2016
Annual Report

Farm Credit Services of
North Dakota, ACA

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Farm Credit Services of North Dakota, ACA

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear Farm Credit Customer:

The agriculture economy continues to be stressed throughout much of the country. In 2016, the downturn in commodity prices continued and livestock prices also decreased this past year. The bright spot for a majority of farmers in northwest North Dakota has been strong yields for most crops. Ideal growing conditions, along with good fall weather, allowed many to harvest record crops. The northern counties had some quality issues which may temper earnings somewhat. Farmers and ranchers are making adjustments in order to deal with the reductions in net farm earnings. Overall, the majority of customers who do business with Farm Credit Services of ND had a positive year in 2016.

Farm Credit Services of North Dakota had another year of strong performance. Our permanent capital ratio increased from 15.9% to 16.9% due to good overall earnings. The management and the Board feel very comfortable in the level of capital we have accumulated. This enables us to be there for you, the customer, during both the good and the bad times. While we did see an increase in loan volume of 24.0 million, we experienced less demand in loans for farm machinery. Again, farmers and ranchers are adjusting to the lower commodity price cycle we are experiencing. Credit quality continues to be very strong at 98.0% despite a weaker agriculture economy.

Our Pat-NOW philosophy continues to serve our customers well. Our goal is to keep your interest rates low while offering superior customer service.

Thank you for doing business with YOUR Farm Credit.

Sincerely,

Claude Sem
President and Chief Executive Officer
Farm Credit Services of North Dakota, ACA

March 2, 2017

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Farm Credit Services of North Dakota, ACA

(dollars in thousands)

	2016	2015	2014	2013	2012
Statement of Condition Data					
Loans	**$ 1,153,046**	$ 1,129,003	$ 1,015,225	$ 885,973	$ 863,813
Allowance for loan losses	**2,886**	2,467	1,711	1,747	1,516
Net loans	**1,150,160**	1,126,536	1,013,514	884,226	862,297
Investment in AgriBank, FCB	**21,386**	22,587	19,745	18,797	18,042
Other assets	**29,217**	25,497	23,475	21,178	19,646
Total assets	**$ 1,200,763**	$ 1,174,620	$ 1,056,734	$ 924,201	$ 899,985
Obligations with maturities of one year or less	**$ 954,942**	$ 949,269	$ 850,227	$ 736,965	$ 730,310
Total liabilities	**954,942**	949,269	850,227	736,965	730,310
Capital stock and participation certificates	**2,039**	2,164	2,194	2,193	2,235
Unallocated surplus	**243,782**	223,187	204,313	185,043	167,440
Total members' equity	**245,821**	225,351	206,507	187,236	169,675
Total liabilities and members' equity	**$ 1,200,763**	$ 1,174,620	$ 1,056,734	$ 924,201	$ 899,985
Statement of Income Data					
Net interest income	**$ 29,636**	$ 29,353	$ 26,801	$ 24,167	$ 21,771
Provision for (reversal of) credit losses	**786**	1,224	(200)	265	267
Other expenses, net	**8,255**	9,255	7,731	6,299	5,047
Net income	**$ 20,595**	$ 18,874	$ 19,270	$ 17,603	$ 16,457
Key Financial Ratios					
Return on average assets	**1.7%**	1.7%	2.0%	2.0%	2.1%
Return on average members' equity	**8.8%**	8.7%	9.8%	9.9%	10.2%
Net interest income as a percentage of average earning assets	**2.6%**	2.8%	2.9%	2.9%	2.9%
Members' equity as a percentage of total assets	**20.5%**	19.2%	19.5%	20.3%	18.9%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%	0.0%	0.0%
Allowance for loan losses as a percentage of loans	**0.3%**	0.2%	0.2%	0.2%	0.2%
Permanent capital ratio	**16.9%**	15.9%	16.2%	16.2%	15.9%
Total surplus ratio	**16.7%**	15.7%	16.1%	16.0%	15.6%
Core surplus ratio	**16.7%**	15.7%	16.1%	16.0%	15.6%

No income was distributed to members in the form of cash patronage, dividends, stock, or allocated surplus during the five years presented.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Farm Credit Services of North Dakota, ACA

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Services of North Dakota, ACA (the Association) and its subsidiaries, Farm Credit Services of North Dakota, FLCA and Farm Credit Services of North Dakota, 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 or stated 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 the AgriBank or the AgriBank District financial reports, contact us at:

Farm Credit Services of North Dakota, ACA	AgriBank, FCB
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Minot, ND 58702-0070	St. Paul, MN 55101
(701) 852-1265	(651) 282-8800
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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.

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 which 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
- Changes in our assumptions for determining the allowance for loan losses, and fair value measurements

AGRICULTURAL AND ECONOMIC CONDITIONS

The harvest was completed in a timely manner in our territory with above projected yields in most areas. Some commodity prices are below projections but it appears the above average yields should help make up for this shortfall. The soil moisture conditions are good due to rainfall before freeze up this fall. Some areas are experiencing quality issues with vomitoxin in their wheats which will add discounts. Crop insurance will help with some of these issues and others the yield may still help cover these discounts. The lower livestock prices will tighten profit margins for the cow/calf operations but margins are still expected to be adequate. The producers with feeders have been more challenged to show a profit if not properly hedged. The local economy still provides off farm employment opportunities if desired. Land prices have declined in some areas and increased in others. There continues to be demand for any land that comes to market.

The overall profitability of our producers is being challenged with the decrease in agricultural commodity prices. Despite these challenges, nearly all producers will continue to modify their operations to remain profitable, obtain financing and continue operating their farm or ranch.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.2 billion at December 31, 2016, an increase of $24.0 million from December 31, 2015.

Components of Loans

(in thousands)

As of December 31	**2016**	2015	2014
Accrual loans:			
Real estate mortgage	**$ 417,000**	$ 389,166	$ 368,574
Production and intermediate term	**483,766**	514,510	463,409
Agribusiness	**167,222**	140,369	109,369
Other	**79,627**	82,600	72,015
Nonaccrual loans	**5,431**	2,358	1,858
Total loans	**$ 1,153,046**	$ 1,129,003	$ 1,015,225

The other category is primarily comprised of energy, communication, international, and water and waste water loans, as well as leases originated under our leasing authority.

The increase in total loans from December 31, 2015 was primarily due to an increase in participation volume and our traditional real estate loan volume. The traditional real estate volume increase was the result of land sales being financed in our territory and the shifting of short term to long term for farmers to rebalance their debt. This was somewhat offset by a decrease in our traditional production and intermediate term volume.

We offer variable, fixed, capped, indexed, and adjustable interest rate loan programs to our borrowers. We also offer lease programs through our affiliation with Farm Credit Leasing. Refer to the Relationships with other Farm Credit Institutions section of this report. 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.

Portfolio Distribution

We are chartered to serve certain counties in North Dakota. Approximately 22.8% of our total loan portfolio was in Ward, Wells, and McLean counties at December 31, 2016. Our portfolio is geographically disbursed as no other counties in our territory had more than 5.0% concentration in loans.

Agricultural Concentrations

As of December 31	**2016**	2015	2014
Cash grains	**62.9%**	65.2%	65.4%
Livestock	**9.5%**	9.3%	9.6%
Food processing	**6.1%**	4.9%	5.1%
Rural utilities	**5.9%**	5.6%	5.2%
Landlords	**5.4%**	5.1%	6.0%
Farm machinery	**2.9%**	2.7%	2.8%
Other	**7.3%**	7.2%	5.9%
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 farmers’ 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 2.0% of the portfolio at December 31, 2016, from 1.4% 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 December 31, 2016, $25.2 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	**$ 5,431**	$ 2,358	$ 1,858
Accruing restructured	**1,308**	458	500
Accruing loans 90 days or more past due	**19**	10	--
Total risk loans	**6,758**	2,826	2,358
Other property owned	**--**	--	--
Total risk assets	**$ 6,758**	$ 2,826	$ 2,358
Total risk loans as a percentage of total loans	**0.6%**	0.2%	0.2%
Nonaccrual loans as a percentage of total loans	**0.5%**	0.2%	0.2%
Current nonaccrual loans as a percentage of total nonaccrual loans	**31.0%**	77.7%	93.4%
Total delinquencies as a percentage of total loans	**0.5%**	0.1%	0.0%

Note: Accruing loans include accrued interest receivable.

The increase in nonaccrual loans was primarily due to one customer being transferred to nonaccrual status in 2016. Nonaccrual loans remained at an acceptable level at December 31, 2016, 2015, and 2014.

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

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%**	0.2%	0.2%
Nonaccrual loans	**53.1%**	104.6%	92.1%
Total risk loans	**42.7%**	87.3%	72.6%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%
Adverse assets to risk funds	**10.2%**	7.6%	2.6%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2016. The decrease in allowance as a percentage of nonaccrual loans and total risk loans is primarily due to one customer being transferred to nonaccrual in 2016.

Additional loan information is included in Notes 3, 9, 10, and 11 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	**$ 20,595**	$ 18,874	$ 19,270
Return on average assets	**1.7%**	1.7%	2.0%
Return on average members' equity	**8.8%**	8.7%	9.8%

Changes in the chart above relate directly to:

- Changes in income discussed below
- Changes in assets discussed in the Loan Portfolio sections
- Changes in capital discussed in the Capital Adequacy section

Changes in Significant Components of Net Income

(in thousands)	For the year ended December 31			Increase (decrease) in net income	
	2016	2015	2014	**2016 vs 2015**	2015 vs 2014
Net interest income	**$ 29,636**	$ 29,353	$ 26,801	**$ 283**	$ 2,552
Provision for (reversal of) credit losses	**786**	1,224	(200)	**438**	(1,424)
Patronage income	**4,140**	2,258	2,583	**1,882**	(325)
Other income, net	**9,986**	9,293	8,417	**693**	876
Operating expenses	**20,403**	18,521	16,449	**(1,882)**	(2,072)
Provision for income taxes	**1,978**	2,285	2,282	**307**	(3)
Net income	**$ 20,595**	$ 18,874	$ 19,270	**$ 1,721**	$ (396)

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	**$ 2,431**	$ 3,122
Changes in interest rates	**(2,361)**	(288)
Changes in nonaccrual income and other	**213**	(282)
Net change	**$ 283**	$ 2,552

Net interest income included income on nonaccrual loans that totaled $302 thousand, $89 thousand, and $371 thousand 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%, 2.8%, and 2.9% in 2016, 2015, and 2014, respectively. We expect margins to further compress in the future if interest rates continue to rise and competition increases.

Provision for (Reversal of) Credit Losses

The fluctuation in the provision for (reversal of) credit losses was related to changes in our estimate of losses in our portfolio, charge-off and recovery activity, and changes in loan volume. 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 of $2.4 million, $2.2 million, and $2.6 million in 2016, 2015, and 2014, respectively.

We received another component of patronage, referred to as equalization income, from AgriBank. The quarterly average balance of stock in excess of our AgriBank required investment is used to determine this amount. Additionally, we earned equalization on any stock investment in AgriBank required to be held when our growth exceeded a targeted growth rate. The equalization rate is targeted at the average cost of funds for all affiliated Associations as a group. Equalization income totaled $18 thousand, $11 thousand, and $5 thousand in 2016, 2015, and 2014, respectively.

Beginning in 2016, we also received patronage of $1.7 million related to an increase in the wholesale spread on our note payable.

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

Other Income, Net

The change in other income, net was primarily due to an increase in financially related services income of $618 thousand which was primarily due to increased multi-peril crop insurance income.

Operating Expenses

Components of Operating Expenses

(dollars in thousands)

For the year ended December 31	2016	2015	2014
Salaries and employee benefits	**$ 13,560**	$ 12,770	$ 11,401
Purchased and vendor services	**1,015**	815	782
Communications	**175**	172	163
Occupancy and equipment	**1,162**	1,063	869
Advertising and promotion	**594**	519	512
Examination	**386**	336	315
Farm Credit System insurance	**1,645**	1,163	949
Other	**1,866**	1,683	1,458
Total operating expenses	**$ 20,403**	$ 18,521	$ 16,449
Operating rate	**1.8%**	1.8%	1.8%

The change in operating expenses was primarily related to increased salaries and employee benefit expenses and Farm Credit System Insurance Corporation (FCSIC) expense. 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.

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 decrease to 15 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.

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

Provision for Income Taxes

The variance in provision for income taxes was related to our estimate of taxes based on taxable income. Additional discussion is included in Note 7 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 5 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 $300.0 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	**$ 937,918**	$ 862,426	$ 768,471
Average interest rate	**1.2%**	0.8%	0.8%

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.

CAPITAL ADEQUACY

Total members' equity increased $20.5 million from December 31, 2015, primarily due to net income for the year.

Members' Equity Position Information

(dollars in thousands)

As of December 31	2016	2015	2014	Regulatory Minimums
Members' equity	**$ 245,821**	$ 225,351	$ 206,507	
Surplus as a percentage of members' equity	**99.2%**	99.0%	98.9%	
Permanent capital ratio	**16.9%**	15.9%	16.2%	7.0%
Total surplus ratio	**16.7%**	15.7%	16.1%	7.0%
Core surplus ratio	**16.7%**	15.7%	16.1%	3.5%

Our capital plan is designed to maintain an adequate amount of surplus and allowance for loan losses which represents our reserve 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 Note 6 to the accompanying Consolidated Financial Statements.

In addition to these regulatory requirements, we establish an optimum permanent capital target range. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. Our optimum permanent capital range is 17.0% to 22.0%, as defined in our 2017 capital plan. Our permanent capital ratio has fallen short of our target range due to strong portfolio growth.

The changes in our capital ratios reflect changes in capital and assets. Refer to the Loan Portfolio section for further discussion of the changes in assets. Additional members' equity information is included in Note 6 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 5 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
- 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. AgriBank's current bylaws allow AgriBank to increase the required investment to 4.0%. Effective January 1, 2017 we are required to invest 2.25% of the average quarterly balance of our note payable, with an additional amount required on growth in excess of a sustainable growth rate.

At December 31, 2016, $14.0 million of our investment in AgriBank consisted of stock representing distributed AgriBank surplus and $7.4 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
- Equalization income based on our excess stock or growth required stock investment in AgriBank

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 $518 thousand, $439 thousand, and $448 thousand in 2016, 2015, and 2014, respectively. Costs of services purchased from AgriBank are partially dependent on the number of clients, if the number of clients decreases, the cost of services may increase.

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 FCS Commercial Finance Group (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 $264.5 million, $231.1 million, and $188.2 million of CFG volume at December 31, 2016, 2015, and 2014, respectively. We also had $134.5 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 $45.9 million, $47.4 million, and $26.6 million of ProPartners volume at December 31, 2016, 2015, and 2014, respectively. We also had $55.6 million of available commitment on ProPartners loans at December 31, 2016.

Insight Technology Unit: We participate in the Insight Technology Unit (Insight) with certain other AgriBank District associations to facilitate the development and maintenance of certain retail technology systems essential to providing credit to our borrowers. Insight is governed by representatives of each participating association. The expenses are shared pro rata based on the number of loans and leases of each participant.

FCS of Mandan, ACA: Effective January 1, 2017, we formed an alliance with FCS of Mandan, ACA to integrate the associations' Technology Departments. All IT staff are jointly employed and managed by both associations.

Farm Credit Leasing: We have an agreement with Farm Credit Leasing (FCL), a System entity specializing in leasing products and providing industry expertise. Leases are originated and serviced by FCL and we receive a fee from FCL at origination of the transaction. This arrangement provides our members with a broad selection of product offerings and enhanced lease expertise.

CoBank, ACB: We have a relationship with CoBank, ACB (CoBank), a System bank, which involves purchasing or selling participation interests in loans. As part of this relationship, at December 31, 2016, 2015, and 2014, our equity investment in CoBank was $7 thousand. CoBank provides direct loan funds to Associations in its chartered territory and makes loans to cooperatives and other eligible borrowers.

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 $17 thousand. The total cost of services we purchased from Foundations was $91 thousand, $78 thousand, and $67 thousand in 2016, 2015, and 2014, respectively.

Programs

We are involved in a number of programs designed to improve our 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.

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
- 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 (UREE) leverage ratio. The permanent capital ratio continues to remain in effect with the final rule. Refer to Note 6 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
- 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

Farm Credit Services of North Dakota, ACA

We prepare the Consolidated Financial Statements of Farm Credit Services of North Dakota, 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.

Steve Perdue
Chairperson of the Board
Farm Credit Services of North Dakota, ACA

Claude Sem
President and Chief Executive Officer
Farm Credit Services of North Dakota, ACA

Kent Huss
Chief Financial Officer
Farm Credit Services of North Dakota, ACA

March 2, 2017

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Farm Credit Services of North Dakota, ACA

The Farm Credit Services of North Dakota, 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.

Claude Sem
President and Chief Executive Officer
Farm Credit Services of North Dakota, ACA

Kent Huss
Chief Financial Officer
Farm Credit Services of North Dakota, ACA

March 2, 2017

REPORT OF AUDIT COMMITTEE

Farm Credit Services of North Dakota, 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 Farm Credit Services of North Dakota, 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.

Bryan Ankenbauer

Bryan Ankenbauer
Chairperson of the Audit Committee
Farm Credit Services of North Dakota, ACA

Members of the Audit Committee are:
Thomas Henry
Phil Lowe
Steve Perdue
Clara Sue Price

March 2, 2017

pwc

Report of Independent Auditors

To the Board of Directors of Farm Credit Services of North Dakota, ACA,

We have audited the accompanying Consolidated Financial Statements of Farm Credit Services of North Dakota, 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 Farm Credit Services of North Dakota, 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

Farm Credit Services of North Dakota, ACA

(in thousands)

As of December 31		**2016**		2015		2014
ASSETS						
Loans	**$**	**1,153,046**	$	1,129,003	$	1,015,225
Allowance for loan losses		**2,886**		2,467		1,711
Net loans		**1,150,160**		1,126,536		1,013,514
Investment in AgriBank, FCB		**21,386**		22,587		19,745
Accrued interest receivable		**18,608**		17,952		15,443
Assets held for lease, net		**32**		75		175
Other assets		**10,577**		7,470		7,857
Total assets	**$**	**1,200,763**	$	1,174,620	$	1,056,734
LIABILITIES						
Note payable to AgriBank, FCB	**$**	**946,611**	$	942,662	$	843,454
Accrued interest payable		**3,113**		1,980		1,707
Deferred tax liabilities, net		**30**		114		501
Other liabilities		**5,188**		4,513		4,565
Total liabilities		**954,942**		949,269		850,227
Contingencies and commitments (Note 10)						
MEMBERS' EQUITY						
Capital stock and participation certificates		**2,039**		2,164		2,194
Unallocated surplus		**243,782**		223,187		204,313
Total members' equity		**245,821**		225,351		206,507
Total liabilities and members' equity	**$**	**1,200,763**	$	1,174,620	$	1,056,734

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

CONSOLIDATED STATEMENTS OF INCOME

Farm Credit Services of North Dakota, ACA

(in thousands)

For the year ended December 31		**2016**		2015		2014
Interest income	**$**	**41,316**	$	36,523	$	33,263
Interest expense		**11,680**		7,170		6,462
Net interest income		**29,636**		29,353		26,801
Provision for (reversal of) credit losses		**786**		1,224		(200)
Net interest income after provision for (reversal of) credit losses		**28,850**		28,129		27,001
Other income						
Patronage income		**4,140**		2,258		2,583
Financially related services income		**8,058**		7,440		6,519
Fee income		**1,906**		1,775		1,773
Miscellaneous income, net		**22**		78		125
Total other income		**14,126**		11,551		11,000
Operating expenses						
Salaries and employee benefits		**13,560**		12,770		11,401
Other operating expenses		**6,843**		5,751		5,048
Total operating expenses		**20,403**		18,521		16,449
Income before income taxes		**22,573**		21,159		21,552
Provision for income taxes		**1,978**		2,285		2,282
Net income	**$**	**20,595**	$	18,874	$	19,270

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Services of North Dakota, ACA

(in thousands)

	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance as of December 31, 2013	$ 2,193	$ 185,043	$ 187,236
Net income	--	19,270	19,270
Capital stock and participation certificates issued	285	--	285
Capital stock and participation certificates retired	(284)	--	(284)
Balance as of December 31, 2014	2,194	204,313	206,507
Net income	--	18,874	18,874
Capital stock and participation certificates issued	224	--	224
Capital stock and participation certificates retired	(254)	--	(254)
Balance as of December 31, 2015	2,164	223,187	225,351
Net income	**--**	**20,595**	**20,595**
Capital stock and participation certificates issued	**163**	**--**	**163**
Capital stock and participation certificates retired	**(288)**	**--**	**(288)**
Balance as of December 31, 2016	**$ 2,039**	**$ 243,782**	**$ 245,821**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Farm Credit Services of North Dakota, ACA

(in thousands)

For the year ended December 31	**2016**	2015	2014
Cash flows from operating activities			
Net income	**$ 20,595**	$ 18,874	$ 19,270
Depreciation on premises and equipment	**345**	352	328
Depreciation on assets held for lease	**12**	41	67
Amortization of premiums (discounts) on loans, net	**21**	(15)	33
Provision for (reversal of) credit losses	**786**	1,224	(200)
Stock patronage received from Farm Credit Institutions	**--**	--	(534)
Loss (gain) on other property owned, net	**1**	(1)	(13)
Changes in operating assets and liabilities:			
Increase in accrued interest receivable	**(1,706)**	(2,938)	(2,611)
(Increase) decrease in other assets	**(1,501)**	265	(417)
Increase in accrued interest payable	**1,133**	273	100
Increase (decrease) in other liabilities	**591**	(439)	321
Net cash provided by operating activities	**20,277**	17,636	16,344
Cash flows from investing activities			
Increase in loans, net	**(23,360)**	(113,707)	(128,750)
Redemptions (purchases) of investment in AgriBank, FCB, net	**1,201**	(2,842)	(414)
Sales of assets held for lease, net	**32**	59	1,260
Proceeds from sales of other property owned	**11**	1	13
Purchases of premises and equipment, net	**(1,952)**	(230)	(1,190)
Net cash used in investing activities	**(24,068)**	(116,719)	(129,081)
Cash flows from financing activities			
Increase in note payable to AgriBank, FCB, net	**3,949**	99,208	112,841
Capital stock and participation certificates retired, net	**(158)**	(125)	(104)
Net cash provided by financing activities	**3,791**	99,083	112,737
Net change in cash	**--**	--	--
Cash at beginning of year	**--**	--	--
Cash at end of year	**$ --**	$ --	$ --
Supplemental schedule of non-cash activities			
Stock financed by loan activities	**$ 162**	$ 222	$ 285
Stock applied against loan principal	**129**	127	180
Interest transferred to loans	**1,050**	429	266
Loans transferred to other property owned	**12**	--	--
Supplemental information			
Interest paid	**$ 10,547**	$ 6,897	$ 6,362
Taxes paid	**2,171**	2,670	2,334

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Farm Credit Services of North Dakota, 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

Farm Credit Services of North Dakota, ACA (the Association) and its subsidiaries, Farm Credit Services of North Dakota, FLCA and Farm Credit Services of North Dakota, PCA (subsidiaries) are lending institutions of the System. We are a member-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Benson, Bottineau, Burke, Divide, Eddy, Foster, McHenry, McKenzie, northern McLean, Mountrail, Pierce, Renville, Rolette, northern Sheridan, Ward, Wells, and Williams in the state of North Dakota.

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.

We offer credit life, term life, credit disability, crop hail, and multi-peril crop insurance to borrowers and those eligible to borrow. We also offer fee appraisals, and through affiliations, retirement and succession planning to our members.

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 Farm Credit Services of North Dakota, ACA and its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

Loans: Loans are carried at their principal amount outstanding net of any unearned income, cumulative charge-offs, unamortized deferred fees and costs on originated loans. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Origination fees, net of related costs, are deferred and recognized over the life of the loan as an adjustment to net interest income. The net amount of loan fees and related origination costs are not material to the Consolidated Financial Statements taken as a whole.

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.

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

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 and is included in "Other assets" in the Consolidated Statements of Condition. 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.

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation and is included in "Other assets" in the Consolidated Statements of Condition. 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.

Leases: We have finance and operating leases. Under 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 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 and state income taxes. 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.

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. Commercial letters of credit are agreements to pay a beneficiary under specific conditions. 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 credit losses” in the Consolidated Statements of Income. However, no such reserve was necessary as of December 31, 2016, 2015, or 2014.

Cash: For purposes of reporting cash flow, cash includes cash on hand.

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
- 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.
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.

Standard	Description	Effective date and financial statement impact
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 AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)	2016		2015		2014	
As of December 31	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 418,494**	**36.3%**	$ 389,719	34.5%	$ 368,693	36.3%
Production and intermediate term	**487,703**	**42.3%**	515,439	45.7%	463,762	45.7%
Agribusiness	**167,222**	**14.5%**	140,369	12.4%	109,369	10.8%
Other	**79,627**	**6.9%**	83,476	7.4%	73,401	7.2%
Total	**$ 1,153,046**	**100.0%**	$ 1,129,003	100.0%	$ 1,015,225	100.0%

The other category is primarily comprised of energy, communication, international, and water and waste water loans, as well as leases originated under our leasing authority.

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 5.5% of total loans and commitments.

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 60% 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 with 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

	AgriBank		Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
(in thousands)	Participations		Participations		Participations		Participations	
As of December 31, 2016	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	**$ --**	**$ --**	**$ 11,982**	**$ --**	**$ 1,299**	**$ (3,180)**	**$ 13,281**	**$ (3,180)**
Production and intermediate term	**--**	**--**	**65,544**	**(7,000)**	**2,108**	**(445)**	**67,652**	**(7,445)**
Agribusiness	**--**	**--**	**163,887**	**--**	**1,420**	**--**	**165,307**	**--**
Other	**--**	**--**	**79,618**	**--**	**--**	**--**	**79,618**	**--**
Total	**$ --**	**$ --**	**$ 321,031**	**$ (7,000)**	**$ 4,827**	**$ (3,625)**	**$ 325,858**	**$ (10,625)**

As of December 31, 2015	AgriBank Participations Purchased	AgriBank Participations Sold	Other Farm Credit Institutions Participations Purchased	Other Farm Credit Institutions Participations Sold	Non-Farm Credit Institutions Participations Purchased	Non-Farm Credit Institutions Participations Sold	Total Participations Purchased	Total Participations Sold
Real estate mortgage	$ --	$ --	$ 5,380	$ --	$ 2,663	$ (2,987)	$ 8,043	$ (2,987)
Production and intermediate term	--	(2,999)	60,448	--	3,000	(417)	63,448	(3,416)
Agribusiness	--	--	139,010	--	1,358	--	140,368	--
Other	--	--	83,031	--	--	--	83,031	--
Total	$ --	$ (2,999)	$ 287,869	$ --	$ 7,021	$ (3,404)	$ 294,890	$ (6,403)

As of December 31, 2014	AgriBank Participations Purchased	AgriBank Participations Sold	Other Farm Credit Institutions Participations Purchased	Other Farm Credit Institutions Participations Sold	Non-Farm Credit Institutions Participations Purchased	Non-Farm Credit Institutions Participations Sold	Total Participations Purchased	Total Participations Sold
Real estate mortgage	$ --	$ --	$ 5,405	$ --	$ 2,691	$ (3,156)	$ 8,096	$ (3,156)
Production and intermediate term	--	--	40,925	--	2,683	(382)	43,608	(382)
Agribusiness	--	--	107,839	--	618	--	108,457	--
Other	--	--	72,888	--	--	--	72,888	--
Total	$ --	$ --	$ 227,057	$ --	$ 5,992	$ (3,538)	$ 233,049	$ (3,538)

Information in the preceding chart excludes loans 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.

We had no loans categorized as loss at December 31, 2016, 2015, or 2014.

Credit Quality of Loans

(dollars in thousands) **As of December 31, 2016**	Acceptable Amount	Acceptable %	Special Mention Amount	Special Mention %	Substandard/ Doubtful Amount	Substandard/ Doubtful %	Total Amount	Total %
Real estate mortgage	**$ 400,655**	**94.0%**	**$ 17,727**	**4.2%**	**$ 7,762**	**1.8%**	**$ 426,144**	**100.0%**
Production and intermediate term	**458,563**	**92.1%**	**26,378**	**5.3%**	**12,971**	**2.6%**	**497,912**	**100.0%**
Agribusiness	**165,783**	**98.8%**	**--**	**--**	**2,007**	**1.2%**	**167,790**	**100.0%**
Other	**76,152**	**95.4%**	**3,208**	**4.0%**	**448**	**0.6%**	**79,808**	**100.0%**
Total	**$ 1,101,153**	**94.0%**	**$ 47,313**	**4.0%**	**$ 23,188**	**2.0%**	**$ 1,171,654**	**100.0%**

As of December 31, 2015	Acceptable Amount	Acceptable %	Special Mention Amount	Special Mention %	Substandard/ Doubtful Amount	Substandard/ Doubtful %	Total Amount	Total %
Real estate mortgage	$ 390,258	98.4%	$ 4,767	1.2%	$ 1,660	0.4%	$ 396,685	100.0%
Production and intermediate term	504,640	96.0%	11,108	2.1%	10,053	1.9%	525,801	100.0%
Agribusiness	137,115	97.4%	1,281	0.9%	2,464	1.7%	140,860	100.0%
Other	80,853	96.7%	1,399	1.7%	1,357	1.6%	83,609	100.0%
Total	$ 1,112,866	97.0%	$ 18,555	1.6%	$ 15,534	1.4%	$ 1,146,955	100.0%

As of December 31, 2014	Acceptable Amount	%	Special Mention Amount	%	Substandard/ Doubtful Amount	%	Total Amount	%
Real estate mortgage	$ 374,170	99.7%	$ 595	0.2%	$ 353	0.1%	$ 375,118	100.0%
Production and intermediate term	469,636	99.4%	1,659	0.4%	864	0.2%	472,159	100.0%
Agribusiness	107,477	97.9%	138	0.1%	2,244	2.0%	109,859	100.0%
Other	70,872	96.4%	1,275	1.7%	1,385	1.9%	73,532	100.0%
Total	$ 1,022,155	99.1%	$ 3,667	0.4%	$ 4,846	0.5%	$ 1,030,668	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	**$ 400**	**$ --**	**$ 400**	**$ 425,744**	**$ 426,144**	**$ --**
Production and intermediate term	**2,120**	**2,842**	**4,962**	**492,950**	**497,912**	**19**
Agribusiness	**--**	**--**	**--**	**167,790**	**167,790**	**--**
Other	**--**	**--**	**--**	**79,808**	**79,808**	**--**
Total	**$ 2,520**	**$ 2,842**	**$ 5,362**	**$ 1,166,292**	**$ 1,171,654**	**$ 19**

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	$ 139	$ --	$ 139	$ 396,546	$ 396,685	$ --
Production and intermediate term	438	440	878	524,923	525,801	10
Agribusiness	--	--	--	140,860	140,860	--
Other	--	--	--	83,609	83,609	--
Total	$ 577	$ 440	$ 1,017	$ 1,145,938	$ 1,146,955	$ 10

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	$ --	$ --	$ --	$ 375,118	$ 375,118	$ --
Production and intermediate term	131	117	248	471,911	472,159	--
Agribusiness	--	--	--	109,859	109,859	--
Other	--	--	--	73,532	73,532	--
Total	$ 131	$ 117	$ 248	$ 1,030,420	$ 1,030,668	$ --

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 it is probable that all principal and interest will 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	**$ 1,685**	$ 1,832	$ 1,736
Past due	**3,746**	526	122
Total nonaccrual loans	**5,431**	2,358	1,858
Accruing restructured loans	**1,308**	458	500
Accruing loans 90 days or more past due	**19**	10	--
Total risk loans	**$ 6,758**	$ 2,826	$ 2,358
Volume with specific reserves	**$ 174**	$ 252	$ 548
Volume without specific reserves	**6,584**	2,574	1,810
Total risk loans	**$ 6,758**	$ 2,826	$ 2,358
Total specific reserves	**$ 155**	$ 216	$ 352

For the year ended December 31	**2016**	2015	2014
Income on accrual risk loans	**$ 69**	$ 24	$ 19
Income on nonaccrual loans	**302**	89	371
Total income on risk loans	**$ 371**	$ 113	$ 390
Average recorded risk loans	**$ 4,007**	$ 2,888	$ 3,342

Note: Accruing loans include accrued interest receivable.

The increase in nonaccrual loans past due was primarily due to one customer being transferred to nonaccrual in 2016.

Nonaccrual Loans by Loan Type

(in thousands)

As of December 31	**2016**	2015	2014
Real estate mortgage	**$ 1,494**	$ 552	$ 120
Production and intermediate term	**3,937**	929	352
Other	**--**	877	1,386
Total	**$ 5,431**	$ 2,358	$ 1,858

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	**$ --**	**$ --**	**$ --**	**$ --**	**$ --**
Production and intermediate term	**174**	**182**	**155**	**92**	**--**
Agribusiness	**--**	**--**	**--**	**--**	**--**
Other	**--**	**--**	**--**	**--**	**--**
Total	**$ 174**	**$ 182**	**$ 155**	**$ 92**	**$ --**
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	**$ 1,922**	**$ 1,883**	**$ --**	**$ 1,047**	**$ 121**
Production and intermediate term	**3,784**	**4,448**	**--**	**2,006**	**111**
Agribusiness	**--**	**--**	**--**	**--**	**--**
Other	**878**	**1,068**	**--**	**862**	**139**
Total	**$ 6,584**	**$ 7,399**	**$ --**	**$ 3,915**	**$ 371**
Total impaired loans:					
Real estate mortgage	**$ 1,922**	**$ 1,883**	**$ --**	**$ 1,047**	**$ 121**
Production and intermediate term	**3,958**	**4,630**	**155**	**2,098**	**111**
Agribusiness	**--**	**--**	**--**	**--**	**--**
Other	**878**	**1,068**	**--**	**862**	**139**
Total	**$ 6,758**	**$ 7,581**	**$ 155**	**$ 4,007**	**$ 371**

	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	$ --	$ --	$ --	$ --	$ --
Production and intermediate term	252	257	216	235	--
Agribusiness	--	--	--	--	--
Other	--	--	--	--	--
Total	$ 252	$ 257	$ 216	$ 235	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 1,007	$ 1,013	$ --	$ 885	$ 104
Production and intermediate term	689	1,107	--	643	9
Agribusiness	--	8	--	2	--
Other	878	1,110	--	1,123	--
Total	$ 2,574	$ 3,238	$ --	$ 2,653	$ 113
Total impaired loans:					
Real estate mortgage	$ 1,007	$ 1,013	$ --	$ 885	$ 104
Production and intermediate term	941	1,364	216	878	9
Agribusiness	--	8	--	2	--
Other	878	1,110	--	1,123	--
Total	$ 2,826	$ 3,495	$ 216	$ 2,888	$ 113

	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	$ --	$ --	$ --	$ --	$ --
Production and intermediate term	102	104	96	138	--
Agribusiness	--	--	--	--	--
Other	446	454	256	296	--
Total	$ 548	$ 558	$ 352	$ 434	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 619	$ 618	$ --	$ 645	$ 49
Production and intermediate term	251	380	--	336	27
Agribusiness	--	8	--	960	314
Other	940	1,076	--	967	--
Total	$ 1,810	$ 2,082	$ --	$ 2,908	$ 390
Total impaired loans:					
Real estate mortgage	$ 619	$ 618	$ --	$ 645	$ 49
Production and intermediate term	353	484	96	474	27
Agribusiness	--	8	--	960	314
Other	1,386	1,530	256	1,263	--
Total	$ 2,358	$ 2,640	$ 352	$ 3,342	$ 390

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.

We completed TDRs of certain production and intermediate term loans during the years ended December 31, 2016, 2015, and 2014. Our recorded investment in these loans just prior to and immediately following the restructuring was $7 thousand, $57 thousand, and $7 thousand during the years ended December 31, 2016, 2015, and 2014, respectively. The recorded investment of the loan is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off.

The primary type of modification included was extension of maturity.

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. We had TDRs in the production and intermediate term loan category of $5 thousand that defaulted during the year ended December 31, 2015 in which the modifications were within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of December 31	2016	2015	2014
Accrual status:			
Real estate mortgage	$ 428	$ 456	$ 500
Production and intermediate term	2	2	--
Other	878	--	--
Total TDRs in accrual status	$ 1,308	$ 458	$ 500
Nonaccrual status:			
Real estate mortgage	$ 39	$ 62	$ 72
Production and intermediate term	37	77	39
Other	--	877	940
Total TDRs in nonaccrual status	$ 76	$ 1,016	$ 1,051
Total TDRs:			
Real estate mortgage	$ 467	$ 518	$ 572
Production and intermediate term	39	79	39
Other	878	877	940
Total TDRs	$ 1,384	$ 1,474	$ 1,551

The increase in loans in accrual status is the result of the reinstatement of nonaccrual loans in the communications category to accrual status.

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	$ 2,467	$ 1,711	$ 1,747
Provision for loan losses	786	1,224	75
Loan recoveries	147	18	38
Loan charge-offs	(514)	(486)	(149)
Balance at end of year	$ 2,886	$ 2,467	$ 1,711

The increase in the allowance for loan losses was mainly related to changes in our loss estimates.

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 commitments.

We issue standby letters of credit, which include performance and financial guarantees, for customers in connection with contracts between our customers and third parties. Standby letters of credit are agreements where we are obligated to make payment to a third party on behalf of a customer in the event the customer fails to meet their contractual obligations.

Credit losses may be recorded to establish a reserve on letters of credit. The accrued credit losses are recorded in "Other liabilities" in the Consolidated Statements of Condition. No provision for credit losses was required during the year ended December 31, 2016, 2015, or 2014. Throughout the year a portion of an established liability may be funded. The change in allowance for loan losses due to transactions such as these was $276 thousand during the year ended December 31, 2014. No transactions of this nature occurred during the years ended December 31, 2016 and 2015. There were no accrued credit losses related to letters of credit as of December 31, 2016, 2015, or 2014.

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	**$ 148**	**$ 1,181**	**$ 651**	**$ 487**	**$ 2,467**
Provision for (reversal of) loan losses	**258**	**497**	**(54)**	**85**	**786**
Loan recoveries	**--**	**147**	**--**	**--**	**147**
Loan charge-offs	**(8)**	**(506)**	**--**	**--**	**(514)**
Balance as of December 31, 2016	**$ 398**	**$ 1,319**	**$ 597**	**$ 572**	**$ 2,886**
Ending balance: individually evaluated for impairment	**$ --**	**$ 155**	**$ --**	**$ --**	**$ 155**
Ending balance: collectively evaluated for impairment	**$ 398**	**$ 1,164**	**$ 597**	**$ 572**	**$ 2,731**
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2016	**$ 426,144**	**$ 497,912**	**$ 167,790**	**$ 79,808**	**$ 1,171,654**
Ending balance: individually evaluated for impairment	**$ 1,922**	**$ 3,958**	**$ --**	**$ 878**	**$ 6,758**
Ending balance: collectively evaluated for impairment	**$ 424,222**	**$ 493,954**	**$ 167,790**	**$ 78,930**	**$ 1,164,896**

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2014	$ 62	$ 668	$ 383	$ 598	$ 1,711
Provision for (reversal of) loan losses	86	875	272	(9)	1,224
Loan recoveries	--	18	--	--	18
Loan charge-offs	--	(380)	(4)	(102)	(486)
Balance as of December 31, 2015	$ 148	$ 1,181	$ 651	$ 487	$ 2,467
Ending balance: individually evaluated for impairment	$ --	$ 216	$ --	$ --	$ 216
Ending balance: collectively evaluated for impairment	$ 148	$ 965	$ 651	$ 487	$ 2,251
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2015	$ 396,685	$ 525,801	$ 140,860	$ 83,609	$ 1,146,955
Ending balance: individually evaluated for impairment	$ 1,007	$ 941	$ --	$ 878	$ 2,826
Ending balance: collectively evaluated for impairment	$ 395,678	$ 524,860	$ 140,860	$ 82,731	$ 1,144,129

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2013	$ 61	$ 568	$ 319	$ 799	$ 1,747
Provision for (reversal of) loan losses	1	185	64	(175)	75
Loan recoveries	1	37	--	--	38
Loan charge-offs	(1)	(122)	--	(26)	(149)
Balance as of December 31, 2014	$ 62	$ 668	$ 383	$ 598	$ 1,711
Ending balance: individually evaluated for impairment	$ --	$ 96	$ --	$ 256	$ 352
Ending balance: collectively evaluated for impairment	$ 62	$ 572	$ 383	$ 342	$ 1,359
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2014	$ 375,118	$ 472,159	$ 109,859	$ 73,532	$ 1,030,668
Ending balance: individually evaluated for impairment	$ 619	$ 353	$ --	$ 1,386	$ 2,358
Ending balance: collectively evaluated for impairment	$ 374,499	$ 471,806	$ 109,859	$ 72,146	$ 1,028,310

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: INVESTMENT IN AGRIBANK

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. AgriBank's current bylaws allow AgriBank to increase the required investment to 4.0%. Effective January 1, 2017 we are required to invest 2.25% of the average quarterly balance of our note payable, with an additional amount required on growth in excess of a sustainable growth rate.

The balance of our investment in AgriBank, all required stock, was $21.4 million, $22.6 million, and $19.7 million at December 31, 2016, 2015, and 2014, respectively.

NOTE 5: 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	**$ 1,250,000**	$ 1,125,000	$ 975,000
Outstanding principal under the line of credit	**946,611**	942,662	843,454
Interest rate	**1.4%**	0.9%	0.8%

Our note payable matures September 30, 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 6: 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, the 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. The purchase of one participation certificate is required of all customers to whom a lease is issued, if already not a stockholder, and of all non-stockholder customers who purchase financial services. 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. The aggregate par value of the stock is added to the principal amount of the related obligation. We retain a first lien on the stock or participation certificates owned by customers.

Regulatory Capitalization Requirements

Select Capital Ratios

As of December 31	**2016**	2015	2014	Regulatory Minimums
Permanent capital ratio	**16.9%**	15.9%	16.2%	7.0%
Total surplus ratio	**16.7%**	15.7%	16.1%	7.0%
Core surplus ratio	**16.7%**	15.7%	16.1%	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 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)	**406,350**	431,515	437,725
Class E participation certificates (at-risk)	**1,068**	1,071	1,090

Under our bylaws, we are also authorized to issue Class C 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 remaining assets after payment or retirement of all liabilities will be distributed pro rata to holders of Class B, C, and D common stock and Class E participation certificates.

In the event of impairment, losses will be absorbed first by holders of Class D common stock, then by concurrent impairment of Class B and C common stock and Class E participation certificates.

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

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. However, we do not have a patronage program to make such distributions.

NOTE 7: INCOME TAXES

Provision for Income Taxes

Provision for income taxes

(dollars in thousands) For the year ended December 31	**2016**	2015	2014
Current:			
Federal	**$ 1,822**	$ 2,380	$ 2,065
State	**240**	292	305
Total current	**$ 2,062**	$ 2,672	$ 2,370
Deferred:			
Federal	**$ (73)**	$ (340)	$ (68)
State	**(11)**	(47)	(20)
Total deferred	**(84)**	(387)	(88)
Provision for income taxes	**$ 1,978**	$ 2,285	$ 2,282
Effective tax rate	**8.8%**	10.8%	10.6%

Reconciliation of Taxes at Federal Statutory Rate to Provision for Income Taxes

(in thousands) For the year ended December 31	**2016**	2015	2014
Federal tax at statutory rates	**$ 7,675**	$ 7,194	$ 7,328
State tax, net	**152**	176	184
Effect of non-taxable entity	**(5,860)**	(5,090)	(5,235)
Other	**11**	5	5
Provision for income taxes	**$ 1,978**	$ 2,285	$ 2,282

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	**$ 270**	$ 212	$ 134
Postretirement benefit accrual	**93**	92	87
Accrued incentive	**332**	337	313
Leasing related, net	**(21)**	(196)	(432)
Accrued patronage income not received	**(224)**	(109)	(163)
AgriBank 2002 allocated stock	**(260)**	(260)	(263)
Accrued pension asset	**(132)**	(66)	(68)
Depreciation	**(89)**	(130)	(134)
Other assets	**1**	6	25
Total deferred tax liabilities	**(30)**	(114)	(501)
Gross deferred tax assets	**$ 696**	$ 647	$ 559
Gross deferred tax liabilities	**$ (726)**	$ (761)	$ (1,060)

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 approximately $7.5 million of 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. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $171.4 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 8: 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. There is no collective bargaining agreement 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	**858**	1,013	751
Contributions by participating employers	**90,000**	62,722	52,032
Our allocated share of contributions	**1,435**	996	845

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 million. Our allocated share of these pension contributions is expected to be $1.5 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: Effective January 1, 2016, we began participating 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
Unfunded liability	$	**28,514**
Projected benefit obligation		**28,514**
Accumulated benefit obligation		**22,778**

For the year ended December 31		2016
Total plan expense	$	**5,767**
Our allocated share of plan expenses		**187**

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 and we make annual contributions to fund benefits paid to our retirees covered by the plan. 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	$	**20**	$	46	$	37
Our cash contributions		**16**		14		14

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 $582 thousand, $569 thousand, and $483 thousand in 2016, 2015, and 2014, respectively. These expenses were equal to our cash contributions for each year.

NOTE 9: 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	$	**11,508**	$	13,255	$	13,513
For the year ended December 31:						
Advances to related parties	$	**12,282**	$	11,050	$	10,326
Repayments by related parties		**14,628**		12,237		9,603

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 5, we borrow from AgriBank, in the form of a line of credit, to fund our loan portfolio.

Additional transactions other than loans in the ordinary course of business involving directors and senior officers include competitive bidding for improvements to new and existing facilities. Through this competitive bidding process, during the years of 2016, 2015, and 2014, we have entered into transactions with Lowe's, Inc. (Lowe's), a garden center, greenhouse nursery, and floral and landscaping operation and Cal-Dak Cabinets, Inc., a custom cabinet manufacturer. Outside Director, Phil Lowe is the president of Lowe's and Outside Director Clara Sue Price is a stockholder in Cal-Dak Cabinets, Inc.

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 $518 thousand, $439 thousand, and $448 thousand in 2016, 2015, and 2014, respectively.

We also purchase human resource information systems, benefit, payroll, and workforce management services from Farm Credit Foundations (Foundations). As of December 31, 2016, 2015, and 2014 our investment in Foundations was $17 thousand. The total cost of services purchased from Foundations was $91 thousand, $78 thousand, and $67 thousand in 2016, 2015, and 2014, respectively.

NOTE 10: 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. Commercial letters of credit are agreements to pay a beneficiary under specific conditions. At December 31, 2016, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $365.4 million. Additionally, we had $4.0 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.

NOTE 11: 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.

We did not have any assets or liabilities measured at fair value on a recurring basis at December 31, 2016, 2015, or 2014.

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 December 31, 2016	Fair Value Measurement Using				Total (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	Gains
Impaired loans	**$ --**	**$ --**	**$ 20**	**$ 20**	**$ (453)**
Other property owned	**--**	**--**	**--**	**--**	**(1)**

As of December 31, 2015	Fair Value Measurement Using				Total (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	Gains
Impaired loans	$ --	$ --	$ 38	$ 38	$ (350)
Other property owned	--	--	--	--	1

As of December 31, 2014	Fair Value Measurement Using				Total (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	Gains
Impaired loans	$ --	$ --	$ 205	$ 205	$ (30)
Other property owned	--	--	--	--	13

Valuation Techniques

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

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

NOTE 12: 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

Farm Credit Services of North Dakota, 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
Bottineau	Owned	Branch
Bowbells	Leased	Bowbells Crop Insurance Office
Carrington	Owned	Branch
Crosby	Owned	Branch
Crosby	Owned	Commercial Lot
Minot	Owned	Headquarters/Branch
Minot	Owned	Commercial Lot
Minot	Owned	Ward County Crop Insurance Office
Minot	Leased	Administrative Offices
Rugby*	Owned	Branch
Rugby*	Leased	Schaan Crop Insurance Office
Rugby*	Owned	Branch/Schaan Crop Insurance Office
Williston	Owned	Branch

*During January 2017 the Rugby branch and the Schaan Crop Insurance office moved into a new building in Rugby. The old owned Rugby building will be sold and the lease on the old Schaan Crop Insurance building will not be renewed.

Legal Proceedings

Information regarding legal proceedings is discussed in Note 10 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 6 to the accompanying Consolidated Financial Statements.

Description of Liabilities

Information regarding liabilities is discussed in Notes 5, 7, 8, and 10 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

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

Name	Term	Principal occupation and other business interests
Bryan Ankenbauer First Vice Chairperson of the Board Service Began: 2005	March 2015-March 2019	**Principal Occupation:** Self-employed grain farmer
Thomas Henry Second Vice Chairperson of the Board Service Began: 2010	April 2014-March 2018	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Secretary/Treasurer: Russell Storage Condominium, a grain storage entity, in conjunction with Border Ag and Energy
Daryl Klein Director Service Began: 1992	April 2014-March 2018	**Principal Occupation:** Self-employed grain farmer
Phil Lowe Outside Director Service Began: 2006	March 2013-March 2017	**Principal Occupation:** President of Lowe's Inc., a garden center, greenhouse nursery, and floral and landscaping operation **Other Affiliations:** Managing Partner: Lowe Family Investments, a property management company
Mark Martinson Director Service Began: 2016	April 2016-March 2020	**Principal Occupation:** Self-employed grain and livestock farmer **Other Affiliations:** Board President: U.S. Durum Growers Association, which promotes the durum industry
Bill Ongstad Director Service Began: 2000	March 2013-March 2017	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Director: Garrison Diversion Conservancy District, a political subdivision Commissioner: Ag Products Utilization Commission, a division of the North Dakota Department of Commerce that provides grants to individuals and businesses to develop and market agricultural products Board Member: North Dakota Farm Credit Council
Steve Perdue Chairperson of the Board Service Began: 2009	March 2013-March 2017	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Director: U.S. Durum Growers Association, which promotes the durum industry
Clara Sue Price Outside Director Service Began: 2009	May 2016-April 2020	**Principal Occupation:** Self-employed property management, construction, and livestock and vegetable farmer **Other Affiliations:** Secretary/Treasurer: MMP Investments, LLC, a property management company Treasurer: G&D Properties, LLC, a property management company Stockholder: Cal-Dak Cabinets, Inc, a custom cabinet manufacturer Board Member: North Dakota Farm Credit Council
Rollin Tonneson Director Board Secretary Service Began: 1999	March 2015-March 2019	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Chairperson: AgriBank District Farm Credit Council Board Member: National Farm Credit Council

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 receives $500 per diem for each meeting in attendance or $100 for meeting attendance by conference call. In addition, the board chairperson receives a $3,000 annual retainer fee (effective January 1, 2017; previously $2,000) and the other board members receive a $2,000 annual retainer fee (effective January 1, 2017; previously $1,000) paid following the Board of Director's annual reorganization meeting.

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

Name	Number of Days Served: Board Meetings	Number of Days Served: Other Official Activities	Compensation Paid for Service on a Board Committee	Name of Committee	Total Compensation Paid in 2016
Bryan Ankenbauer	11.0	12.0	$ 1,100	Audit	$ 14,413
			500	Planning	
Tim Dwyer*	4.0	4.0			5,750
Thomas Henry	12.0	17.0	700	Audit	17,813
			500	Planning	
Daryl Klein	12.0	15.0	500	Board Policy	16,113
			500	Planning	
Phil Lowe	12.0	14.0	800	Audit	14,575
			500	Planning	
Mark Martinson**	8.0	4.0	500	Board Policy	7,913
			500	Planning	
Bill Ongstad	10.0	16.0	500	Board Policy	15,450
			500	Planning	
Steve Perdue	12.0	15.0	1,200	Audit	17,525
			500	Planning	
Clara Sue Price	12.0	15.0	700	Audit	15,138
			500	Planning	
Rollin Tonneson	11.0	12.0	500	Board Policy	13,725
			500	Planning	
					$ 138,415

*Term expired in 2016

**New director elected at annual meeting in April 2016

Senior Officers

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

Name	Position
Claude Sem President/Chief Executive Officer	**Business experience:** Association President/Chief Executive Officer **Appointed as Senior Officer:** January 2000
Kathy Berg Human Resources Director	**Business experience:** Association Human Resources Director since November 2013 Association Customer Service Representive from July 2009 to November 2013 **Appointed as Senior Officer:** April 2016
Dan Beyer Vice President - Marketing	**Business experience:** Association Vice President - Marketing since July 2015 Farm Credit Services of Mandan Vice President - Financial Services from October 2004 to July 2015 **Appointed as Senior Officer:** July 2015
Becky Braaten Vice President - Insurance Services	**Business experience:** Association Vice President - Insurance Services **Appointed as Senior Officer:** March 2000
Dave Brossart Assistant Vice President - Credit	**Business experience:** Association Assistant Vice President - Credit **Appointed as Senior Officer:** March 2000
Kent Huss Chief Financial Officer	**Business experience:** Association Chief Financial Officer **Appointed as Senior Officer:** March 1997
Wade Iverson Vice President Valuation - Facilities	**Business experience:** Association Vice President Valuation – Facilities **Appointed as Senior Officer:** March 2000
Ross Johnson Senior Vice President - Chief Administrative Officer	**Business experience:** Association Senior Vice President - Chief Administrative Officer since September 2016 Association Senior Vice President - Chief Credit Officer from June 2013 to September 2016 Association Vice President - Agribusiness from November 2007 to June 2013 **Appointed as Senior Officer:** June 2003
Brad Limke Senior Vice President - Chief Credit Officer	**Business experience:** Association Senior Vice President - Chief Credit Officer since September 2016 Association Director of Internal Audit from August 2005 to September 2016 **Appointed as Senior Officer:** September 2016
Leigh Wagner Vice President - Marketing	**Business experience:** Association Vice President - Marketing **Appointed as Senior Officer:** March 2000

Ross Johnson is also the President of JBI, LLC, a family farm corporation.

Senior Officer Compensation

Compensation Risk Management: We believe the design and governance of our CEO, senior officer, and highly compensated individuals compensation program is consistent with the highest standards of risk management and provides total compensation that promotes our mission to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America. Our compensation philosophy aims to provide a competitive total rewards package that will enable us to attract and retain highly qualified officers with the requisite expertise and skills while achieving desired business results aligned with the best interests of our shareholders. The design of our senior officer compensation program supports our risk management goals through a set of checks and balances, including (1) a balanced mix of base and variable pay, (2) a balanced use of performance measures that are risk-adjusted where appropriate, and (3) a pay-for-performance process that allocates individual awards based on both results and how those results were achieved.

Elements of Compensation: Senior officers, including our CEO, and highly compensated individuals are compensated with a mix of direct cash and short-term incentives, as well as retirement plans generally available to all employees. Our Board of Directors approve the overall salary structure for all senior officers, including the CEO, and highly compensated individuals which includes the variable incentive plan targeting various objectives throughout the year keeping in mind their fiduciary responsibilities to their stockholders. Base salary and short-term incentives are intended to be competitive with annual compensation for comparable positions at peer organizations.

Base Salary: CEO, senior officer, and highly compensated individual base salaries reflect the employee’s experience and level of responsibility. Salary structure is subject to review and approval by the Compensation Committee of our Board of Directors and is subject to adjustment based on changes in responsibilities or competitive market conditions.

Short-term Incentives: CEO, senior officer, and highly compensated individual incentives are paid annually based on performance criteria established by our Board of Directors. The criteria related to the overall association performance include permanent capital ratio, loan volume, credit quality, credit administration, risk score, net operating rate, and related services income. Additionally, performance criteria related to personal performance include attainment of personal objectives and performance ratings. Individual incentives for our CEO, senior officers, and highly compensated employees are weighted towards overall association performance differently depending on position held by the individual. Generally, the higher level of responsibilities results in a higher level of compensation based on association performance rather than individual performance. We calculate the incentives after the end of the plan year (the plan year is the calendar year). Employees must be employed on the date paid, March 15th of the following year, to collect incentive pay.

Retirement Plans: We have various post-employment benefit plans which are generally available to all association employees, including the CEO, senior officers, and highly compensated individuals, 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 8 of this Annual Report.

Other Components of Compensation: Additionally, compensation associated with group term life insurance premiums, disability insurance premiums, or other taxable reimbursements may be made available to the CEO, senior officers, and highly compensated individuals based on job criteria or similar plans available to all employees.

Compensation to the CEO, Senior Officers, and Highly Compensated Individuals

(in thousands) Name	Year	Salary	Bonus	Deferred/ Perquisites	Other	Total
Claude Sem, CEO	**2016**	**$ 325**	**$ 106**	**$ 4**	**$ 529**	**$ 964**
Claude Sem, CEO	2015	295	103	3	182	583
Claude Sem, CEO	2014	284	97	3	586	970
Aggregate Number of Senior Officers and Highly Compensated Individuals, excluding CEO						
Eleven	**2016**	**$ 1,182**	**$ 317**	**$ 10**	**$ 534**	**$ 2,043**
Ten	2015	1,163	439	10	687	2,299
Nine	2014	1,043	392	10	914	2,359

The composition of senior officers may change during the year based on business needs of the association. During 2016, we had two new senior officers appointed in April and September and one senior officer ending in February. During 2015 we had a new senior officer begin employment in July. The amounts above reflect compensation earned during the time employees served as senior officers. The composition of the senior officer and highly compensated individuals can change due to base salary or other incentives available to employees as described above.

The amount in “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 8 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.

Any dollar value of tax reimbursement provided to the CEO, senior officer, and highly compensated individuals is included in the column for which the reimbursement was provided. Minor tax reimbursements are made to the CEO, senior officers, and highly compensated individuals.

The “Deferred/Perquisites” primarily includes group-term life insurance premiums and long-term disability premiums.

For the CEO the value of the pension benefits from December 31, 2015 to December 31, 2016 changed primarily due to beginning participation in the District-wide non-qualified defined benefit Pension Restoration Plan effective January 1, 2016. For senior officers, and highly compensated individuals 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
Claude Sem, CEO	AgriBank District Retirement Plan	**40.3**	**$ 2,566**	**$ --**
	AgriBank District Pension Restoration Plan	**40.3**	**414**	**--**
Aggregate Number of Senior Officers, excluding CEO				
Nine	AgriBank District Retirement Plan	**25.2**	**$ 4,405**	**$ --**

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 9 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 70
Minot, ND 58702-0070
(701) 852-1265
www.farmcreditnd.com
info@farmcreditnd.com

The total directors' travel, subsistence, and other related expenses were $89 thousand, $80 thousand, and $90 thousand 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 $24 thousand. The fees paid were for audit services.

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.

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.

YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

Farm Credit Services of North Dakota, ACA

(Unaudited)

We have specific programs in place to serve the credit and related needs of young, beginning, and small farmers and ranchers (YBS) in our territory. The definitions of YBS as developed by the Farm Credit Administration (FCA) follow:

- Young: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.
- Beginning: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the loan transaction date.
- Small: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than $250 thousand in annual gross sales of agricultural or aquatic products.

The demographics of the young, beginning, and small farmers in our territory were compiled from the 2012 USDA Ag-Census. At the time of the census there were a total of 9,517 farmers in Farm Credit Services of North Dakota, ACA's territory. This included 709 young farmers, 1,393 beginning farmers, and 7,009 small farmers in our territory.

Our mission statement for the Young, Beginning, and Small Farmers Program is "to assist young, beginning, and small farmers and ranchers to succeed in business in their agricultural environment." The specific means to meet the objective of this mission statement follows:

- Our volume goal for young farmers is $318.2 million which is 140% of risk funds. At December 31, 2016, we had $218.5 million in loans to young farmers which was 96% of risk funds.
- Our volume goal for beginning farmers is $284.1 million which is 125% of risk funds. At December 31, 2016, we had $191.0 million in loans to beginning farmers which was 84% of risk funds.
- Our volume goal for small farmers is $909.2 million which is 400% of risk funds. At December 31, 2016, we had $148.2 million in loan volume to small farmers which was 65% of risk funds.
- Our goal for the number of loans is 1,799 of loans to young farmers, 1,768 of loans to beginning farmers, and 2,797 of loans to small farmers. At December 31, 2016, we had 1,236 loans to young farmers, 1,189 loans to beginning farmers, and 1,917 loans to small farmers.

We also have the opportunity to coordinate with the Bank of North Dakota and the Farm Service Agency in originating new loans. Our goal through coordinating with these two entities was to make 10 new loans to young farmers for $500 thousand in loan volume, 10 new loans to beginning farmers for $500 thousand in loan volume, and 25 new loans to small farmers for $1.3 million in loan volume. With this coordination effort in 2016, we made 14 loans to young farmers for $6.7 million, 10 loans to beginning farmers for $4.8 million and 0 loans to small farmers.

We also provide related services to this segment of our portfolio with a goal of continued growth equal to or greater than what our overall related services are growing. To date, the number of farmers served with certain services includes:

	Young	Beginning	Small
Hail Insurance	124	153	72
Multi-Peril Insurance	112	119	214
Life Insurance	82	104	66

We also have a plan for marketing and outreach activities for this segment of our territory. We had goals of distributing 848 FFA handbooks to 35 schools and actually gave 1,077 Handbooks to 38 schools. Our goal was to attend 6 FFA banquets and 7 were attended. We planned to attend 6 FFA Alumni Meetings and 7 were attended. We had a goal of attending 12 4-H premium sales with 14 attended. We have participated with the other Farm Credit System associations in North Dakota in granting 4 innovative grants for a total of approximately $4 thousand. We planned for and awarded six $1 thousand scholarships to sons and daughters of the agriculture community. We had planned presentations to 5 agriculture classes with 0 completed. We had a goal of attending 5 Adult Farm Management events with 3 attended. We had a goal to hold 18 insurance meetings and 21 were completed. We had a goal of attending 15 marketing club meetings with 1 attended. Our goal was to participate in 8 agriculture shows with 14 completed. We had a goal of 10 direct mailings to young, beginning, and small farmers in our area with 8 completed. We had a goal of staff to attend 100 key community agriculture events in our territory and 386 were attended. We also had a goal to participate in 3 kid's farm safety events with 1 completed.

Our website has a page dedicated to our Young, Beginning, and Small Farmers Program along with information sent in our customer magazine targeted at the young, beginning, and small farmers segment of our territory.

Our specifically designed credit programs and services for young, beginning, and small farmers include underwriting standards and use of guarantees or other credit enhancements to ensure the program is conducted in a manner that protects the safety and soundness of Farm Credit Service of North Dakota, ACA.

FUNDS HELD PROGRAM

Farm Credit Services of North Dakota, ACA
(Unaudited)

Objective

To allow members the opportunity to deposit funds in excess of regular loan payments in a funds held account.

Maximum Deposit Balance

Mortgage Loans: The funds held balance may not exceed the unpaid principal balance of the outstanding balance on the related loan.

Commercial Loans: The funds held balance may not exceed the amount of the borrower's outstanding loan commitments. The outstanding commitments must be based upon historic or reasonably projected borrowing needs for the entity during the current operating cycle.

Loans with Prepayment Penalties (Mortgage or Commercial): On loans with prepayment penalties, the maximum allowed funds held on that particular loan is limited to 10% of the original commitment or the limits for mortgage and commercial loans as set forth above, whichever is the lesser amount.

Interest Rate

The funds held interest rate will be a fixed rate priced at 50 basis points below the Association average marginal cost of debt and adjusted monthly. The rate paid will not exceed the rate charged on the related loan at any time.

Deposits

Deposits may be made at any time. Money received after the billing of a scheduled payment (generally 30 days), but prior to a payment due date will be applied directly to the billed payment and will not earn interest. In all other cases, money deposited into funds held will earn interest from the day deposited until the day withdrawn.

Withdrawals

Money in a funds held account may be available to be returned to borrowers, upon request, for an eligible loan purpose in lieu of increasing the borrower's loan. Twelve withdrawals per year are allowed per borrower/entity from the funds held account. The minimum withdrawal amount is $500.00. Management has the authority to apply limitations to withdrawals or decline withdrawal requests if it adversely affects the credit.

Rate Changes

Farm Credit Administration Regulations do not require disclosure when funds held rates change. Customers will be notified of funds held rate changes via the statement of account.

Uninsured Account

Funds held is not a depository account and is not insured by an agency of the federal government. In the event of Association liquidation, customers having balances in funds held shall be notified according to Farm Credit Administration Regulations.