



AgCountry Farm Credit Services, ACA

Quarterly Report
June 30, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of AgCountry Farm Credit Services, ACA (the parent) and AgCountry Farm Credit Services, FLCA and AgCountry Farm Credit Services, PCA (the subsidiaries). This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2015 (2015 Annual Report).

AgriBank, FCB's (AgriBank) financial condition and results of operations materially impact members' investment in AgCountry Farm Credit Services, ACA. To request free copies of the AgriBank and combined AgriBank and affiliated Associations' financial reports or additional copies of our report, contact us at:

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NOTICE OF SIGNIFICANT OR MATERIAL EVENTS

Under a letter of intent, the Boards of Directors of AgCountry Farm Credit Services, ACA and United FCS, ACA recently 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 in the beginning stages of exploring this initiative. Providing that all due diligence is satisfactory, customer-owners will vote on the merger in early 2017. Should they approve, the merger will be effective July 1, 2017.

FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2015 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

World Gross Domestic Product (GDP) is projected to grow 2.5% in 2016. Global economic growth for 2016 is static due to lower commodity prices, weakening currency valuations for emerging market economics, slower growth in China, and uneven rates of growth in developed economies around the world. Emerging Asia's economy is projected to expand 5.4% in 2016, compared to 5.9% in 2015, due to softer global demand for many export dependent economies. Although still experiencing high levels of growth, the Chinese economy has slowed down as it continues to transition from an investment to a consumer-driven economy. Latin America's economy is projected to contract 0.1% in 2016 compared to a contraction of 0.9% in 2015, primarily due to Brazil's recession. Brazil's economy is expected to contract 1.3% in 2016 compared to 3.8% in 2015. With commodity prices much lower and economic growth slowing in China, Brazil's economy is expected to stay in a recession through 2016. The European Union's GDP is projected to grow 1.9% in 2016 compared to 1.9% in 2015. The projections for 2016 are likely to change based on the recent development of the United Kingdom electing to exit the European Union. The impact on GDP growth for the European Union and the United Kingdom is unclear due to the uncertainty of terms and the timing of the exit.

U.S. GDP is projected to grow 2.0% in 2016 compared to 2.4% in 2015. Weak foreign demand and a strong dollar will continue to put pressure on exports, although continued low energy prices will somewhat offset these negative pressures. Household spending has been increasing and the housing sector has continued to improve. Business fixed investments and net exports have remained soft through the second quarter of 2016.

The Federal Reserve decided to maintain the target range for the federal funds rate at 0.25% - 0.50% during its June 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% 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 trending down during 2016, with an estimated unemployment rate (seasonally adjusted) of 4.7% in May 2016 compared to 5.5% the prior year. Inflation has continued to run below the Federal Reserve's 2% objective, partly reflecting declines in energy prices and in prices of non-energy imports. The Federal Reserve expects inflation to increase steadily toward 2% over the medium term as the transitory effects of declines in energy and import prices dissipate and the labor market strengthens further.

Net farm income for 2016 is projected to decrease 3% from 2015 to \$55 billion. The decrease in net farm income is primarily due to lower crop and livestock receipts, but lower production expenses are expected to ease the reduction in profitability. Production expenses are projected to decrease 1% in 2016. Feed costs are expected to have the largest decline, while expenses for oil, fuel, and fertilizer are also expected to decrease. Hired labor will partially offset the reduction in expenses and is expected to increase 5% in 2016.

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: According to the June 2016 United States Department of Agriculture (USDA) Acreage Report, U.S. planted corn acres for 2016 are expected to be 94.1 million acres representing a 7% increase from the prior year. If realized, planted acres will be the highest since 2013 and will be the third highest acreage since 1944. Corn acres for 2016 are projected to increase 5% in Minnesota and 27% in North Dakota. The June 2016 USDA World Agricultural Supply and Demand Estimates (WASDE) report projected the average U.S. farm price for corn at \$3.60 to \$3.80 per bushel for the 2015/16 crop and \$3.20 to \$3.80 per bushel for the 2016/17 crop. Uncertainty surrounding summer weather and La Nina is expected to result in some volatility in the corn market.

Soybeans: According to the June 2016 USDA Acreage Report, U.S. planted soybean acres for 2016 are projected to increase 1% from the prior year to 83.7 million acres. Record high planted acres are estimated in Minnesota and North Dakota as well as Michigan, New York, Ohio, Pennsylvania, and Wisconsin. The June 2016 USDA WASDE report projected the average U.S. farm price for soybeans at \$9.05 per bushel for the 2015/16 crop and \$8.75 to \$10.25 per bushel for the 2016/17 crop.

Sugar Beets: Sugar beet acreage for 2016 in Minnesota and North Dakota is projected to increase 1% from the prior year to 654,000 acres. Minnesota and North Dakota are estimated to provide 56% of the total U.S. beet sugar production. Area producers were able to plant their crop early due to a favorable spring. Several thousand acres were replanted due to frost, wind, and crusting. The local sugar beet cooperatives finished their whole-beet slice campaign in May 2016. The above average winter temperatures caused some beet piles to deteriorate, resulting in discarded beets and subsequently lower payments to some growers.

The price spread between U.S. cane refiners and U.S. wholesale beet sugar has widened, with cane sugar between 3 to 5 cents per pound higher than beet sugar. Price is driven by demand and part of the demand is based on the consumer's perception. Public perceptions regarding food derived from genetically-modified organisms (GMO) are affecting the beet sugar industry, which has a high percentage of sugar from GMO sugar beets. With an ongoing shift towards foods that are non-GMO, demand for non-GMO cane sugar has increased. Scientific studies have shown sugar from GMO beets is chemically no different than sugar from non-GMO sugarcane; however, negative public perception of GMO products continues.

World raw sugar prices have increased from \$14.30 per pound to \$18.80 per pound in the past few months. Global weather will play a significant factor in determining crop production for the largest sugar producing countries. The June 2016 USDA WASDE report indicated an ending stocks-to-use ratio of 15.2% for fiscal 2016/17.

Wheat: The June 2016 Acreage Report estimated all wheat acres for 2016 to decrease 7% from the prior year to 50.8 million acres. Winter wheat planted acres are projected to decrease 7% from 2015 to 36.5 million acres. The 2016 spring wheat planted acres are projected to decrease 8% from 2015 to 12.1 million acres. Minnesota all wheat acres for 2016 are projected to decrease 6% from the prior year, and North Dakota all wheat acres for 2016 are projected to decrease 3% from the prior year. The June 2016 USDA WASDE report projected the average U.S. farm price for wheat at \$4.90 per bushel for the 2015/16 crop and \$3.60 to \$4.40 per bushel for the 2016/17 crop.

Cattle: The current forecast for total commercial beef production in 2016 is expected to increase 4% from the prior year to 25 billion pounds and production in 2017 is projected to increase 4% to 26 billion pounds. Beef exports for the second quarter of 2016 were revised 15 million pounds lower on lackluster demand from major partners, but a recovery in demand for U.S. beef is expected during the second half of the year. Limited supplies of Australian beef should work to the advantage of the U.S., shifting demand for high-quality beef to U.S. suppliers. U.S. beef exports for 2016 are forecast to increase 8% from the prior year to 2 billion pounds. Australian cattle slaughter and beef production are expected to remain sharply lower than the previous year, significantly reducing the volume of beef available for export and thus limiting U.S. imports during the year. U.S. beef imports for 2016 are projected to decrease 14% from the prior year to approximately 3 billion pounds.

Hogs: According to the June 2016 USDA Livestock Outlook, U.S. inventory of all hogs and pigs on June 1, 2016, was 68.4 million head. Inventory increased 2% from the prior year and increased 1% from March 1, 2016. Breeding inventory was up 1% from last year, at 6.0 million head, but decreased slightly from last quarter. Market hog inventory increased 2% from last year, at 62.4 million head, and increased 1% from last quarter.

U.S. commercial pork production for the second quarter of 2016 is expected to increase 1% from the prior year to 6.0 billion pounds. Higher production derives from both slightly higher slaughter numbers and average dressed weights. Production is expected to accelerate in the third quarter of 2016 and reach about 6.2 billion pounds, 3.5% higher than a year ago.

Dairy: According to the June 2016 USDA Dairy Outlook, U.S. milk production was 18.0 billion pounds in April 2016, an increase of 1.2% over the prior year. Milk per cow averaged 1,929 pounds for April 2016 compared to 1,909 for the prior year. The gap between the growing milk supply and domestic use/exports has remained relatively high, resulting in an inventory accumulation. With milk cow numbers higher than expected, the forecast for milk production for 2016 has been increased from 212.4 to 212.6 billion pounds. The all-milk price forecast for 2016 is projected to be \$14.95 to \$15.35 per cwt. Class III milk price is forecast at \$13.40 to \$13.80 per cwt, and the Class IV milk price is forecast at \$13.15 to \$13.65 per cwt.

Ethanol: According to the U.S. Energy Information Administration, ethanol production averaged approximately 970,000 barrels per day (b/d) in 2015 and is projected to average 980,000 b/d in 2016 and 2017. Ethanol consumption averaged about 910,000 b/d in 2015 and is forecast to average about 930,000 b/d in 2016 and 2017. Ethanol margins remained positive during the second quarter of 2016 as a result of low corn costs and continued demand for ethanol both domestically and abroad. U.S. ethanol exports in April 2016 totaled 95.5 million gallons and were the highest monthly volume since December 2011. China remains the top destination for U.S. ethanol exports. Ethanol exports are on pace to export more than 1 billion gallons in 2016 compared to 836 million gallons in 2015. Growing global demand is expected to keep ethanol prices stable.

LOAN PORTFOLIO

Loan Portfolio

Total loans were \$5.1 billion at June 30, 2016, an increase of \$309.8 million from December 31, 2015. The increase was primarily in our agribusiness portfolio from our Commercial Finance Group alliance and in our real estate mortgage loans.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2015. Adversely classified loans increased to 2.8% of the portfolio at June 30, 2016, from 2.2% of the portfolio at December 31, 2015. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At June 30, 2016, \$152.1 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

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

Components of Risk Assets

(dollars in thousands)	June 30	December 31
As of:	2016	2015
Loans:		
Nonaccrual	\$ 13,999	\$ 25,266
Accruing restructured	53	59
Accruing loans 90 days or more past due	1,882	1,036
Total risk loans	15,934	26,361
Other property owned	--	--
Total risk assets	\$ 15,934	\$ 26,361
Total risk loans as a percentage of total loans	0.3%	0.5%
Nonaccrual loans as a percentage of total loans	0.3%	0.5%
Current nonaccrual loans as a percentage of total nonaccrual loans	66.9%	38.3%
Total delinquencies as a percentage of total loans	0.3%	0.7%

Note: Accruing loans include accrued interest receivable.

Our risk assets decreased from December 31, 2015, and remain at acceptable levels. Total risk loans as a percentage of total loans remain 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 June 30, 2016.

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

Allowance for Loan Losses

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

Allowance Coverage Ratios

	June 30	December 31
As of:	2016	2015
Allowance as a percentage of:		
Loans	0.3%	0.3%
Nonaccrual loans	118.1%	53.0%
Total risk loans	103.7%	50.8%

The allowance for loan losses increased from \$13.4 million at December 31, 2015, to \$16.5 million at June 30, 2016, an increase of \$3.1 million. The increase was primarily due to higher loan portfolio balances and a slight 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 June 30, 2016.

RESULTS OF OPERATIONS**Profitability Information**

(dollars in thousands)

For the six months ended June 30	2016	2015
Net income	\$ 39,181	\$ 41,210
Return on average assets	1.5%	1.7%
Return on average members' equity	7.1%	8.1%

Changes in these ratios are directly related to the changes in income discussed in this section, changes in assets discussed in the Loan Portfolio section, and changes in capital discussed in the Funding, Liquidity, and Capital section.

Changes in Significant Components of Net Income

(in thousands)				Increase (decrease) in net income
For the six months ended June 30	2016	2015		
Net interest income	\$ 64,947	\$ 59,418	\$	5,529
Provision for (reversal of) credit losses	5,312	(4,005)		(9,317)
Patronage income	8,215	7,184		1,031
Other income, net	10,966	10,544		422
Operating expenses	38,971	38,887		(84)
Provision for income taxes	664	1,054		390
Net income	<u>\$ 39,181</u>	<u>\$ 41,210</u>	<u>\$</u>	<u>(2,029)</u>

Changes in Net Interest Income

(in thousands)

For the six months ended June 30	2016 vs 2015
Changes in volume	\$ 6,375
Changes in interest rates	(1,347)
Changes in nonaccrual income and other	501
Net change	<u>\$ 5,529</u>

The change in the provision for (reversal of) credit losses was primarily a result of recording a provision for loan losses during the six months ended June 30, 2016, due to the growth in our loan portfolio combined with a decline in overall portfolio credit quality. In addition, the individual analysis of a large substandard loan relationship, which was deemed fully collectible, resulted in a reversal of our general allowance as of June 30, 2015.

The change in patronage income was primarily related to an increase in the wholesale spread on our note payable and patronage income received on a higher level of loans in the AgriBank Asset Pool Program, compared to the prior year. The increase was partially offset by a decrease in patronage income related to a lower patronage rate applied to the average balance on our note payable with AgriBank compared to the prior year.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable matured on May 31, 2016, and was renewed for \$4.7 billion with a maturity date of May 31, 2017. The note payable will be renegotiated at that time. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future.

Cost of funds associated with our note payable includes a marginal cost of debt component, a spread component, which includes cost of servicing, cost of liquidity, and bank profit, and, if applicable, a risk premium component. However, we were not subject to a risk premium at June 30, 2016, or December 31, 2015.

Total members' equity increased \$31.1 million from December 31, 2015, primarily due to net income for the period, which was partially offset by patronage distribution accruals.

Farm Credit Administration regulations require us to maintain a certain level for our permanent capital ratio, total surplus ratio, and core surplus ratio. Refer to Note 9 in our 2015 Annual Report for a more complete description of these ratios.

Select Capital Ratios			
As of	Regulatory Minimums	June 30 2016	December 31 2015
Permanent capital ratio	7.0%	16.7%	16.6%
Total surplus ratio	7.0%	16.6%	16.5%
Core surplus ratio	3.5%	16.6%	16.5%

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section.

REGULATORY MATTERS

Regulatory Capital Requirements

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

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

The final rule replaces existing core surplus and total surplus ratios with common equity tier 1, tier 1, and total capital risk-based capital ratios. The final rule also adds a tier 1 leverage ratio. The permanent capital ratio continues to remain in effect with the final rule. Refer to Note 5 of the accompanying Consolidated Financial Statements for additional information regarding these ratios.

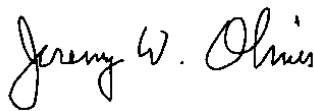
The effective date of the new capital requirements is January 1, 2017. We are currently evaluating the impact of the recently announced changes.

CERTIFICATION

The undersigned have reviewed the June 30, 2016, Quarterly Report of AgCountry Farm Credit Services, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.



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



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



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

August 4, 2016

CONSOLIDATED STATEMENTS OF CONDITION

AgCountry Farm Credit Services, ACA

(in thousands)

(Unaudited)

As of:	June 30 2016	December 31 2015
ASSETS		
Loans	\$ 5,121,683	\$ 4,811,872
Allowance for loan losses	16,528	13,394
Net loans	5,105,155	4,798,478
Investment in AgriBank, FCB	113,221	109,986
Investment securities	7,059	7,059
Accrued interest receivable	49,523	57,450
Premises and equipment, net	37,602	33,732
Assets held for lease, net	126,041	152,945
Other assets	32,344	33,688
Total assets	\$ 5,470,945	\$ 5,193,338
LIABILITIES		
Note payable to AgriBank, FCB	\$ 4,269,158	\$ 4,015,690
Accrued interest payable	14,794	12,343
Deferred tax liabilities, net	30,573	33,952
Patronage distribution payable	8,000	15,000
Other liabilities	33,093	32,111
Total liabilities	4,355,618	4,109,096
Contingencies and commitments (Note 6)		
MEMBERS' EQUITY		
Capital stock and participation certificates	7,420	7,516
Unallocated surplus	1,107,907	1,076,726
Total members' equity	1,115,327	1,084,242
Total liabilities and members' equity	\$ 5,470,945	\$ 5,193,338

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

AgCountry Farm Credit Services, ACA

(in thousands)

(Unaudited)

For the period ended June 30	Three Months Ended		Six Months Ended	
	2016	2015	2016	2015
Interest income	\$ 48,282	\$ 41,952	\$ 93,772	\$ 82,606
Interest expense	14,793	11,814	28,825	23,188
Net interest income	33,489	30,138	64,947	59,418
Provision for (reversal of) credit losses	5,199	(4,535)	5,312	(4,005)
Net interest income after provision for (reversal of) credit losses	28,290	34,673	59,635	63,423
Other income				
Patronage income	4,066	3,494	8,215	7,184
Financially related services income	2,163	2,043	5,311	5,039
Fee income	1,725	1,460	3,376	2,998
Miscellaneous income, net	1,060	1,247	2,279	2,507
Total other income	9,014	8,244	19,181	17,728
Operating expenses				
Salaries and employee benefits	11,648	11,974	23,390	24,206
Other operating expenses	7,479	6,823	15,581	14,681
Total operating expenses	19,127	18,797	38,971	38,887
Income before income taxes	18,177	24,120	39,845	42,264
Provision for income taxes	131	550	664	1,054
Net income	\$ 18,046	\$ 23,570	\$ 39,181	\$ 41,210

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)

(Unaudited)

		Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2014	\$	7,621	\$ 993,504	\$ 1,001,125
Net income		--	41,210	41,210
Unallocated surplus designated for patronage distributions		--	(5,850)	(5,850)
Capital stock and participation certificates issued		210	--	210
Capital stock and participation certificates retired		(300)	--	(300)
Balance at June 30, 2015	\$	7,531	\$ 1,028,864	\$ 1,036,395
Balance at December 31, 2015	\$	7,516	\$ 1,076,726	\$ 1,084,242
Net income		--	39,181	39,181
Unallocated surplus designated for patronage distributions		--	(8,000)	(8,000)
Capital stock and participation certificates issued		186	--	186
Capital stock and participation certificates retired		(282)	--	(282)
Balance at June 30, 2016	\$	7,420	\$ 1,107,907	\$ 1,115,327

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. While our accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry, this interim Quarterly Report is prepared based upon statutory and regulatory requirements and, accordingly, does not include all disclosures required by U.S. GAAP. The results of the six months ended June 30, 2016, are not necessarily indicative of the results to be expected for the year ending December 31, 2016. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2015 (2015 Annual Report).

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

Recently Issued or Adopted Accounting Pronouncements

The following accounting standards have been issued during the second quarter of 2016, but are not yet effective.

In June 2016, the Financial Accounting Standards Board (FASB) issued guidance entitled "Measurement of Credit Losses on Financial Instruments." 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.

Refer to Note 2 in our 2015 Annual Report for additional information on other accounting standards that have been issued, but are not yet effective. We are currently evaluating the impact of the guidance on our Consolidated Financial Statements. No accounting pronouncements were adopted during the six months ended June 30, 2016.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	June 30, 2016		December 31, 2015	
	Amount	%	Amount	%
Real estate mortgage	\$ 1,877,815	36.7%	\$ 1,712,899	35.6%
Production and intermediate term	1,719,162	33.6%	1,751,047	36.4%
Agribusiness	1,128,584	22.0%	956,974	19.9%
Other	396,122	7.7%	390,952	8.1%
Total	\$ 5,121,683	100.0%	\$ 4,811,872	100.0%

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

Delinquency

Aging Analysis of Loans

(in thousands) As of June 30, 2016	30-89 Days		90 Days or More		Not Past Due or Less than 30 Days		90 Days or More Past Due	
	Past Due	Past Due	Total Past Due	Total Past Due	Past Due	Total	Total	and Accruing
Real estate mortgage	\$ 1,623	\$ 412	\$ 2,035	\$ 2,035	\$ 1,901,686	\$ 1,903,721	\$ --	--
Production and intermediate term	6,407	5,261	11,668	11,668	1,726,558	1,738,226	1,882	1,882
Agribusiness	--	--	--	--	1,132,566	1,132,566	--	--
Other	--	160	160	160	396,522	396,682	--	--
Total	\$ 8,030	\$ 5,833	\$ 13,863	\$ 13,863	\$ 5,157,332	\$ 5,171,195	\$ 1,882	1,882

As of December 31, 2015	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	90 Days or More Past Due and Accruing
Real estate mortgage	\$ 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

Note: Accruing loans include accrued interest receivable.

Risk Loans

Risk loans are loans for which all principal and interest may not be collected according to the contractual terms.

Risk Loan Information

(in thousands)	June 30 2016	December 31 2015
As of:		
Volume with specific reserves	\$ 8,022	\$ 18,472
Volume without specific reserves	7,912	7,889
Total risk loans	\$ 15,934	\$ 26,361
Total specific reserves	\$ 3,328	\$ 3,702
For the six months ended June 30	2016	2015
Income on accrual risk loans	\$ 96	\$ 29
Income on nonaccrual loans	703	201
Total income on risk loans	\$ 799	\$ 230
Average risk loans	\$ 16,201	\$ 18,692

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.

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at June 30, 2016.

Troubled Debt Restructurings (TDRs)

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

There were no TDRs that occurred during the six months ended June 30, 2016.

TDR Activity

(in thousands)	2015	
Six months ended June 30	Pre-modification	Post-modification
Production and intermediate term	\$ 105	\$ 106
Agribusiness	26,888	26,888
Total	\$ 26,993	\$ 26,994

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 face amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off.

We had TDRs in the production and intermediate term loan category of \$25 thousand and \$17 thousand that defaulted during the six months ended June 30, 2016, and 2015, respectively, in which the modifications were within twelve months of the respective reporting period.

TDRs Outstanding		
(in thousands)	June 30	December 31
As of:	2016	2015
Accrual status:		
Real estate mortgage	\$ 53	\$ 52
Production and intermediate term	--	7
Agribusiness	--	--
Other	--	--
Total TDRs in accrual status	<u>\$ 53</u>	<u>\$ 59</u>
Nonaccrual status:		
Real estate mortgage	\$ 4,113	\$ 4,365
Production and intermediate term	349	505
Agribusiness	638	12,960
Other	--	1,754
Total TDRs in nonaccrual status	<u>\$ 5,100</u>	<u>\$ 19,584</u>
Total TDRs status:		
Real estate mortgage	\$ 4,166	\$ 4,417
Production and intermediate term	349	512
Agribusiness	638	12,960
Other	--	1,754
Total TDRs	<u>\$ 5,153</u>	<u>\$ 19,643</u>

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 the first quarter of 2016. There were no additional commitments to lend to borrowers whose loans have been modified in a TDR at June 30, 2016.

Allowance for Loan Losses

Changes for Allowance for Loan Losses

(in thousands)	2016	2015
Six months ended June 30		
Balance at beginning of period	\$ 13,394	\$ 16,458
Provision for (reversal of) loan losses	5,215	(4,278)
Loan recoveries	252	95
Loan charge-offs	(2,333)	(695)
Balance at end of period	<u>\$ 16,528</u>	<u>\$ 11,580</u>

The allowance for loan losses increased from \$11.6 million at June 30, 2015, to \$16.5 million at June 30, 2016, an increase of \$4.9 million. The increase was primarily due to higher loan portfolio balances and a slight 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 loan commitments. The accrued credit losses on unfunded commitments are recorded in "Other liabilities" in the Consolidated Statements of Condition.

Credit Loss Information

(in thousands)	2016	2015
For the six months ended June 30		
Provision for credit losses	\$ 97	\$ 273
As of:		
	June 30	December 31
	2016	2015
Accrued credit losses	\$ 1,467	\$ 1,370

NOTE 3: INVESTMENT SECURITIES

We held investment securities of \$7.1 million at June 30, 2016, and December 31, 2015. 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 outstanding at June 30, 2016.

The amortized cost and fair value of investment securities was \$7.1 million at June 30, 2016, and December 31, 2015. The weighted average yield of the investment securities was 1.9% and 1.8% at June 30, 2016, and December 31, 2015, respectively.

Investment income is recorded in "Interest income" in the Consolidated Statements of Income and totaled \$68 thousand and \$61 thousand for the six months ended June 30, 2016, and 2015, respectively.

NOTE 4: OTHER INVESTMENT

We and other Farm Credit Institutions are among the forming 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 is recorded in "Other assets" in the Consolidated Statements of Condition, and totaled \$1.8 million at June 30, 2016, and \$1.5 million at December 31, 2015.

The investment was evaluated for impairment. To date, we have not recognized any impairment on this investment. During the six months ended June 30, 2016, we received a distribution of \$87 thousand 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.

NOTE 5: MEMBERS' EQUITY

Regulatory Capitalization Requirements

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

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

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

NOTE 6: CONTINGENCIES AND COMMITMENTS

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

We may be named as a defendant in lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

We are among the forming limited partners in a RBIC. Refer to Note 4 for additional discussion regarding this commitment.

NOTE 7: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Note 2 in our 2015 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at June 30, 2016, or December 31, 2015.

Non-Recurring Basis

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

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)

	As of June 30, 2016				Six months ended June 30, 2016	
	Fair Value Measurement Using			Total Fair Value	Total Losses	
	Level 1	Level 2	Level 3			
Impaired loans	\$ --	\$ 1,097	\$ 3,832	\$ 4,929	\$	(1,959)

	As of December 31, 2015				Six months ended June 30, 2015	
	Fair Value Measurement Using			Total Fair Value	Total Losses	
	Level 1	Level 2	Level 3			
Impaired loans	\$ --	\$ 985	\$ 14,524	\$ 15,509	\$	(415)

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.

NOTE 8: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 4, 2016, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.