4,586

[1]Includes an individual who took a senior officer position in June 2014 and a senior officer who retired in 2014.

The amount in the "Other" category in the preceding table primarily includes:

- Employer match on defined contribution plans available to all employees.
- Changes in the value of pension benefits. The change in value of the pension benefits is defined as the change in the vested portion of the present value of the accumulated benefit obligation from December 31 of the prior year to December 31 of the most recent year for the District-wide Pension Plan and the Pension Restoration Plan, as applicable, as disclosed in Note 12 to the accompanying Consolidated Financial Statements. This change in value does not represent cash payments made by the Association during the year, but rather is an estimate of the change in the Association's future obligations under the pension plans. The change in the value of the pension benefits is highly sensitive to discount rates used to value the plan liabilities to participants.

No tax reimbursements are made to the CEO and senior officers.

The value of the pension benefits from December 31, 2015, to December 31, 2016, changed primarily due to interest cost, accumulation of an additional year of credited service by plan participants, and changes in actuarial assumptions.

Members may request information on the compensation to the individuals included in the preceding table during 2016.

Effective April 29, 2015, the Farm Credit Administration Board adopted a final rule changing the determination of employees that could be considered highly compensated employees. While not final as of December 31, 2014, employees disclosed for 2014 in the above chart were determined based on the final rule.

Pension Benefits Attributable to the CEO and Senior Officers

(dollars in thousands) **2016** Name	Plan	Years of Credited Service	Present Value of Accumulated Benefits	Payments Made During the Reporting Period
Robert C. Bahl, CEO	AgriBank District Retirement Plan	**39.3**	**$ 2,521**	**$ --**
Robert C. Bahl, CEO	AgriBank District Pension Restoration Plan	**39.3**	**3,414**	**--**
Aggregate Number of Senior Officers, excluding CEO				
Five	AgriBank District Retirement Plan	**33.2**	**$ 8,827**	**$ --**
Three	AgriBank District Pension Restoration Plan	**37.0**	**410**	**--**

The change in composition of the aggregate senior officers can have a significant impact on the calculation of the accumulated pension benefits.

Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. Therefore, any employee starting employment with the AgriBank District after that date is not eligible to be in the plan.

The AgriBank District Pension Restoration Plan restores retirement benefits to certain highly compensated employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits. Not all senior officers or highly compensated employees are eligible to participate in this plan.

Transactions with Senior Officers and Directors

Information regarding related party transactions is discussed in Note 13 to the accompanying Consolidated Financial Statements.

Travel, Subsistence, and Other Related Expenses

Directors and senior officers are reimbursed for reasonable travel, subsistence, and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at:

Post Office Box 6020
Fargo, ND 58108-6020
(701) 282-9494
www.agcountry.com
acndinternet@agcountry.com

The total directors' travel, subsistence, and other related expenses were $0.2 million, $0.2 million, and $0.1 million in 2016, 2015, and 2014, respectively.

Involvement in Certain Legal Proceedings

No events occurred during the past five years that are material to evaluating the ability or integrity of any person who served as a director or senior officer on January 1, 2017, or at any time during 2016.

Member Privacy

The FCA Regulations protect members' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our association or our members not normally contained in published reports or press releases.

Relationship with Qualified Public Accountant

There were no changes in independent auditors since the last Annual Report to members and we are in agreement with the opinion expressed by the independent auditors. The total fees paid during 2016 were $0.1 million. The fees paid were for audit services. Our audit committee has approved non-audit services for merger related preclearance services. At December 31, 2016, we have accrued $25 thousand for non-audit services, which will be paid in 2017.

Financial Statements

The "Report of Management", "Report on Internal Control Over Financial Reporting", "Report of Audit Committee", "Report of Independent Auditors", "Consolidated Financial Statements", and "Notes to Consolidated Financial Statements" are presented prior to this portion of the accompanying Consolidated Financial Statements.

Our Commitment to Serving Young, Beginning, and Small Farmers and Ranchers

Information regarding credit and services to young, beginning, and small farmers and ranchers, and producers or harvesters of aquatic products is discussed in an addendum to this Annual Report.

Our Commitment to Serving Young, Beginning and Small Farmers

(Unaudited)

Serving our young, beginning and small farmer customers is a priority at AgCountry.

Young, Beginning and Small Farmers Defined

Young Farmer: A farmer or rancher who is 35 years of age or less as of the loan transaction date.

Beginning Farmer: A farmer or rancher who has 10 years or less of farming or ranching experience as of the loan transaction date.

Small Farmer: A farmer or rancher who normally generates less than $250,000 in annual gross sales of agricultural products.

Our Mission for Serving Young, Beginning and Small Farmers

Our mission is to help agricultural producers and agribusinesses achieve goals, leverage opportunities and mitigate risk by providing competitive access to capital and integrated financial and management tools and people through convenient distribution channels.

For young, beginning farmers, this means…
We support the successful entry of young and beginning farmers into production agriculture through specialized credit underwriting, educational/informational programs and other activities.

For small farmers, this means…
We provide convenient, easy and cost-effective access to our products and services at competitive prices.

Our Objectives for Serving Young, Beginning Farmers

1. To aggressively identify individuals with the personal management skills and drive to build a full-scale, full-time operation.

2. To aggressively apply credit standards to the young, beginning farmer market segment, invest the specialized skills of our staff in serving this segment and provide limited subsidies for interest rates and financial services.

3. To closely monitor the business transition plans of our young, beginning farmers with growing and larger operations to ensure that from a customer value, service and monitoring standpoint, we are positioned with the next generation of owner/operators.

Our Progress in Achieving These Objectives

AgCountry markets to young and beginning farmer prospects. We monitor the farm business transition plans of customers and prospects including offering Succession and Retirement Planning consulting. Customer information for underwriting is streamlined and often relies on credit scoring tools. Our young and beginning credit underwriting allows exceptions to established underwriting standards, provides for defined interest rate pricing exceptions and subsidies on eligible financial services. Scholarships and numerous educational opportunities are also provided.

Our Objectives for Serving Small Farmers

1. To establish small farmer delivery and processing systems that are streamlined and efficient using technology and branch offices to achieve cost-effective access and competitive prices.

2. To pursue decision-making methodology that streamlines the credit process, along with the vehicles that maximize disbursement and payment alternatives (such as revolving loans, scorecards, online loan applications, purchase or debit cards and online banking).

3. To identify customers within the small farmer segment that have the capacity and the goal to become a larger farm operation and provide them with more loan officer and financial services interaction that brings us closer to the people-intensive portion of our value proposition provided for larger, full-scale farm operations.

Our Progress in Achieving these Objectives

AgCountry has 26 offices to serve this segment as well as access through dealer retail financing. Customer information for underwriting is streamlined and often relies on credit scoring tools. All financial services are made available and we provide additional support to those units with a business expansion strategy.

Quantitative Goals and Status -
Annual, Three-Year, and Actual

Goal: 25% of producer loan customers will be coded young or beginning.

Status: Annual: 25%
Three-Year: 25%
Actual: 32.6%

Goal: 25% of all producer relationships will be young or beginning.

Status: Annual: 25%
Three-Year: 25%
Actual: 27.7%

Goal: YBSF volume will remain above 35% of ongoing producer credit branch operations volume.

Status: Annual: 35%
Three-Year: 35%
Actual: 32.8%

Goal: Educational/informational opportunities provided to YBFs annually.

Status: Annual: 350
Three-Year: reduces to 300 in year three
Actual: 735

Goal: The YBF portfolio will be maintained at or above 85% acceptable. The small farmer portfolio will be maintained at or above 94% acceptable.

Status: Annual: 85% and 94%
Three-Year: 85% and 94%
Actual: Young and beginning: 92%
Small: 98.5%

Goal: 25% of our new loan volume will go to YBFs annually.

Status: Annual: 25%
Three-Year: 25%
Actual: 28.4%

Goal: Small farmer customer numbers will be greater than 50% of all producer loan and lease relationships.

Status: Annual: 50%
Three-Year: 50%
Actual: 35.8%

Qualitative Goals and Status

Goal: The capacity to use Farm Services Agency (FSA) and state programs will be maintained as a tool for a YBF operator.

Status: FSA assisted in providing 31 new loans. Bank of North Dakota and Minnesota Rural Finance Authority did not assist in providing new loans in 2016.

Goal: Succession and retirement/transition planning consultative services will be provided to young and beginning farmers.

Status: These services were provided to 137 young and beginning farmers.

Goal: AgCountry's full spectrum of financial services will be made available to young and beginning farmers.

Status:

Services	# Served
Tax	599
Farm Accounting	243
Succession & Retirement	137
Crop Insurance	521

Goal: Educational and informational opportunities will be provided to young and beginning farmers.

Status: The following educational and informational opportunities were provided to young and beginning farmers:

- Seminars on "Tax Planning In Years Of Low Prices" and "How Big Is Your Risk Appetite?" were presented at the Big Iron Farm Show in September, along with a section of our display booth dedicated to YBF information and materials. 76 YBFs visited our booth.
- A marketing education workshop, "Navigating the Hurdles of 2016" was held in January (102 YBFs attended).
- A presentation was given to 91 YBFs on February 17. Dr. Ed Seifried presented, "Charting The Economy in 2016."
- Dr. David Kohl webinar series attracted a total of 42 YBFs.
- Marketing education meetings
- Crop revenue profiler meetings
- Multi peril and crop insurance consultations
- Succession & retirement planning meetings
- Farm accounting update meetings
- Pre-harvest meetings
- FSA Guarantee loan counseling sessions
- Marketing club presentations

Goal: Focus group meetings will be held periodically with select groups of young and beginning or small farmers.

Status: Two meetings were held with 5 young, beginning or small farmers in attendance.

Goal: Financial and in-kind support will be provided to programs that foster the development of young farmers, such as 4H and FFA.

Status:

- $70,797 was donated to such programs, including 4H, FFA, Farm Management/Leadership Programs, Farm Safety camps and educational seminars offered through county Extension Service offices.
- $10,098 in scholarships was awarded to YBF customers to attend the "Navigating the Hurdles of 2016" marketing education workshop in January.
- $6,200 in scholarships was awarded to YBF customers to attend The Executive Program for Agricultural Producers (TEPAP) at Texas A&M University.
- $24,000 in scholarships was awarded to 24 high school seniors pursuing careers in agriculture.
- Scholarships of $7,000 were awarded to NDSU students in the Farm Credit Fellows program.

Goal: Information about special exceptions to credit standards, special pricing options and other services available to young and beginning farmers will be distributed through branch offices, trade shows and focus group meetings and our website.

Status: This continues to be accomplished.

Young, Beginning and Small Farmer Demographics in Our Service Area	Census 2012	AgCountry Producer Loan and Lease Portfolio
35 years of age or less	7.5%	20.4%
10 years or less of experience farming	14.2%	22.7%
Farms less than $250,000 Value Farm Sales	67.9%	35.8%

Data Differences:

- The age and farmer experience is as of the date of the ag census, while AgCountry compiled as of the date the loan was made.
- Small farmers is by farm entity from the ag census data, while AgCountry data is compiled as of the date of the loan and the total value of sales of closely related entities rather than individual entities.
- Census data reflects all farms whether they use debt or not. The Census reflects only 40.3% of farms have debt.
- Of the farms reporting to the Census report, 19.6% of the farms had sales less than $10,000.

Safety and Soundness of the Program:
Goals are established for loan quality of these customer segments. The association is well above these goals at this time. The Starting Gate program, which is a subset of the young and beginning farmer program, also limits the size of individual transactions and an overall dollar amount available for this program because of the increased risk.

AgCountry Farm Credit Services Staff

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Danielle Miller, Sr Farm Accounting Specialist/
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Andrew Ness, Loan Officer
Anita Olson, Sr Credit Technician
Tim Pazdernik, Loan Officer/Branch Manager
Connie Purrington, Sr Loan Service Specialist
Kathleen Ruebke, Real Estate Specialist
Patricia Sakrismo, Customer Service Representative
Michael Thompson, Loan Officer
Jamie Thornton, Loan Service Specialist

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Michelle Niska, Loan Service Specialist
Erling Olson, Sr Certified Appraiser
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Bethany Thomson, Farm Accounting Specialist
Dorothy Ydstie Hall, Loan Service Specialist

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Chrissa Luckow, Sr Credit Technician
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Aimee Wagner, Tax Specialist

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Susan Needham, Farm Accounting Specialist
Brian Nohl, Loan Officer
Brady Rose, Loan Officer/Insurance Specialist
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Jeff Miller, Sr Loan Officer/Branch Manager
Marlene Niemann, Agribusiness Consultant
Peggy Raddatz, Farm Accounting Specialist
Kelda Rerick, Sr Tax Specialist
Michelle Shereck, Loan Service Specialist
Dana Smestad, Loan Officer
Kody Stark, Insurance Specialist

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