



AgCountry Farm Credit Services, ACA

Quarterly Report
September 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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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 AgriBank and FCA in the anticipated timeframes, 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 2.7% in 2016 compared to 2.8% in 2015. Global economic growth for 2016 is 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 6.0% in 2016 compared to 6.1% 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 remain flat with no growth in 2016 compared to a contraction of 1.0% 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 1.8% in 2016 compared to 1.9% in 2015. As a result of the United Kingdom's (UK) voting to leave the European Union, growth in the UK is expected to slow. The direct economic impact on global growth should be limited as the UK accounts for approximately 4.0% of global GDP.

U.S. GDP is projected to grow 2.1% 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 third quarter of 2016.

The Federal Reserve decided to maintain the target range for the federal funds rate at 0.25%-0.50% during its September 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 relatively static during 2016, with an estimated unemployment rate (seasonally adjusted) of 4.9% in August 2016. 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 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 September 2016 United States Department of Agriculture (USDA) Crop Progress Report, corn dented in North Dakota was estimated at 95% compared to 95% in the prior year and 93% for the five year average. An estimated 59% of the North Dakota corn crop was at maturity compared to 43% in the prior year and 47% for the five year average. The North Dakota corn crop was rated 79% good to excellent, 17% fair, and 4% poor to very poor. Corn dented in Minnesota was estimated at 98% compared to 98% in the prior year and 96% for the five year average. An estimated 70% of the Minnesota corn crop was at maturity compared to the prior year of 60% and 54% for the five year average. The Minnesota corn crop is rated 84% good to excellent, 12% fair, and 4% poor to very poor.

According to the September 2016 USDA World Agricultural Supply and Demand Estimates (WASDE) Report, corn production for 2016/17 is estimated at 15.1 billion bushels compared to 13.6 billion the prior year. The national average yield is projected at 174.4 bushels per acre compared to 168.4 bushels per acre the prior year. The projected 2016/17 season-average farm price for corn is estimated at \$2.90 to \$3.50 per bushel.

Soybeans: According to the September 2016 USDA Crop Progress Report, 87% of the soybeans in North Dakota were dropping leaves compared to 92% the prior year and 89% for the five year average. An estimated 12% of the soybean crop has been harvested in North Dakota compared to 26% in the prior year and 21% for the five year average. The North Dakota soybean crop is rated 74% good to excellent, 19% fair, and 7% poor to very poor. Soybeans dropping leaves in Minnesota were estimated at 83% compared to 84% the prior year and 74% for the five year average. An estimated 13% of the soybean crop has been harvested in Minnesota compared to 28% in the prior year and 19% for the five year average. The Minnesota soybean crop is rated 79% good to excellent, 16% fair, and 5% poor to very poor.

According to the September 2016 USDA WASDE Report, soybean production for 2016/17 is estimated at 4.2 billion bushels compared to 3.9 billion the prior year. The national average yield is projected at 50.6 bushels per acre compared to 48.0 bushels per acre the prior year. The projected 2016/17 season-average farm price for soybeans is estimated at \$8.30 to \$9.80 per bushel.

Sugar Beets: All three local cooperatives in the Red River Valley began pre-pile harvest in August. The 2016 sugar beet crop is anticipated to be relatively large, averaging from 28 tons per acre to 30 tons per acre. Record yields are expected in areas of the southern valley while parts of the northern valley experienced storms and excess moisture resulting in reduced yields and disease. Several factors contributing to the high yields include better variety genetics, improved grower efficiency, early planting, and timely rains. If the crop is too large to process at specific factories, some acres could be left in the field, transported to a different factory, or sold as cattle feed. The large crop could result in sugar production over marketing allocations under the USDA rules.

The September 2016 USDA WASDE Report reported 2016/17 stocks-to-use ratio of 13.5%. A decrease in imports, primarily from Mexico, more than offset an increase in production, specifically cane sugar. Wholesale refined beet sugar price has continued to drop to the lowest in 2 ½ years to approximately 28 cents per pound, due in part to the decline in demand for sugar derived from GMO sugar beets. World sugar supply has declined due to dry conditions in the top three sugar producing countries of Brazil, India, and Thailand.

Wheat: According to the September 2016 USDA WASDE Report, all wheat production totaled 2.3 billion bushels in 2016 compared to 2.1 billion the prior year. Acres harvested decreased from 47.1 million acres in 2016 to 44.1 million acres in 2016. The U.S. yield increased from 43.6 bushels per acre in 2015 to 52.6 bushels per acre in 2016. The projected 2016/17 season-average farm price for wheat is estimated at \$3.30 to \$3.90 per bushel compared to \$4.89 per bushel the prior year.

Cattle: Overall domestic meat protein supplies are relatively large. Retail pork and poultry prices are declining and could result in added pressure on the beef market. In addition, expectations of year-over-year increase in beef production could result in annual retail beef prices that are noticeably lower than 2015 and 2014 levels. Aggressive steer and heifer slaughter rates, coupled with the seasonal increase in carcass weights, remain bearish for the entire beef complex. Demand is also a concern as beef prices typically weaken after Labor Day and supplies of competing meats are large.

Hogs: The September 2016 USDA Quarterly Hogs and Pigs Report indicated an increase of 3% in marketing hogs compared to the prior year and the breeding herd increased 1% compared to the prior year. Slaughter hog prices were roughly \$2 per cwt lower from the week of September 30, 2016, as hog slaughter continued to run at record high levels for this time of the year. The national negotiated barrow and gilt price averaged \$47.87 per cwt and is down \$21.96 per cwt from a year ago. Relatively weak prices are expected through the remainder of the year.

Dairy: According to the September 2016 USDA Dairy Outlook, the milk production forecast for 2016 has been increased from the prior month's forecast to 212.2 billion pounds as cow inventory seems to have steadied. Production estimates for 2017 are 216.1 billion pounds to reflect slightly more rapid

growth in milk per cow. For 2016, cheese and cream exports have remained firm and strength in whole milk powder (WMP) exports are expected to carry into 2017. On a skim-solids basis, the export forecasts for 2016 and 2017 have been raised on higher WMP and whey sales. The all-milk price forecast for 2016 is projected to be \$16.10 to \$16.30 per cwt and the 2017 price is projected to be \$16.15 to \$17.15 per cwt.

Ethanol: According to the U.S. Energy Information Administration, Ethanol production averaged approximately 970,000 barrels per day in 2015 and is projected to average 990,000 barrels per day in 2016 and 2017. Ethanol consumption averaged about 910,000 barrels per day in 2015 and is forecast to average about 930,000 barrels per day in 2016 and 2017. Gasoline and ethanol demand in the third quarter of 2016 remained strong with the summer driving season. July 2016 gasoline deliveries, a measure of consumer demand, hit their highest levels on record for the month of July as consumers continue to benefit from lower prices at the pump. Large corn supplies, and an expected large upcoming corn crop, continue to keep corn prices low. Ethanol producers are expected to see positive margins in this environment.

LOAN PORTFOLIO

Loan Portfolio

Total loans were \$5.1 billion at September 30, 2016, an increase of \$251.5 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 3.2% of the portfolio at September 30, 2016, from 2.2% of the portfolio at December 31, 2015. The increase in adverse loans is due to challenges agricultural producers are experiencing. 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 September 30, 2016, \$155.2 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)	September 30	December 31
As of:	2016	2015
Loans:		
Nonaccrual	\$ 12,803	\$ 25,266
Accruing restructured	9	59
Accruing loans 90 days or more past due	1,012	1,036
Total risk loans	13,824	26,361
Other property owned	--	--
Total risk assets	\$ 13,824	\$ 26,361
Total risk loans as a percentage of total loans	0.3%	0.5%
Nonaccrual loans as a percentage of total loans	0.2%	0.5%
Current nonaccrual loans as a percentage of total nonaccrual loans	66.9%	38.3%
Total delinquencies as a percentage of total loans	0.1%	0.7%

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 September 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

	September 30	December 31
As of:	2016	2015
Allowance as a percentage of:		
Loans	0.3%	0.3%
Nonaccrual loans	114.1%	53.0%
Total risk loans	105.6%	50.8%

The allowance for loan losses increased from \$13.4 million at December 31, 2015, to \$14.6 million at September 30, 2016, an increase of \$1.2 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 September 30, 2016.

RESULTS OF OPERATIONS**Profitability Information**

(dollars in thousands)

For the nine months ended September 30	2016	2015
Net income	\$ 70,233	\$ 65,915
Return on average assets	1.8%	1.8%
Return on average members' equity	8.4%	8.6%

Changes in the chart above 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 nine months ended September 30	2016	2015	
Net interest income	\$ 98,161	\$ 90,250	\$ 7,911
Provision for (reversal of) credit losses	3,892	(1,240)	(5,132)
Patronage income	12,243	11,192	1,051
Other income, net	23,830	22,781	1,049
Operating expenses	59,348	58,010	(1,338)
Provision for income taxes	761	1,538	777
Net income	<u>\$ 70,233</u>	<u>\$ 65,915</u>	<u>\$ 4,318</u>

Changes in Net Interest Income

(in thousands)

For the nine months ended September 30	2016 vs 2015
Changes in volume	\$ 10,077
Changes in interest rates	(2,567)
Changes in nonaccrual income and other	401
Net change	<u>\$ 7,911</u>

The change in the provision for (reversal of) credit losses was primarily a result of recording a provision for loan losses during the nine months ended September 30, 2016, due to the growth in our loan portfolio combined with a decline in overall portfolio credit quality.

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.

The change in other income was primarily related to an increase in fee income and financially related services income.

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

The change in provision for income taxes was primarily related to increased tax savings from our patronage program partially offset by increased income on our taxable entity.

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.

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

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

We were not subject to a risk premium at September 30, 2016, or December 31, 2015.

Total members' equity increased \$58.1 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	Regulatory Minimums	September 30 2016	December 31 2015
As of			
Permanent capital ratio	7.0%	16.8%	16.6%
Total surplus ratio	7.0%	16.7%	16.5%
Core surplus ratio	3.5%	16.7%	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. As discussed in Note 5 of the accompanying Consolidated Financial Statements, we will be subject to new regulations and capital requirements effective January 1, 2017.

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, and
- 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

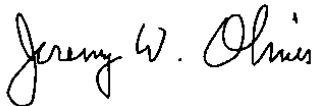
The undersigned have reviewed the September 30, 2016, Quarterly Report of AgCountry Farm Credit Services, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate,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



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



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

November 4, 2016

CONSOLIDATED STATEMENTS OF CONDITION

AgCountry Farm Credit Services, ACA

(in thousands)

(Unaudited)

As of:	September 30 2016	December 31 2015
ASSETS		
Loans	\$ 5,063,338	\$ 4,811,872
Allowance for loan losses	14,604	13,394
Net loans	5,048,734	4,798,478
Investment in AgriBank, FCB	113,662	109,986
Investment securities	7,059	7,059
Accrued interest receivable	73,437	57,450
Premises and equipment, net	36,311	33,732
Assets held for lease, net	115,356	152,945
Other assets	37,185	33,688
Total assets	\$ 5,431,744	\$ 5,193,338
LIABILITIES		
Note payable to AgriBank, FCB	\$ 4,200,975	\$ 4,015,690
Accrued interest payable	15,070	12,343
Deferred tax liabilities, net	29,490	33,952
Patronage distribution payable	12,000	15,000
Other liabilities	31,835	32,111
Total liabilities	4,289,370	4,109,096
Contingencies and commitments (Note 6)		
MEMBERS' EQUITY		
Capital stock and participation certificates	7,415	7,516
Unallocated surplus	1,134,959	1,076,726
Total members' equity	1,142,374	1,084,242
Total liabilities and members' equity	\$ 5,431,744	\$ 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 September 30	Three Months Ended		Nine Months Ended	
	2016	2015	2016	2015
Interest income	\$ 48,284	\$ 42,781	\$ 142,056	\$ 125,387
Interest expense	15,070	11,949	43,895	35,137
Net interest income	33,214	30,832	98,161	90,250
(Reversal of) provision for credit losses	(1,420)	2,765	3,892	(1,240)
Net interest income after (reversal of) provision for credit losses	34,634	28,067	94,269	91,490
Other income				
Patronage income	4,028	4,008	12,243	11,192
Financially related services income	9,274	9,266	14,585	14,305
Fee income	1,840	1,654	5,216	4,652
Miscellaneous income, net	1,750	1,317	4,029	3,824
Total other income	16,892	16,245	36,073	33,973
Operating expenses				
Salaries and employee benefits	11,588	11,787	34,978	35,993
Other operating expenses	8,789	7,336	24,370	22,017
Total operating expenses	20,377	19,123	59,348	58,010
Income before income taxes	31,149	25,189	70,994	67,453
Provision for income taxes	97	484	761	1,538
Net income	\$ 31,052	\$ 24,705	\$ 70,233	\$ 65,915

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		--	65,915	65,915
Unallocated surplus designated for patronage distributions		--	(8,775)	(8,775)
Capital stock and participation certificates issued		274	--	274
Capital stock and participation certificates retired		(350)	--	(350)
Balance at September 30, 2015	\$	7,545	\$ 1,050,644	\$ 1,058,189
Balance at December 31, 2015	\$	7,516	\$ 1,076,726	\$ 1,084,242
Net income		--	70,233	70,233
Unallocated surplus designated for patronage distributions		--	(12,000)	(12,000)
Capital stock and participation certificates issued		268	--	268
Capital stock and participation certificates retired		(369)	--	(369)
Balance at September 30, 2016	\$	7,415	\$ 1,134,959	\$ 1,142,374

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 nine months ended September 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 since the issuance of our 2015 Annual Report, 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 nine months ended September 30, 2016.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	September 30, 2016		December 31, 2015	
	Amount	%	Amount	%
Real estate mortgage	\$ 1,902,262	37.6%	\$ 1,712,899	35.6%
Production and intermediate term	1,729,116	34.2%	1,751,047	36.4%
Agribusiness	1,070,168	21.1%	956,974	19.9%
Other	361,792	7.1%	390,952	8.1%
Total	\$ 5,063,338	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 September 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	\$ --	\$ 1,314	\$ 1,314	\$ 1,940,483	\$ 1,941,797	\$ --		
Production and intermediate term	1,112	3,894	5,006	1,753,721	1,758,727	1,012		
Agribusiness	--	--	--	1,073,913	1,073,913	--		
Other	202	16	218	362,108	362,326	--		
Total	\$ 1,314	\$ 5,224	\$ 6,538	\$ 5,130,225	\$ 5,136,763	\$ 1,012		

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)	September 30 2016	December 31 2015
As of:		
Volume with specific reserves	\$ 7,031	\$ 18,472
Volume without specific reserves	6,793	7,889
Total risk loans	\$ 13,824	\$ 26,361
Total specific reserves	\$ 2,587	\$ 3,702
For the nine months ended September 30	2016	2015
Income on accrual risk loans	\$ 117	\$ 48
Income on nonaccrual loans	812	411
Total income on risk loans	\$ 929	\$ 459
Average risk loans	\$ 17,458	\$ 27,151

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 September 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.

TDR Activity

(in thousands)

Nine months ended September 30	2016		2015	
	Pre-modification	Post-modification	Pre-modification	Post-modification
Production and intermediate term	\$ 15	\$ 16	\$ 356	\$ 357
Agribusiness	--	--	26,888	26,888
Total	\$ 15	\$ 16	\$ 27,244	\$ 27,245

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.

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

TDRs that Subsequently Defaulted within the Previous 12 Months

(in thousands)	2016	2015
Production and intermediate term	\$ --	\$ 17
Agribusiness	--	26,866
Total	<u>\$ --</u>	<u>\$ 26,883</u>

TDRs Outstanding

(in thousands)	September 30	December 31
As of:	2016	2015
Accrual status:		
Real estate mortgage	\$ --	\$ 52
Production and intermediate term	9	7
Agribusiness	--	--
Other	--	--
Total TDRs in accrual status	<u>\$ 9</u>	<u>\$ 59</u>
Nonaccrual status:		
Real estate mortgage	\$ 4,050	\$ 4,365
Production and intermediate term	335	505
Agribusiness	579	12,960
Other	--	1,754
Total TDRs in nonaccrual status	<u>\$ 4,964</u>	<u>\$ 19,584</u>
Total TDRs status:		
Real estate mortgage	\$ 4,050	\$ 4,417
Production and intermediate term	344	512
Agribusiness	579	12,960
Other	--	1,754
Total TDRs	<u>\$ 4,973</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 material commitments to lend to borrowers whose loans have been modified in a TDR at September 30, 2016.

Allowance for Loan Losses**Changes for Allowance for Loan Losses**

(in thousands)	2016	2015
Nine months ended September 30		
Balance at beginning of period	\$ 13,394	\$ 16,458
Provision for (reversal of) loan losses	3,640	(1,183)
Loan recoveries	341	177
Loan charge-offs	(2,771)	(677)
Balance at end of period	<u>\$ 14,604</u>	<u>\$ 14,775</u>

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 (reversal of) 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 nine months ended September 30		
Provision for (reversal of) credit losses	\$ 252	\$ (57)
As of:		
	September 30	December 31
	2016	2015
Accrued credit losses	\$ 1,622	\$ 1,370

NOTE 3: INVESTMENT SECURITIES

We held investment securities of \$7.1 million at September 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 September 30, 2016.

The amortized cost and fair value of investment securities was \$7.1 million at September 30, 2016, and December 31, 2015. The weighted average yield of the investment securities was 2.5% and 1.8% at September 30, 2016, and December 31, 2015, respectively.

Investment income is recorded in "Interest income" in the Consolidated Statements of Income and totaled \$104 thousand and \$92 thousand for the nine months ended September 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 \$1.9 million at September 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 nine months ended September 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 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.

NOTE 6: CONTINGENCIES AND COMMITMENTS

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

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

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 September 30, 2016, or December 31, 2015.

Non-Recurring

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

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)

	As of September 30, 2016				Nine months ended September 30, 2016	
	Fair Value Measurement Using			Total Fair Value	Total Losses	
	Level 1	Level 2	Level 3			
Impaired loans	\$ --	\$ 937	\$ 3,729	\$ 4,666	\$	(1,656)
	As of December 31, 2015				Nine months ended September 30, 2015	
	Fair Value Measurement Using			Total Fair Value	Total Losses	
	Level 1	Level 2	Level 3			
Impaired loans	\$ --	\$ 985	\$ 14,524	\$ 15,509	\$	(4,733)

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 November 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.