1ST FARM CREDIT SERVICES®

YOUR FIRST CHOICE

2016 ANNUAL REPORT


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1st Farm Credit Services, ACA

MESSAGE FROM THE CHAIRPERSON OF THE BOARD AND CHIEF EXECUTIVE OFFICER

Dear Farm Credit Customer:

During 2016, 1st Farm Credit Services joined the entire Farm Credit System celebrating its 100-year anniversary in serving agriculture, shareholders and rural communities. 100 years is a significant milestone and accomplishment for our organization, and this celebration gave us the opportunity to focus on how we need to serve our stockholders and our marketplace during the next 100 years.

As we look to the next 100 years, your financial services cooperative must commit itself to serving a rapidly changing industry with increasing volatility. Technology is changing the agricultural industry, as well as the financial services industry, and 1st Farm Credit Services remains focused on positioning your cooperative to help you meet your future challenges and opportunities, and to maintain our prominent position in providing financial services to agriculture and rural America for future decades.

In 2016, 1st Farm Credit Services experienced strong asset growth, maintained strong overall credit quality in its loan portfolio, strengthened our capital position, and exceeded its budgeted earnings for the year. With this level of performance, the 1st Farm Credit Services Board of Directors voted to increase the size of the upcoming patronage distribution to $19.5 million, an 8 percent increase over 2016.

Furthermore, we continued our commitment to work with clients as they manage through this period of lower profit margins. The association is committed to continuing that effort in 2017, and our staff is well positioned to assist clients as they make adjustments to regain profitability. Profit margins will remain strained in 2017 for most agriculture producers.

Just as each of our stockholders continuously evaluate opportunities to expand or improve your operations, your Board members at 1st Farm Credit Services are doing the same for your cooperative.

In 2016, your Board of Directors began an extensive process to evaluate a proposed merger with two other neighboring Farm Credit organizations whom have similar values and business philosophies. Your Board considered this opportunity -- not because of any financial or performance concerns today in 1st Farm Credit Services -- but rather to be proactive in looking for ways to better position our cooperative to meet the long-term needs of our marketplace. Board members completed their work last fall with a unanimous decision to recommend approval of the merger. We received preliminary regulatory approval, and our stockholders will have the opportunity to vote on the proposed merger in early 2017.

1st Farm Credit Services is humbled by our opportunity to serve an increasing share of agriculture in our marketplace and we remain proud of being a part of this vital industry and the rural communities we live and work. Your 1st Farm Credit Services team of professionals remain focused on serving our stockholders as we begin our second 100 years.

Sincerely,

Jeffrey Austman
Chairperson of the Board
1st Farm Credit Services, ACA

Gary J. Ash
President and Chief Executive Officer
1st Farm Credit Services, ACA

March 9, 2017

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

1st Farm Credit Services, ACA

(dollars in thousands)

	2016	2015	2014	2013	2012
Statement of Condition Data					
Loans	**$5,510,383**	$5,244,991	$4,787,390	$4,466,958	$4,095,401
Allowance for loan losses	**17,455**	17,998	15,847	13,587	9,365
Net loans	**5,492,928**	5,226,993	4,771,543	4,453,371	4,086,036
Investment in AgriBank, FCB	**128,937**	125,702	121,675	133,456	129,951
Investment securities	**237,564**	134,351	171,967	218,796	268,638
Other property owned	**568**	--	188	15	--
Other assets	**97,709**	88,306	89,379	103,144	87,823
Total assets	**$5,957,706**	$5,575,352	$5,154,752	$4,908,782	$4,572,448
Obligations with maturities of one year or less	**$4,892,068**	$4,587,640	$4,240,294	$4,075,918	$3,820,307
Total liabilities	**4,892,068**	4,587,640	4,240,294	4,075,918	3,820,307
Protected members' equity	**--**	8	9	9	12
Capital stock and participation certificates	**9,907**	10,025	9,953	9,900	9,694
Allocated surplus	**52,412**	--	--	--	--
Unallocated surplus	**1,003,319**	977,679	904,496	822,955	742,435
Total members' equity	**1,065,638**	987,712	914,458	832,864	752,141
Total liabilities and members' equity	**$5,957,706**	$5,575,352	$5,154,752	$4,908,782	$4,572,448
Statement of Income Data					
Net interest income	**$125,852**	$120,392	$114,173	$109,237	$100,677
Provision for loan losses	**863**	3,341	3,309	5,477	1,463
Other expenses, net	**27,409**	25,855	20,308	14,608	4,939
Net income	**$97,580**	$91,196	$90,556	$89,152	$94,275
Key Financial Ratios					
Return on average assets	**1.7%**	1.8%	1.9%	2.0%	2.4%
Return on average members' equity	**9.5%**	9.6%	10.4%	11.2%	13.3%
Net interest income as a percentage of average earning assets	**2.3%**	2.4%	2.5%	2.5%	2.6%
Members' equity as a percentage of total assets	**17.9%**	17.7%	17.7%	17.0%	16.4%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%	0.0%	0.1%
Allowance for loan losses as a percentage of loans	**0.3%**	0.3%	0.3%	0.3%	0.2%
Permanent capital ratio	**16.7%**	16.4%	16.2%	15.2%	14.9%
Total surplus ratio	**16.5%**	16.2%	16.0%	15.0%	14.7%
Core surplus ratio	**16.5%**	16.2%	16.0%	15.0%	14.7%
Other					
Patronage distributions:					
Patronage distributions - Cash	**$18,006**	$9,013	$8,615	$8,432	$8,217
Allocated surplus	**52,412**	--	--	--	--
Loans serviced for AgriBank, FCB	**$216**	$276	$473	$855	$1,425
Asset Pool Loans serviced for AgriBank, FCB	**$292,032**	$342,240	$387,605	$433,470	$501,065

MANAGEMENT'S DISCUSSION AND ANALYSIS

1st Farm Credit Services, ACA

The following commentary reviews the consolidated financial condition and consolidated results of operations of 1st Farm Credit Services, ACA (the Association) and its subsidiaries, 1st Farm Credit Services, FLCA and 1st Farm Credit Services, PCA (subsidiaries) and provides additional specific information. The accompanying Consolidated Financial Statements and Notes to the Consolidated Financial Statements also contain important information about our financial condition and results of operations.

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

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

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

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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 such report no later than 90 days after the end of the calendar year. The Quarterly Reports are available on our website no later than 40 days after the end of each calendar quarter. To request free copies of our Annual or Quarterly Reports, contact us as stated above.

MERGER ACTIVITY

We are committed to the success of agriculture, rural communities, and most importantly, our client-owners. Every day, we partner with our clients to deliver the insights and expert guidance they have come to expect and count on from their financial services provider. To be that trusted advisor, we are consistently looking for ways to better serve our clients and return value to our stockholders. It's a business objective we've been committed to for the long haul and one we believe matches the strides of our clients – constantly evolving and growing to better our operation.

In August, the Boards of Directors of 1st Farm Credit Services, ACA, AgStar Financial Services, ACA, and Badgerland Financial, ACA unanimously voted in favor of recommending a merger to our client-owners. With the decision to recommend a merger, a number of additional regulatory and procedural steps still need to be completed. A merger application was filed with our regulator, the Farm Credit Administration (FCA), in the third quarter of 2016. The FCA recently granted preliminary approval, and our client-owners will have an opportunity to vote on the proposed merger in early 2017. The expected merger effective date would be July 1, 2017.

1st Farm Credit Services, ACA serves the northern 42 counties of Illinois. Badgerland Financial, ACA serves the southern 33 Wisconsin counties; and AgStar Financial Services, ACA serves 69 counties across Minnesota and Wisconsin. While our markets differ in some ways, our philosophies and focus on client relationships and commitment to rural communities and agriculture are closely aligned.

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, other-than-temporary impairment, and fair value measurements

AGRICULTURAL AND ECONOMIC CONDITIONS

The United States Department of Agriculture (USDA) projects net farm income for 2016 at $66.9 billion, a $13.9 billion, or 17.2% decline from 2015. This projection follows two years of declining net farm incomes. If realized, the forecasted decline for 2016 would result in a three year cumulative decline of $56.9 billion, or a 45.9% drop from the 2013 record high net farm income of $123.7 billion.

The USDA estimated livestock receipts for 2016 are 12.3%, or $23.4 billion lower than 2015. Significant change in price, as opposed to change in output, was the primary driver of reductions in livestock receipts. Crop receipts are projected to grow $7.5 million from 2015 to reach $186.5 billion for 2016. A $5.3 billion increase in oil crop receipts, mostly soybeans, is the primary driver of the small increase in crop cash receipts.

Most grain producers in our service territory started the 2016 crop year with relatively good conditions for planting. The first half of April was cool and wet, providing strong moisture levels in topsoil and subsoil to start the growing season. According to the Illinois USDA weekly Crop Progress and Condition reports, two-thirds (66.0%) of Illinois corn acres were planted in the three week period from April 18 through May 8 and 43.0% of Illinois soybean acres were planted in the two week period from May 16 through May 29. Planting for each crop wrapped up in most regions of the state by the end of those respective periods.

According to the Illinois USDA weekly Crop Progress and Condition reports, overall, the summer growing season weather was favorable. Aside from two cool weeks in early July, the state experienced temperatures at, or slightly above, average for most of the summer, providing an excellent environment for crop growth. Timely rains throughout July and August kept crops hydrated but not flooded in most areas of the state.

According to the Illinois USDA weekly Crop Progress and Condition reports, corn and soybean harvest were in full swing across the state by mid-September and progressed quickly. Rains throughout harvest resulted in one to two days unsuitable for fieldwork most weeks during harvest, but many producers were able to continue working a majority of the days by making frequent switches between corn and soybeans, working in corn on higher moisture days. Corn and soybean harvest both were largely complete throughout Illinois by mid-November.

According to the USDA, corn yields averaged 197.0 bushels per acre in Illinois, up from 175.0 in 2015, but lower than the record 200.0 bushels per acre in 2014. Soybeans averaged 59.0 bushels per acre in Illinois, increasing from 56.0 in both 2015 and 2014, and setting a new record high state average yield.

Despite narrower price spreads and overall less volatile grain markets compared to 2012 through 2014, prices dropped to much lower levels in 2015, especially for corn. Price levels in 2016 were comparable to 2015 for both corn and soybeans, remaining lower than the three years prior. According to the University of Illinois' Farmdoc, corn farm price received in Illinois throughout 2016 maintained less than a one dollar range from top to bottom, stretching from the $3.92 high in June to a low of $3.17 in August. Monthly average prices for the entire year were less than fifty cents different than the corresponding monthly average in 2015. The soybean market experienced a higher level of volatility than corn in 2016, with farm price received in Illinois ranging from a high of $10.60 in June to a low of $8.73 in February. From January through April, monthly average soybean prices were lower than the corresponding monthly average from 2015, but higher throughout the last eight months of the year.

Corn and soybean prices at these current levels will not result in break-even income for many producers. According to the University of Illinois' Farmdoc, non-land input costs for corn dropped in 2016, down 5.1% from 2015 for the average Northern Illinois producer. Non-land input costs for corn producers in our territory are expected to drop approximately 3.5% more for the 2017 crop. However, input price declines of these levels will not bring profitability assuming trend line yields and continued low prices. Aside from farmers with little to no land costs, returns for both 2016 and 2017 are expected to be negative for many producers in our territory.

Coming off an excellent year in 2014, Illinois livestock producers experienced a disappointing drop in revenue in 2015 that continued through 2016. According to the USDA, although input prices remained low throughout the year, U.S. cash receipts fell an estimated 12.3% to $166.4 billion. While a large portion of the decline is due to a 14.8% drop in cow/calf receipts, nearly all major livestock segments including dairy, other meat animals and poultry/eggs are also impacted.

According to the USDA, aside from cow/calf and farrow-to-finish operations, most cattle and hog producers experienced modest profits throughout 2014 and the majority of 2015, but returned to tight margins in late 2015 and throughout 2016. Production increases in response to higher profitability throughout 2014 and early 2015 became noticeable with growth in the sow herd and significant year over year growth in the beef cow inventory for the first time in 20 years in 2015. Growth continued throughout 2016. Although cow/calf margins have been positive, there is a strongly negative outlook for feeder cattle returns. The swine industry outlook is negative, with projected net returns at a slight loss to breakeven level. Dairy producers have struggled in recent years, though achieving profitable levels at times. Even with curtailed feed costs, dairy margins are expected to be weak over the next two years with continued low fluid milk prices.

Agricultural real estate values escalated throughout the territory during the five year period from 2010 through 2014. In 2015, the market softened for the first time and declined in certain areas, with additional declines in 2016. Since 2010, growth in values has been powered by exceptional profitability in the grain sector fueling demand that exceeded supply, particularly for high quality farm land. During 2014, and even more so in 2015, as grain prices declined resulting in much lower net incomes, fewer producers have the financial resources needed to purchase agricultural real estate, especially at the high prices quality farmland continues to bring. Agricultural land rental rates have declined slightly in 2015 and 2016, but are unlikely to drop enough in 2017 to allow producers to achieve a positive profit margin on above average cost cash rented farmland.

Despite a down year in 2016 and weak outlook for agriculture in our territory for 2017, most farmers entered the period of lower income with a strong financial position. While some producers are challenged with weakened margins, most producers are making operational adjustments to weather the cycle.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $5.5 billion at December 31, 2016, an increase of $265.4 million from December 31, 2015.

Components of Loans

(in thousands)

As of December 31	**2016**	2015	2014
Accrual loans:			
Real estate	**$2,908,235**	$2,702,333	$2,496,251
Commercial	**2,020,239**	2,062,329	1,933,212
Other	**551,920**	452,625	332,998
Nonaccrual loans	**29,989**	27,704	24,929
Total loans	**$5,510,383**	$5,244,991	$4,787,390

The Other category is primarily comprised of communication and energy-related loans and purchased government guaranteed loans and bonds originated under our Mission Related Investment authority.

The increase in total loans from December 31, 2015 was primarily due to continued demand for real estate loans.

We offer variable, fixed, capped, indexed, and adjustable interest rate loan and lease programs to our borrowers. We also offer variable and fixed rate leases through Farm Credit Leasing (FCL). We determine interest margins charged on each lending program based on cost of funds, credit risk, market conditions, and the need to generate sufficient earnings.

As part of the AgriBank Asset Pool program, we have sold participation interests in real estate loans to AgriBank. The total participation interests in this program were $292.0 million, $342.2 million, and $387.6 million at December 31, 2016, 2015, and 2014, respectively.

Portfolio Distribution

We are chartered to serve certain counties in Illinois. No single county comprised more than 5.0% of our total loan portfolio at December 31, 2016.

Agricultural Concentrations

As of December 31	**2016**	2015	2014
Crops	**56.6%**	58.8%	61.5%
Landlords	**10.3%**	10.1%	10.6%
Livestock	**9.7%**	9.4%	8.2%
Processing and marketing	**7.8%**	7.3%	6.7%
Other	**15.6%**	14.4%	13.0%
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 commercial 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 remained stable from December 31, 2015. Adversely classified loans were 1.6% of the portfolio at December 31, 2016, compared to 1.5% of the portfolio at December 31, 2015. Adversely classified loans are loans with well-defined credit weakness. 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, $484.4 million of our loans were, to some level, guaranteed under these government programs.

We have entered into a Standby Commitment to Purchase Agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac), a System institution, to help manage credit risk. If a loan covered by the agreement goes into default, subject to certain conditions, we have the right to sell the loan to Farmer Mac at the full length obligation of the note. This agreement remains in place until the loan is paid in full. The guaranteed volume of loans subject to the purchase agreement was $11.8 million, $25.7 million, and $23.5 million at December 31, 2016, 2015, and 2014, respectively. We paid Farmer Mac commitment fees totaling $108 thousand, $188 thousand, and $209 thousand in 2016, 2015, and 2014, respectively. These amounts are included in “Other operating expenses” in the Consolidated Statements of Income. As of December 31, 2016, no loans have been sold to Farmer Mac under this agreement.

Risk Assets

Components of Risk Assets

(dollars in thousands)

As of December 31	**2016**	2015	2014
Loans:			
Nonaccrual	**$29,989**	$27,704	$24,929
Accruing restructured	**761**	1,658	2,182
Accruing loans 90 days or more past due	**3,263**	5,542	1,595
Total risk loans	**34,013**	34,904	28,706
Other property owned	**568**	--	188
Total risk assets	**$34,581**	$34,904	$28,894
Total risk loans as a percentage of total loans	**0.6%**	0.7%	0.6%
Nonaccrual loans as a percentage of total loans	**0.5%**	0.5%	0.5%
Current nonaccrual loans as a percentage of total nonaccrual loans	**28.2%**	43.8%	52.7%
Total delinquencies as a percentage of total loans	**0.6%**	0.5%	0.4%

Note: Accruing loans include accrued interest receivable.

Our risk assets have not changed significantly from December 31, 2015 and remained at acceptable levels. Total risk loans as a percentage of total loans were well within our established risk management guidelines.

Nonaccrual loans remained at an acceptable level at December 31, 2016, 2015, and 2014.

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

Allowance for Loan Losses

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

Allowance Coverage Ratios

As of December 31	**2016**	2015	2014
Allowance as a percentage of:			
Loans	**0.3%**	0.3%	0.3%
Nonaccrual loans	**58.2%**	65.0%	63.6%
Total risk loans	**51.3%**	51.6%	55.2%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%
Adverse assets to risk funds	**9.2%**	8.9%	9.0%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2016.

Additional loan information is included in Notes 3, 10, and 12 to the accompanying Consolidated Financial Statements.

INVESTMENT SECURITIES

In addition to loans, we held investment securities. Investment securities totaled $237.6 million, $134.4 million, and $172.0 million at December 31, 2016, 2015, and 2014, respectively. Our investment securities consisted of loans fully guaranteed by the Small Business Administration and mortgage-backed securities issued by Farmer Mac.

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

Additional investment securities information is included in Note 5 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	**$97,580**	$91,196	$90,556
Return on average assets	**1.7%**	1.8%	1.9%
Return on average members' equity	**9.5%**	9.6%	10.4%

Changes in the chart above relate directly to:

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

Changes in Significant Components of Net Income

	For the year ended December 31			Increase (decrease) in net income	
(in thousands)	**2016**	2015	2014	**2016 vs 2015**	2015 vs 2014
Net interest income	**$125,852**	$120,392	$114,173	**$5,460**	$6,219
Provision for loan losses	**863**	3,341	3,309	**2,478**	(32)
Patronage income	**21,225**	19,492	23,435	**1,733**	(3,943)
Other income, net	**17,446**	18,855	17,300	**(1,409)**	1,555
Operating expenses	**65,559**	62,573	58,249	**(2,986)**	(4,324)
Provision for income taxes	**521**	1,629	2,794	**1,108**	1,165
Net income	**$97,580**	$91,196	$90,556	**$6,384**	$640

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	**$11,862**	$10,903
Changes in interest rates	**(8,412)**	(4,721)
Changes in nonaccrual income and other	**2,010**	37
Net change	**$5,460**	$6,219

Net interest income included income on nonaccrual loans that totaled $2.7 million, $729 thousand, and $692 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 2.3%, 2.4%, and 2.5% 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 Loan Losses

The fluctuation in the provision for loan losses was related to our estimate of losses in our portfolio for the applicable years. 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 $11.8 million, $10.9 million, and $13.1 million in 2016, 2015, and 2014, respectively.

Since 2008, we have participated in the AgriBank Asset Pool program in which we sell participation interests in certain real estate loans to AgriBank. As part of this program, we received patronage income in an amount that approximated the net earnings of the loans. Net earnings represents the net interest income associated with these loans adjusted for certain fees and costs specific to the related loans as well as adjustments deemed appropriate by AgriBank related to the credit performance of the loans, as applicable. In addition, we received patronage income in an amount that approximated the wholesale patronage had we retained the volume. We recorded asset pool patronage income of $7.0 million, $8.6 million, and $10.3 million in 2016, 2015, and 2014, respectively.

We also received patronage related to an increase in the wholesale spread on our note payable.

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

Operating Expenses

Components of Operating Expenses

(dollars in thousands) For the year ended December 31	**2016**	2015	2014
Salaries and employee benefits	**$41,815**	$40,303	$37,339
Purchased and vendor services	**2,135**	2,599	2,243
Communications	**907**	942	926
Occupancy and equipment	**4,848**	4,506	4,637
Advertising and promotion	**2,044**	2,025	1,889
Examination	**1,277**	1,080	1,019
Farm Credit System insurance	**7,389**	5,217	4,454
Other	**5,144**	5,901	5,742
Total operating expenses	**$65,559**	$62,573	$58,249
Operating rate	**1.2%**	1.3%	1.3%

Salaries and employee benefits expense increased primarily due to merit and incentive increases offset by a decrease in pension expense. We expect pension expense to decrease in 2017 primarily driven by a plan amendment during 2016 and increased return on plan assets as a result of increased funding, which increased plan assets. The expected decrease was partially offset by decreases in discount rate and expected return on plan assets assumptions. Despite the decrease in the expected return on plan assets assumptions, overall expected return on plan assets is expected to increase due to greater plan assets.

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

FCSIC insurance expense increased in 2016 primarily due to an increase in the premium rate charged by FCSIC on accrual loans from 13 basis points in 2015 to 16 basis points for the first half and 18 basis points for the second half of 2016. The FCSIC has announced premiums will 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.

Provision for Income Taxes

The variance in provision for income taxes was related to our estimate of taxes based on taxable income. Patronage distributions to members reduced our tax liability in 2016, 2015, and 2014. Additional discussion is included in Note 8 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 6 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 $655.3 million available under our line of credit. We generally apply excess cash to this line of credit.

Note Payable Information

(dollars in thousands) For the year ended December 31	**2016**	2015	2014
Average balance	**$4,596,635**	$4,183,335	$3,907,501
Average interest rate	**1.6%**	1.4%	1.3%

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 $77.9 million from December 31, 2015, primarily due to net income for the year partially offset by patronage distribution accruals.

Members' Equity Position Information

(dollars in thousands) As of December 31	**2016**	2015	2014	Regulatory Minimums
Members' equity	**$1,065,638**	$987,712	$914,458	
Surplus as a percentage of members' equity	**99.1%**	99.0%	98.9%	
Permanent capital ratio	**16.7%**	16.4%	16.2%	7.0%
Total surplus ratio	**16.5%**	16.2%	16.0%	7.0%
Core surplus ratio	**16.5%**	16.2%	16.0%	3.5%

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

Additional discussion of these regulatory ratios, along with discussion of new regulations and capital requirements which became effective January 1, 2017 are included in the Regulatory Matters section and in Note 7 to the accompanying Consolidated Financial Statements.

In addition to these regulatory requirements, we establish an optimum total 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. As of December 31, 2016, our optimum total capital target range was 13% to 16% as defined in our 2017 capital plan. We anticipate that we will exceed all regulatory requirements, including the capital conservation buffer. Further, we expect we will be within or above our targeted range for capital adequacy measures.

We made nonqualified patronage allocations of $52.4 million during the year ended December 31, 2016. Our nonqualified patronage allocation was based on a determination by the Board of Directors that surplus from 2015 patronage-sourced earnings could be allocated to eligible borrowers while still maintaining the Association's sound capital position. The timing and amounts of all future allocated surplus redemptions is at the discretion of the Board of Directors, subject to compliance with applicable regulatory requirements. These patronage equities have no voting rights and are only transferable if specifically authorized by the Board of Directors.

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 6 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 plus an additional 1.0% on growth that exceeded a targeted rate. AgriBank's current bylaws allow AgriBank to increase the required investment to 4.0% of the average quarterly balance of our note payable to AgriBank. In December 2016, AgriBank's Board approved the 2017 capital plan, which amended the required stock investments for affiliated Associations, effective January 1, 2017. The new required investment will be the lesser of 4.0% of our average quarterly balance of our note payable to AgriBank or a multiple component calculation based on a percentage of average wholesale loan balances with a higher percentage on balances above a sustainable growth rate and includes a component for additional investments under the asset pool program. The 2017 component requirements are currently 2.25% on average note payable, with an additional 4.5% on growth in excess of a 5.5% sustainable growth rate.

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

At December 31, 2016, $48.9 million of our investment in AgriBank consisted of stock representing distributed AgriBank surplus and $80.1 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.

As an AgDirect, LLP partnering association, we are required to purchase stock in AgDirect, which purchases an equivalent amount of stock in AgriBank. Specifically, the AgDirect trade credit financing program is required to own stock in AgriBank in the amount of 6.0% of the AgDirect program's outstanding participation loan balance at quarter end plus 6.0% of the expected balance to be originated during the following quarter.

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
- Patronage based on the balance and net earnings of loans in the AgriBank Asset Pool program
- Partnership distribution based on our share of the net earnings of the loans in the AgDirect trade credit financing program, adjusted for required return on capital and servicing and origination fees

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 $1.1 million in each of 2016, 2015, and 2014. Costs of services purchased from AgriBank are partially dependent on the number of AgriBank 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

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 $109.6 million, $113.4 million, and $111.8 million of ProPartners volume at December 31, 2016, 2015, and 2014, respectively. We also had $132.7 million of available commitment on ProPartners loans at December 31, 2016.

Capital Markets Group: We participate in the Capital Markets Group (CMG) with two other AgriBank District associations. The CMG focuses on generating revenue and loan volume for the financial benefit of all three participating associations. Management for each association has direct decision-making authority over the loans purchased and serviced for their respective association. The business arrangement provides additional means for diversifying each participant's portfolio, helps reduce concentration risk, and positions the participants for continued growth.

Federal Agricultural Mortgage Corporation: We have entered into a Standby Commitment to Purchase Agreement with Farmer Mac. This agreement allows us to sell loans identified under the agreement to Farmer Mac. Refer to the Loan Portfolio section for further discussion of this agreement. We also purchase mortgage-backed security investments from Farmer Mac.

BGM Technology Collaboration: We participate in the BGM Technology Collaboration (BGM) with certain other AgriBank District associations to facilitate the development and maintenance of certain retail technology systems essential to providing credit and other services to our members. BGM operations are governed by representatives of each participating association. The expenses of BGM are allocated to each of the participating associations based on an agreed upon formula. The systems developed are owned by each of the participating 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 purchase a participation interest in the cash flows 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 and selling participation interests in loans. As part of this relationship, our equity investment in CoBank was $79 thousand at December 31, 2016, 2015, and 2014.

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 $37 thousand. The total cost of services we purchased from Foundations was $209 thousand, $183 thousand, and $184 thousand in 2016, 2015, and 2014, respectively.

Unincorporated Business Entities (UBEs)

In certain circumstances we may establish separate entities to acquire and manage complex collateral, primarily for legal liability purposes.

4 Rivers, LLP: We participated with certain other AgriBank District associations in 4 Rivers, LLP (4 Rivers), which functioned as a negotiating and administrative arm for crop insurance. 4 Rivers negotiated commission and profit share terms with the Approved Insurance Providers (AIP). The value proposition was 4 Rivers covered a larger geographical area, had more premium volume and offered the AIP potential for a more stable and profitable return. Each participating association continues to conduct crop insurance business independently within its chartered territory, whereas 4 Rivers was utilized for negotiating contract terms and facilitating the pooling of crop insurance business in a manner which optimized the value received by the participating associations. As a part of this relationship, our investment in 4 Rivers, LLP was $13 thousand at December 31, 2015, and 2014. The participating associations voted to dissolve 4 Rivers, LLP in December 2016.

AgDirect, LLP: We participate in the AgDirect trade credit financing program, which includes origination and refinancing of agriculture equipment loans through independent equipment dealers. The program is facilitated by another AgriBank District association through a limited liability partnership in which we are a partial owner. Our investment in AgDirect, LLP, was $2.1 million, and $290 thousand at December 31, 2016, and 2015, respectively. We had no investment at December 31, 2014.

RBF Acquisition VIII, LLC: We received an equity interest in RBF Acquisition VIII, LLC, which was formed to facilitate the acquisition, management, and liquidation of assets acquired in 2009 from a troubled ethanol borrower. As of December 31, 2014, all assets of and subsequently our equity interest in RBF Acquisition VIII, LLC were liquidated and dissolved.

Programs

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

AgDirect: We participate in the AgDirect trade credit financing program. Refer to the UBE section for further discussion on this program.

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

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

REGULATORY MATTERS

Regulatory Capital Requirements

Effective January 1, 2017, the regulatory capital requirements for System banks and associations were modified. The stated objectives of the revised requirements are to:

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

The final rule replaced existing core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The final rule also added a tier 1 leverage ratio and an unallocated retained earnings equivalents leverage ratio. The permanent capital ratio continues to remain in effect with the final rule. Refer to Note 7 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

1st Farm Credit Services, ACA

We prepare the Consolidated Financial Statements of 1st Farm Credit Services, ACA (the Association) and are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Consolidated Financial Statements, in our opinion, fairly present the financial condition of the Association. Other financial information included in the Annual Report is consistent with that in the Consolidated Financial Statements.

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

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

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

Jeffrey Austman
Chairperson of the Board
1st Farm Credit Services, ACA

Gary J. Ash
President and Chief Executive Officer
1st Farm Credit Services, ACA

James F. Garvin
Chief Financial Officer
1st Farm Credit Services, ACA

March 9, 2017

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

1st Farm Credit Services, ACA

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

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

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

Gary J. Ash
President and Chief Executive Officer
1st Farm Credit Services, ACA

James F. Garvin
Chief Financial Officer
1st Farm Credit Services, ACA

March 9, 2017

REPORT OF AUDIT COMMITTEE

1st Farm Credit Services, ACA

The Consolidated Financial Statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of a subset of the Board of Directors of 1st Farm Credit Services, ACA (the Association). The Audit Committee oversees the scope of the Association's internal audit program, the approval, and independence of PricewaterhouseCoopers LLP (PwC) as independent auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's actions with respect to recommendations arising from those auditing activities. The Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

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

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

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

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

Kathleen Hainline

Kathleen Hainline
Chairperson of the Audit Committee
1st Farm Credit Services, ACA

Stephen Cowser
Roger J. Newell
David H. Peters
Kathy J. Reinhardt

March 9, 2017

Report of Independent Auditors

To the Board of Directors of 1st Farm Credit Services, ACA,

We have audited the accompanying Consolidated Financial Statements of 1st Farm Credit Services, ACA (the Association) and its subsidiaries, which comprise the consolidated statements of condition as of December 31, 2016, 2015 and 2014, and the related consolidated statements of income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of 1st Farm Credit Services, ACA and its subsidiaries as of December 31, 2016, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 9, 2017

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

CONSOLIDATED STATEMENTS OF CONDITION

1st Farm Credit Services, ACA

(in thousands)

As of December 31	**2016**	2015	2014
ASSETS			
Loans	**$5,510,383**	$5,244,991	$4,787,390
Allowance for loan losses	**17,455**	17,998	15,847
Net loans	**5,492,928**	5,226,993	4,771,543
Investment in AgriBank, FCB	**128,937**	125,702	121,675
Investment securities	**237,564**	134,351	171,967
Accrued interest receivable	**48,352**	45,167	41,330
Other property owned	**568**	--	188
Other assets	**49,357**	43,139	48,049
Total assets	**$5,957,706**	$5,575,352	$5,154,752
LIABILITIES			
Note payable to AgriBank, FCB	**$4,826,565**	$4,535,834	$4,201,067
Accrued interest payable	**18,958**	15,683	13,808
Patronage distribution payable	**19,522**	18,000	9,000
Other liabilities	**27,023**	18,123	16,419
Total liabilities	**4,892,068**	4,587,640	4,240,294
Contingencies and commitments (Note 11)			
MEMBERS' EQUITY			
Protected members' equity	**--**	8	9
Capital stock and participation certificates	**9,907**	10,025	9,953
Allocated surplus	**52,412**	--	--
Unallocated surplus	**1,003,319**	977,679	904,496
Total members' equity	**1,065,638**	987,712	914,458
Total liabilities and members' equity	**$5,957,706**	$5,575,352	$5,154,752

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

CONSOLIDATED STATEMENTS OF INCOME

1st Farm Credit Services, ACA

(in thousands)

For the year ended December 31	**2016**	2015	2014
Interest income	**$198,627**	$179,346	$167,312
Interest expense	**72,775**	58,954	53,139
Net interest income	**125,852**	120,392	114,173
Provision for loan losses	**863**	3,341	3,309
Net interest income after provision for loan losses	**124,989**	117,051	110,864
Other income			
Patronage income	**21,225**	19,492	23,435
Financially related services income	**12,479**	12,539	10,910
Fee income	**4,601**	5,650	5,580
Miscellaneous income, net	**366**	666	810
Total other income	**38,671**	38,347	40,735
Operating expenses			
Salaries and employee benefits	**41,815**	40,303	37,339
Other operating expenses	**23,744**	22,270	20,910
Total operating expenses	**65,559**	62,573	58,249
Income before income taxes	**98,101**	92,825	93,350
Provision for income taxes	**521**	1,629	2,794
Net income	**$97,580**	$91,196	$90,556

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

1st Farm Credit Services, ACA

(in thousands)

	Protected Members' Equity	Capital Stock and Participation Certificates	Allocated Surplus	Unallocated Surplus	Total Members' Equity
Balance as of December 31, 2013	$9	$9,900	$ --	$822,955	$832,864
Net income	--	--	--	90,556	90,556
Unallocated surplus designated for patronage distributions	--	--	--	(9,015)	(9,015)
Capital stock and participation certificates issued	--	727	--	--	727
Capital stock and participation certificates retired	--	(674)	--	--	(674)
Balance as of December 31, 2014	9	9,953	--	904,496	914,458
Net income	--	--	--	91,196	91,196
Unallocated surplus designated for patronage distributions	--	--	--	(18,013)	(18,013)
Capital stock and participation certificates issued	--	682	--	--	682
Capital stock and participation certificates retired	(1)	(610)	--	--	(611)
Balance as of December 31, 2015	8	10,025	--	977,679	987,712
Net income	**--**	**--**	**--**	**97,580**	**97,580**
Net surplus allocated under nonqualified patronage program	**--**	**--**	**52,412**	**(52,412)**	**--**
Unallocated surplus designated for patronage distributions	**--**	**--**	**--**	**(19,528)**	**(19,528)**
Capital stock and participation certificates issued	**--**	**676**	**--**	**--**	**676**
Capital stock and participation certificates retired	**(8)**	**(794)**	**--**	**--**	**(802)**
Balance as of December 31, 2016	**$ --**	**$9,907**	**$52,412**	**$1,003,319**	**$1,065,638**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

1st Farm Credit Services, ACA

(in thousands)

For the year ended December 31	**2016**	2015	2014
Cash flows from operating activities			
Net income	**$97,580**	$91,196	$90,556
Depreciation on premises and equipment	**1,645**	1,805	1,862
Gain on sale of premises and equipment, net	**(123)**	(145)	(82)
Loss (gain) on disposal of assets held for lease, net	**--**	2	(319)
Amortization of premiums on loans and investment securities	**3,808**	3,573	3,362
Provision for loan losses	**863**	3,341	3,309
Stock patronage received from AgriBank, FCB	**--**	--	(2,830)
Gain on other property owned, net	**(7)**	(32)	(60)
Changes in operating assets and liabilities:			
Increase in accrued interest receivable	**(5,533)**	(5,638)	(4,790)
(Increase) decrease in other assets	**(5,037)**	4,033	(4,648)
Increase in accrued interest payable	**3,275**	1,875	1,017
Increase (decrease) in other liabilities	**8,900**	1,704	(1,287)
Net cash provided by operating activities	**105,371**	101,714	86,090
Cash flows from investing activities			
Increase in loans, net	**(268,300)**	(459,595)	(321,764)
(Purchases) redemptions of investment in AgriBank, FCB, net	**(3,235)**	(4,027)	14,611
Purchases of investment in other Farm Credit Institutions, net	**(1,853)**	(290)	--
(Increase) decrease in investment securities, net	**(103,509)**	36,842	45,320
(Purchases) sales of assets held for lease, net	**--**	(2)	24,843
Proceeds from sales of other property owned	**45**	355	78
Purchases of premises and equipment, net	**(851)**	(492)	(4,463)
Net cash used in investing activities	**(377,703)**	(427,209)	(241,375)
Cash flows from financing activities			
Increase in note payable to AgriBank, FCB, net	**290,731**	334,767	164,246
Patronage distributions paid	**(18,006)**	(9,013)	(8,615)
Capital stock and participation certificates retired, net	**(393)**	(259)	(346)
Net cash provided by financing activities	**272,332**	325,495	155,285
Net change in cash	**--**	--	--
Cash at beginning of year	**--**	--	--
Cash at end of year	**$ --**	$ --	$ --
Supplemental schedule of non-cash activities			
Stock financed by loan activities	**$513**	$551	$595
Stock applied against loan principal	**238**	218	195
Stock applied against interest	**8**	3	1
Interest transferred to loans	**2,341**	1,797	1,361
Loans transferred to other property owned	**606**	135	191
Patronage distributions payable to members	**19,522**	18,000	9,000
Supplemental information			
Interest paid	**$69,500**	$57,079	$52,122
Taxes paid	**800**	575	4,547

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1st Farm Credit Services, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

Farm Credit System and District

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

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

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

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

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

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

Association

1st Farm Credit Services, ACA (the Association) and its subsidiaries, 1st Farm Credit Services, FLCA and 1st Farm Credit Services, PCA (subsidiaries) are lending institutions of the System. We are a customer-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Adams, Boone, Brown, Bureau, Carroll, Cook, DeKalb, DuPage, Fulton, Grundy, Hancock, Henderson, Henry, Jo Daviess, Kane, Kankakee, Kendall, Knox, Lake, LaSalle, Lee, Livingston, Marshall, Mason, McDonough, McHenry, McLean, Mercer, Ogle, Peoria, Pike, Putnam, Rock Island, Schuyler, Stark, Stephenson, Tazewell, Warren, Whiteside, Will, Winnebago and Woodford in the state of Illinois.

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 crop hail and multi-peril crop insurance to borrowers and those eligible to borrow. We also offer real estate title services and real estate fee appraisals to our members and others.

Merger Activity

In August, the Boards of Directors of 1st Farm Credit Services, ACA, AgStar Financial Services, ACA, and Badgerland Financial, ACA unanimously voted in favor of recommending a merger to our client-owners. With the decision to recommend a merger, a number of additional regulatory and procedural steps still need to be completed. A merger application was filed with our regulator, the Farm Credit Administration, in the third quarter of 2016. The FCA recently granted preliminary approval, and our client-owners will have an opportunity to vote on the proposed merger in early 2017. The expected merger effective date would be July 1, 2017.

1st Farm Credit Services, ACA serves the northern 42 counties of Illinois. Badgerland Financial, ACA serves the southern 33 Wisconsin counties; and AgStar Financial Services, ACA serves 69 counties across Minnesota and Wisconsin. While our markets differ in some ways, our philosophies and focus on client relationships and commitment to rural communities and agriculture are closely aligned.

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 1st Farm Credit Services, 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, and unamortized premiums or discounts on purchased 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 collection. 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 loan 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.

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

Other Property Owned: Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at the fair value less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less costs to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Related income, expenses, and gains or losses from operations and carrying value adjustments are included in “Miscellaneous income, net” in the Consolidated Statements of Income.

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.

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.

Patronage Program: We accrue patronage distributions according to a prescribed formula approved by the Board of Directors. Generally, we pay the accrued patronage during the first quarter after year end. We have a nonqualified patronage program that allows for the allocation of earnings for each fiscal year provided all statutory and regulatory capital requirements have been met. Nonqualified patronage distributions do not qualify as a deduction from our taxable income, and the client receiving it does not record it as taxable income, until it is redeemed at some future date. The redemption of nonqualified patronage distributions is at the discretion of the Board of Directors.

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.

Standard	Description	Effective date and financial statement impact
In August 2014, the FASB issued ASU 2014-15 "Presentation of Financial Statements-Going Concern."	The guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year after the date the Financial Statements are issued or within one year after the Financial Statements are available to be issued, when applicable. Substantial doubt to continue as a going concern exists if it is probable that the entity will be unable to meet its obligations for the assessed period.	This guidance became effective for all entities for interim and annual periods ending after December 15, 2016. The adoption of this guidance did not have a material impact on our financial condition, results of operations, cash flows, or financial statement disclosures.
In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers."	The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. In March 2016, the FASB issued ASUs 2016-08 and 2016-10 which provided further clarifying guidance on the previously issued standard. We are in the process of reviewing contracts to determine the effect, if any, on our financial condition and results of operations.

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)	**2016**		2015		2014	
As of December 31	Amount	**%**	Amount	%	Amount	%
Real estate	**$2,918,207**	**53.0%**	$2,711,006	51.7%	$2,517,451	52.6%
Commercial	**2,040,256**	**37.0%**	2,081,360	39.7%	1,951,387	40.8%
Other	**551,920**	**10.0%**	452,625	8.6%	318,552	6.6%
Total	**$5,510,383**	**100.0%**	$5,244,991	100.0%	$4,787,390	100.0%

The Other category is primarily comprised of communication and energy-related loans and purchased government guaranteed loans and bonds originated under our Mission Related Investment 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 4.5% 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

(in thousands) **As of December 31, 2016**	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	**$ --**	**($304,957)**	**$176,448**	**($175,373)**	**$69,080**	**($681)**	**$245,528**	**($481,011)**
Commercial	**--**	**(19,976)**	**1,208,012**	**(1,463,484)**	**351,168**	**(11,521)**	**1,559,180**	**(1,494,981)**
Other	**--**	**--**	**510,474**	**(339,237)**	**131**	**--**	**510,605**	**(339,237)**
Total	**$ --**	**($324,933)**	**$1,894,934**	**($1,978,094)**	**$420,379**	**($12,202)**	**$2,315,313**	**($2,315,229)**

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	$ --	($346,324)	$71,598	($82,085)	$62,683	$ --	$134,281	($428,409)
Commercial	--	(13,907)	1,195,279	(1,244,197)	323,090	(1,775)	1,518,369	(1,259,879)
Other	--	--	532,747	(353,499)	--	--	532,747	(353,499)
Total	$ --	($360,231)	$1,799,624	($1,679,781)	$385,773	($1,775)	$2,185,397	($2,041,787)

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	$ --	($393,372)	$50,174	($63,151)	$46,702	$ --	$96,876	($456,523)
Commercial	--	(19,349)	1,008,005	(1,104,294)	377,512	(1,441)	1,385,517	(1,125,084)
Other	--	--	380,891	(251,932)	--	--	380,891	(251,932)
Total	$ --	($412,721)	$1,439,070	($1,419,377)	$424,214	($1,441)	$1,863,284	($1,833,539)

Information in the preceding chart excludes loans entered into under our Mission Related Investment 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, however, doubtful loans have additional weaknesses 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	**$2,858,967**	**97.2%**	**$59,123**	**2.0%**	**$24,699**	**0.8%**	**$2,942,789**	**100.0%**
Commercial	**1,914,048**	**92.9%**	**84,603**	**4.1%**	**62,365**	**3.0%**	**2,061,016**	**100.0%**
Other	**553,386**	**100.0%**	**--**	**--**	**--**	**--**	**553,386**	**100.0%**
Total	**$5,326,401**	**95.8%**	**$143,726**	**2.6%**	**$87,064**	**1.6%**	**$5,557,191**	**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	$2,671,902	97.8%	$41,826	1.5%	$19,943	0.7%	$2,733,671	100.0%
Commercial	1,982,570	94.3%	61,299	2.9%	58,412	2.8%	2,102,281	100.0%
Other	449,936	99.2%	3,777	0.8%	--	--	453,713	100.0%
Total	$5,104,408	96.5%	$106,902	2.0%	$78,355	1.5%	$5,289,665	100.0%

As of December 31, 2014	Acceptable Amount	%	Special Mention Amount	%	Substandard/ Doubtful Amount	%	Total Amount	%
Real estate	$2,508,508	98.8%	$14,784	0.6%	$14,678	0.6%	$2,537,970	100.0%
Commercial	1,889,074	95.9%	23,434	1.2%	57,869	2.9%	1,970,377	100.0%
Other	319,719	100.0%	--	--	--	--	319,719	100.0%
Total	$4,717,301	97.7%	$38,218	0.8%	$72,547	1.5%	$4,828,066	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	**$3,282**	**$4,699**	**$7,981**	**$2,934,808**	**$2,942,789**	**$ --**
Commercial	**1,364**	**15,367**	**16,731**	**2,044,285**	**2,061,016**	**46**
Other	**3,939**	**3,217**	**7,156**	**546,230**	**553,386**	**3,217**
Total	**$8,585**	**$23,283**	**$31,868**	**$5,525,323**	**$5,557,191**	**$3,263**

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	$1,993	$3,661	$5,654	$2,728,017	$2,733,671	$309
Commercial	2,757	11,589	14,346	2,087,935	2,102,281	244
Other	3,549	4,989	8,538	445,175	453,713	4,989
Total	$8,299	$20,239	$28,538	$5,261,127	$5,289,665	$5,542

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	$1,264	$2,897	$4,161	$2,533,809	$2,537,970	$449
Commercial	965	9,203	10,168	1,960,209	1,970,377	--
Other	3,118	1,146	4,264	315,455	319,719	1,146
Total	$5,347	$13,246	$18,593	$4,809,473	$4,828,066	$1,595

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	**$8,463**	$12,141	$13,126
Past due	**21,526**	15,563	11,803
Total nonaccrual loans	**29,989**	27,704	24,929
Accruing restructured loans	**761**	1,658	2,182
Accruing loans 90 days or more past due	**3,263**	5,542	1,595
Total risk loans	**$34,013**	$34,904	$28,706
Volume with specific reserves	**$6,614**	$9,506	$8,926
Volume without specific reserves	**27,399**	25,398	19,780
Total risk loans	**$34,013**	$34,904	$28,706
Total specific reserves	**$3,369**	$4,758	$4,708
For the year ended December 31	**2016**	2015	2014
Income on accrual risk loans	**$117**	$207	$200
Income on nonaccrual loans	**2,739**	729	692
Total income on risk loans	**$2,856**	$936	$892
Average recorded risk loans	**$34,850**	$31,382	$28,743

Note: Accruing loans include accrued interest receivable.

The increase in nonaccrual loans was primarily due to the downgrade of a commercial loan relationship and a real estate loan relationship offset by a payoff of a commercial loan relationship.

To mitigate credit risk, we have entered into a Standby Commitment to Purchase Agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac). In the event of default, subject to certain conditions, we have the right to sell the loans identified in the agreement to Farmer Mac at the full length obligation of the note. This agreement remains in place until the loan is paid in full. The guaranteed volume of loans subject to the purchase agreement was $11.8 million, $25.7 million, and $23.5 million at December 31, 2016, 2015, and 2014, respectively. Fees paid to Farmer Mac for these commitments totaled $108 thousand, $188 thousand, and $209 thousand in 2016, 2015, and 2014, respectively. These amounts are included in “Other operating expenses” in the Consolidated Statements of Income. As of December 31, 2016, no loans have been sold to Farmer Mac under this agreement.

Nonaccrual Loans by Loan Type

(in thousands)

As of December 31	**2016**	2015	2014
Real estate	**$9,972**	$8,673	$6,755
Commercial	**20,017**	19,031	18,174
Total	**$29,989**	$27,704	$24,929

Additional Impaired Loan Information by Loan Type

(in thousands)	As of December 31, 2016 Recorded Investment	Unpaid Principal Balance	Related Allowance	For the year ended December 31, 2016 Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate	**$684**	**$685**	**$148**	**$752**	**$ --**
Commercial	**5,930**	**5,971**	**3,221**	**5,975**	**--**
Other	**--**	**--**	**--**	**--**	**--**
Total	**$6,614**	**$6,656**	**$3,369**	**$6,727**	**$ --**
Impaired loans with no related allowance for loan losses:					
Real estate	**$10,041**	**$11,804**	**$ --**	**$11,046**	**$520**
Commercial	**14,140**	**18,121**	**--**	**16,310**	**2,319**
Other	**3,218**	**3,202**	**--**	**767**	**17**
Total	**$27,399**	**$33,127**	**$ --**	**$28,123**	**$2,856**
Total impaired loans:					
Real estate	**$10,725**	**$12,489**	**$148**	**$11,798**	**$520**
Commercial	**20,070**	**24,092**	**3,221**	**22,285**	**2,319**
Other	**3,218**	**3,202**	**--**	**767**	**17**
Total	**$34,013**	**$39,783**	**$3,369**	**$34,850**	**$2,856**

	As of December 31, 2015 Recorded Investment	Unpaid Principal Balance	Related Allowance	For the year ended December 31, 2015 Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate	$2,705	$2,922	$583	$2,361	$ --
Commercial	6,801	7,483	4,175	7,186	--
Other	--	--	--	--	--
Total	$9,506	$10,405	$4,758	$9,547	$ --
Impaired loans with no related allowance for loan losses:					
Real estate	$7,929	$8,803	$ --	$6,915	$486
Commercial	12,480	17,104	--	13,023	379
Other	4,989	4,765	--	1,897	71
Total	$25,398	$30,672	$ --	$21,835	$936
Total impaired loans:					
Real estate	$10,634	$11,725	$583	$9,276	$486
Commercial	19,281	24,587	4,175	20,209	379
Other	4,989	4,765	--	1,897	71
Total	$34,904	$41,077	$4,758	$31,382	$936

	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	$2,426	$2,582	$819	$2,485	$ --
Commercial	6,500	7,102	3,889	6,588	--
Other	--	--	--	--	--
Total	$8,926	$9,684	$4,708	$9,073	$ --
Impaired loans with no related allowance for loan losses:					
Real estate	$6,830	$8,117	$ --	$7,001	$498
Commercial	11,803	16,101	--	12,043	376
Other	1,147	1,120	--	626	18
Total	$19,780	$25,338	$ --	$19,670	$892
Total impaired loans:					
Real estate	$9,256	$10,699	$819	$9,486	$498
Commercial	18,303	23,203	3,889	18,631	376
Other	1,147	1,120	--	626	18
Total	$28,706	$35,022	$4,708	$28,743	$892

The recorded investment in the loan is the unpaid principal amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment.

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

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

Troubled Debt Restructurings (TDRs)

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

TDR Activity

(in thousands)

For the year ended December 31	**2016**		2015		2014	
	Pre-modification	Post-modification	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate	**$ --**	**$ --**	$89	$102	$2,168	$2,168
Commercial	**5,142**	**5,147**	428	429	1,162	1,160
Total	**$5,142**	**$5,147**	$517	$531	$3,330	$3,328

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

The primary types of modification included deferral of principal, extension of maturity, and interest rate reduction below market.

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 commercial loan category of $20 thousand that defaulted during the year ended December 31, 2015 in which the modification was within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of December 31	**2016**	2015	2014
Accrual status:			
Real estate	**$753**	$1,652	$2,053
Commercial	**8**	6	129
Total TDRs in accrual status	**$761**	$1,658	$2,182
Nonaccrual status:			
Real estate	**$2,322**	$2,734	$2,785
Commercial	**10,396**	9,716	9,853
Total TDRs in nonaccrual status	**$12,718**	$12,450	$12,638
Total TDRs:			
Real estate	**$3,075**	$4,386	$4,838
Commercial	**10,404**	9,722	9,982
Total TDRs	**$13,479**	$14,108	$14,820

We did not have any material commitments to lend additional money to borrowers whose loans were at risk 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	**$17,998**	$15,847	$13,587
Provision for loan losses	**863**	3,341	3,309
Loan recoveries	**260**	459	203
Loan charge-offs	**(1,666)**	(1,649)	(1,252)
Balance at end of year	**$17,455**	$17,998	$15,847

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

(in thousands)	Real Estate	Commercial	Other	Total
Allowance for loan losses:				
Balance as of December 31, 2015	**$8,393**	**$9,116**	**$489**	**$17,998**
Provision for (reversal of) loan losses	**77**	**918**	**(132)**	**863**
Loan recoveries	**1**	**259**	**--**	**260**
Loan charge-offs	**(232)**	**(1,434)**	**--**	**(1,666)**
Balance as of December 31, 2016	**$8,239**	**$8,859**	**$357**	**$17,455**
Ending balance: individually evaluated for impairment	**$148**	**$3,221**	**$ --**	**$3,369**
Ending balance: collectively evaluated for impairment	**$8,091**	**$5,638**	**$357**	**$14,086**
Recorded investment in loans outstanding:				
Ending balance as of December 31, 2016	**$2,942,789**	**$2,061,016**	**$553,386**	**$5,557,191**
Ending balance: individually evaluated for impairment	**$10,725**	**$20,070**	**$3,218**	**$34,013**
Ending balance: collectively evaluated for impairment	**$2,932,064**	**$2,040,946**	**$550,168**	**$5,523,178**

	Real Estate Mortgage	Production and Intermediate Term	Other	Total
Allowance for loan losses:				
Balance as of December 31, 2014	$7,414	$8,075	$358	$15,847
Provision for loan losses	1,096	2,114	131	3,341
Loan recoveries	4	455	--	459
Loan charge-offs	(121)	(1,528)	--	(1,649)
Balance as of December 31, 2015	$8,393	$9,116	$489	$17,998
Ending balance: individually evaluated for impairment	$583	$4,175	$ --	$4,758
Ending balance: collectively evaluated for impairment	$7,810	$4,941	$489	$13,240
Recorded investment in loans outstanding:				
Ending balance as of December 31, 2015	$2,733,671	$2,102,281	$453,713	$5,289,665
Ending balance: individually evaluated for impairment	$10,634	$19,281	$4,989	$34,904
Ending balance: collectively evaluated for impairment	$2,723,037	$2,083,000	$448,724	$5,254,761

	Real Estate Mortgage	Production and Intermediate Term	Other	Total
Allowance for loan losses:				
Balance as of December 31, 2013	$6,024	$7,231	$332	$13,587
Provision for loan losses	1,596	1,687	26	3,309
Loan recoveries	8	195	--	203
Loan charge-offs	(214)	(1,038)	--	(1,252)
Balance as of December 31, 2014	$7,414	$8,075	$358	$15,847
Ending balance: individually evaluated for impairment	$819	$3,889	$ --	$4,708
Ending balance: collectively evaluated for impairment	$6,595	$4,186	$358	$11,139
Recorded investment in loans outstanding:				
Ending balance as of December 31, 2014	$2,537,970	$1,970,377	$319,719	$4,828,066
Ending balance: individually evaluated for impairment	$9,256	$18,303	$1,147	$28,706
Ending balance: collectively evaluated for impairment	$2,528,714	$1,952,074	$318,572	$4,799,360

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

As of December 31, 2016, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on growth that exceeded a targeted rate. In December 2016, AgriBank's Board approved the 2017 capital plan, which amended the required stock investments for affiliated Associations, effective January 1, 2017. The new required investment will be the lesser of 4.0% of our average quarterly balance of our note payable to AgriBank or a multiple component calculation based on a percentage of average wholesale loan balances with a higher percentage on balances above a sustainable growth rate and includes a component for additional investments under the asset pool program. The 2017 component requirements are currently 2.25% on average note payable, with an additional 4.5% on growth in excess of a 5.5% sustainable growth rate.

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

The balance of our investment in AgriBank, all required stock, was $128.9 million, $125.7 million, and $121.7 million at December 31, 2016, 2015, and 2014, respectively.

NOTE 5: INVESTMENT SECURITIES

We held investment securities of $237.6 million, $134.4 million, and $172.0 million at December 31, 2016, 2015, and 2014, respectively. Our investment securities consisted of loans fully guaranteed by the Small Business Administration (SBA) and mortgage-backed securities issued by Farmer Mac.

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

Our investments are either mortgage-backed securities (MBS), which are generally longer-term investments, or asset-backed securities (ABS), which are generally shorter-term investments. Farmer Mac guaranteed investments are typically MBS while SBA, FSA, Agricultural and Rural Community bonds, and USDA guaranteed investments may be comprised of either MBS or ABS.

Additional Investment Securities Information

(dollars in thousands) **As of December 31, 2016**	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
MBS	**$136,060**	**$ --**	**($7,242)**	**$128,818**	**3.5%**
ABS	**101,504**	**2,080**	**(184)**	**103,400**	**2.1%**
Total	**$237,564**	**$2,080**	**($7,426)**	**$232,218**	**2.9%**

As of December 31, 2015	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
MBS	$ --	$ --	$ --	$ --	--
ABS	134,351	3,385	(261)	137,475	1.7%
Total	$134,351	$3,385	($261)	$137,475	1.7%

As of December 31, 2014	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
MBS	$ --	$ --	$ --	$ --	--
ABS	171,967	4,308	(313)	175,962	1.0%
Total	$171,967	$4,308	($313)	$175,962	1.0%

Investment income is recorded in “Interest income” in the Consolidated Statements of Income and totaled $4.1 million, $2.6 million, and $2.0 million in 2016, 2015, and 2014, respectively.

NOTE 6: 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	**$5,500,000**	$5,000,000	$4,700,000
Outstanding principal under the line of credit	**4,826,565**	4,535,834	4,201,067
Interest rate	**1.6%**	1.4%	1.4%

Our note payable matures November 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 7: 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 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	**16.7%**	16.4%	16.2%	7.0%
Total surplus ratio	**16.5%**	16.2%	16.0%	7.0%
Core surplus ratio	**16.5%**	16.2%	16.0%	3.5%

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

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

Risk-adjusted assets have been defined by FCA Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets.

Effective January 1, 2017, the regulatory capital requirements for System Banks and Associations were modified. The final rule replaced existing core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The final rule also added a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio continues to remain in effect with the final rule.

FCA Revised Capital Requirements

	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:			
Common equity tier 1 ratio	4.5%	2.5%	7.0%
Tier 1 capital ratio	6.0%	2.5%	8.5%
Total capital ratio	8.0%	2.5%	10.5%
Non-risk-adjusted:			
Tier 1 leverage ratio	4.0%	1.0%	5.0%
UREE leverage ratio	1.5%	0.0%	1.5%

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

Regulatory capital included any allocated investment in AgriBank that is in excess of the required investment under an allotment agreement with AgriBank. We had no allocated excess stock at December 31, 2016, 2015, or 2014. Effective January 1, 2017, the regulatory capital requirements allow for allotment agreements for only the permanent capital ratio and as such any stock in excess of our AgriBank required investment will not be included in the common equity tier 1, tier 1 capital, total capital, or leverage ratios.

Description of Equities

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

	Number of Shares		
As of December 31	**2016**	2015	2014
Class A common stock (protected)	**--**	1,533	1,855
Class C common stock (at-risk)	**1,952,018**	1,975,429	1,961,626
Participation certificates (at-risk)	**29,313**	29,509	28,869

Under our bylaws, we are also authorized to issue Class B, Class D and Class E common stock and Class F preferred 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 C 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 to holders of Class F preferred stock and then pro rata to holders of Class B, C, D and E common stock and participation certificates, and then to holders of allocated surplus in the order of issuance and pro rata by year of issuance. Any remaining assets shall be distributed to present and former Patrons at the discretion of the Board of Directors.

In the event of impairment, losses will be absorbed by allocated surplus in the reverse order of issuance, then pro rata by holders of Class B, C, D and E common stock and participation certificates, then by Class F preferred stock; however, protected stock will be retired at par value regardless of impairment.

All classes of stock, except Class B and Class E, are transferable to other customers who are eligible to hold such class as long as we meet the regulatory minimum capital requirements. Class B common stock may be transferred to those eligible to hold Class C common stock. Class E common stock may only be transferred to System institutions. Participation certificates may be transferred to any person or entity eligible to hold such participation certificates.

Patronage Distributions

We accrued patronage distributions of $19.5 million, $18.0 million, and $9.0 million at December 31, 2016, 2015, and 2014, respectively. Generally, the patronage distributions are paid in cash during the first quarter after year end. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements.

We made nonqualified patronage allocations of $52.4 million during the year ended December 31, 2016. Our nonqualified patronage allocation was based on a determination by the Board of Directors that surplus from 2015 patronage-sourced earnings could be allocated to eligible borrowers while still maintaining the Association's sound capital position. The timing and amounts of all future allocated surplus redemptions is at the discretion of the Board of Directors, subject to compliance with applicable regulatory requirements. These patronage equities have no voting rights and are only transferable if specifically authorized by the Board of Directors.

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

NOTE 8: INCOME TAXES

Provision for Income Taxes

Provision for Income Taxes

(dollars in thousands) For the year ended December 31	**2016**	2015	2014
Current:			
Federal	**$295**	$1,287	$2,262
State	**226**	342	532
Total current	**$521**	$1,629	$2,794
Deferred:			
Federal	**$561**	($336)	($1,508)
State	**137**	(136)	(152)
(Decrease) increase in valuation allowance	**(698)**	472	1,660
Total deferred	**--**	--	--
Provision for income taxes	**$521**	$1,629	$2,794
Effective tax rate	**0.5%**	1.8%	3.0%

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	**$33,355**	$31,561	$31,739
State tax, net	**236**	150	201
Patronage distributions	**(3,902)**	(3,043)	(3,060)
Effect of non-taxable entity	**(27,884)**	(27,524)	(27,587)
(Decrease) increase in valuation allowance	**(698)**	472	1,660
Other	**(586)**	13	(159)
Provision for income taxes	**$521**	$1,629	$2,794

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	**$2,676**	$2,842	$2,665
Postretirement benefit accrual	**215**	215	213
Accrued incentive	**367**	393	366
Accrued patronage income not received	**(622)**	(364)	(602)
AgriBank 2002 allocated stock	**(562)**	(562)	(586)
Accrued pension asset	**(294)**	--	(41)
Other liabilities	**(112)**	(158)	(121)
Total deferred tax assets	**1,668**	2,366	1,894
Valuation allowance	**(1,668)**	(2,366)	(1,894)
Deferred tax assets, net	**$ --**	$ --	$ --
Gross deferred tax assets	**$3,258**	$3,450	$3,244
Gross deferred tax liabilities	**($1,590)**	($1,084)	($1,350)

Our patronage distributions are estimated to substantially reduce our taxable income going forward. Under these estimates, the ability to realize the entire tax savings represented by the future reversal of the deferred tax assets is uncertain and a valuation allowance has been established for the net deferred tax asset.

We have not provided for deferred income taxes on patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. Our total permanent investment in AgriBank is $16.4 million. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $940.9 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 9: 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	**3,719**	4,344	3,140
Contributions by participating employers	**90,000**	62,722	52,032
Our allocated share of contributions	**6,046**	4,278	3,448

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

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

Benefits paid to participants in the District were $56.4 million in 2016. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total District employer contributions expected to be paid into the pension plan during 2017 is $90.0 million. Our allocated share of these pension contributions is expected to be $6.2 million. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the District financial statements.

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

Pension Restoration Plan Information

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

For the year ended December 31	**2016**	2015	2014
Total plan expense	**$5,767**	$3,776	$3,652
Our allocated share of plan expenses	**209**	236	194
Our cash contributions	**15**	15	15

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. Our cash contributions are equal to the benefits paid. There were no benefits paid under the Pension Restoration Plan to our senior officers who were actively employed during the year.

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	**$88**	$161	$105
Our cash contributions	**81**	87	92

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%.

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

NOTE 10: 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 Information

(in thousands)	2016	2015	2014
As of December 31:			
Total related party loans	**$53,669**	$27,549	$26,161
For the year ended December 31:			
Advances to related parties	**$22,403**	$11,122	$10,923
Repayments by related parties	**15,566**	11,772	11,007

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 in the preceding chart are related to those considered related parties at year end.

As discussed in Note 6, we borrow from AgriBank, in the form of a line of credit, to fund our loan portfolio.

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 $1.1 million in each of 2016, 2015, and 2014.

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 $37 thousand. The total cost of services purchased from Foundations was $209 thousand, $183 thousand, and $184 thousand in 2016, 2015, and 2014, respectively.

NOTE 11: CONTINGENCIES AND COMMITMENTS

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

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

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk that may be recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2016, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $1.5 billion. Additionally, we had $8.6 million of issued standby letters of credit as of December 31, 2016. In addition, we had $752 thousand of other commitments related to our strategic support agreement with FCC Services to provide reinsurance to crop insurance companies 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 12: 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

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	**$ --**	**$135**	**$3,272**	**$3,407**	**($277)**
Other property owned	**--**	**--**	**591**	**591**	**7**

As of December 31, 2015	Fair Value Measurement Using				Total (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	Gains
Impaired loans	$ --	$340	$4,645	$4,985	($1,699)
Other property owned	--	--	--	--	32

As of December 31, 2014	Fair Value Measurement Using				Total (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	Gains
Impaired loans	$ --	$746	$3,683	$4,429	($969)
Other property owned	--	--	196	196	60

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 13: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 9, 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

1st Farm Credit Services, ACA

(Unaudited)

Description of Business

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

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

Description of Property

Property Information

Location	Description	Usage
Aledo, IL	Owned	Branch
Bourbonnais, IL	Leased	Branch
Edwards, IL	Owned	Branch
Freeport, IL	Owned	Branch
Geneseo, IL	Owned	Branch
Macomb, IL	Owned	Branch
Monmouth, IL	Owned	Branch
Morton, IL	Owned	Branch
Naperville, IL	Leased	Branch
Normal, IL	Owned	Headquarters
Normal, IL	Leased	Branch
Oregon, IL	Owned	Branch
Ottawa, IL	Owned	Branch
Pontiac, IL	Leased	Branch
Princeton, IL	Owned	Branch
Quincy, IL	Owned	Branch
Rock Falls, IL	Leased	Branch
Sycamore, IL	Leased	Branch

Legal Proceedings

Information regarding legal proceedings is discussed in Note 11 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 7 to the accompanying Consolidated Financial Statements.

Description of Liabilities

Information regarding liabilities is discussed in Notes 6, 7, 8, 9, and 11 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 Expires	Principal Occupation and Other Affiliations
Jeffrey Austman Chairperson Service Began: 2009	2016-2020	**Principal Occupation:** Corn and soybean farmer Secretary: Austman, Inc., property management **Other Affiliations:** Board Member: Prairie Central Board of Education
Roger Schrodt Vice Chairperson Service Began: 2000	2015-2018	**Principal Occupation:** Corn and soybean farmer
Kevin Aves Service Began: 1992	2013-2017	**Principal Occupation:** Corn, soybean, and wheat farmer **Other Affiliations:** Trustee and Treasurer: Kirkland Community Fire District
Clinton V. Brown Service Began: 2011	2015-2018	**Principal Occupation:** Corn and soybean farmer Owner: Highland Properties, property management
Stephen Cowser Service Began: 2004	2016-2020	**Principal Occupation:** Secretary/Treasuer: Cowser, Inc., agriculture production Partner: Cowser Field & Feedlot, agriculture production Partner: Cowser Land LLC, land ownership company **Other Affiliations:** Supervisor: Milo Township Treasurer: Multi Township Assessing District #13 Treasurer: Mound Cemetery Association
Dr. Robert Easter Appointed Outside Director Service Began: 2015	2015-2019	**Principal Occupation:** Partner: Swine Education & Technical Consultancy, swine production consulting President Emeritus: University of Illinois **Other Affiliations:** Director: Illinois Agricultural Leader Foundation, development of future agricultural leaders Director: Charles Valentine Riley Foundation, promote understanding of agriculture Director: Aptimmune, production of swine vaccines Director: Agrible, Inc., agriculture data analytic services Director: Soar, National advocacy for agriculture research Advisory Board Trustee: Alliance University
Kathleen Hainline Appointed Outside Director Service Began: 2010	2013-2017	**Principal Occupation:** Consultant: agriculture risk management
David A. Keller Service Began: 1987	2014-2017	**Principal Occupation:** Corn, soybean and hay farmer
David Muegge Service Began: 2016	2016-2020	**Principal Occupation:** Corn, soybean, wheat, and alfalfa farmer, cow-calf feedlot Owner: Muegge Stock Series LLC; contract hog production
Roger J. Newell Service Began: 1995	2015-2019	**Principal Occupation:** Corn, soybean, and alfalfa farmer Beef cow/calf herd and purebred swine operation **Other Affiliations:** Trustee: Knox County South Assessment District Board Supervisor: Elba Township
David H. Peters Service Began: 2010	2014-2017	**Principal Occupation:** Wheat, soybean, and corn farmer **Other Affiliations:** Director: Manteno Farmers Elevator, grain warehousing & merchandising Treasurer: Kankakee County Soil and Water Conservation District Trustee: Manteno Township Fire Protection District

Michael R. Pratt Service Began: 2002	2014-2018	**Principal Occupation:** Corn, soybean, and seed corn farmer
Kathy J. Reinhardt Service Began: 2015	2015-2018	**Principal Occupation:** Owner: Reinhardt Farms, grain farming operation Certified Public Accountant **Other Affiliations:** Director & Secretary: Mercer County Farm Bureau Director & Treasurer: Mercer County Farm Bureau Foundation
Joseph Scheetz Service Began: 2016	2016-2019	**Principal Occupation:** Hog and grain farmer **Other Affiliations:** Board Member: Hancock County Farm Bureau Board Member: Sts. Peter and Paul School
Stephanie Wise Appointed Director Service Began: 2015	2015-2018	**Principal Occupation:** Corn, Soybean, popcorn farming operation Owner: Gripp Farm Nutrients, LLC, agribusiness/fertilizer Owner: Bright Prairies, LLC, general merchadise Executive Vice President: First Midwest Bank (prior to April 2013)

Our bylaws permit compensation of directors for service at Board and committee meetings, and special assignments and travel time associated with those meetings. Directors are compensated at a daily rate of $750 per day for quarterly and regularly scheduled board meetings. Directors are also compensated at a daily rate of $500 per day for all other meetings or events attended. Directors who participate in meetings, training, task forces, special projects or other association or Farm Credit System events via telephone, video or other digital media will receive payment of $150 for each such meeting, training or event participation. Directors are eligible for an annual stipend that is variable, based upon actual business results, with a maximum amount of $4,500. The Board chairperson received an additional $2,000 annual stipend and the Board vice chairperson received an additional $1,000 annual stipend. Also, each committee chairperson received an additional $1,000 annual stipend. Only one chairperson stipend can be received by a Board member. Members of the Board of Directors did not receive any additional compensation for serving on Board committees.

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

	Number of Days Served		Compensation Paid for Service on a Board Committee	Name of Committee	Total Compensation Paid in 2016
	Board Meetings	Other Official Activities			
Austman, Jeffrey	16.0	30.0	$ --		$34,217
Aves, Kevin	16.0	19.0	1,000	Governance Chair	28,158
Baylor, John*	8.0	11.9	--		16,785
Brown, Clinton V.	16.0	11.4	--		22,734
Cowser, Stephen	16.0	7.1	--		20,820
Easter, Robert Dr.	16.0	20.3	--		25,101
Fischer, Larry**	0.0	0.0	--		2,250
Hainline, Kathleen	16.0	20.9	1,000	Audit Chair	28,202
Keller, David	16.0	6.3	--		21,200
Muegge, David	8.0	4.0	--		9,075
Newell, Roger J.	16.0	24.1	--		29,597
Peters, David H.	16.0	13.1	--		24,057
Pratt, Michael R.	16.0	6.3	--		20,750
Reinhardt, Kathy J.	16.0	23.7	--		29,727
Scheetz, Joseph	8.0	4.0	--		9,027
Schmitt, John**	0.0	0.0	--		1,500
Schrodt, Roger	16.0	37.0	--		37,200
Wise, Stephanie	16.0	21.3	1,000	Business Risk Chair	28,709
					$389,109

* No longer on the Board as of December 31, 2016

** Compensation paid in 2016 relates to achievements attained during 2015

Senior Officers

Name and Position	Business experience during the past five years and other business interests as of December 31, 2016
Gary J. Ash President/Chief Executive Officer	**Business experience:** President/Chief Executive Officer since May 2006 **Other business interests:** Board Member of the Heartland Community College Foundation
Gregory A. Carter Chief Credit Officer	**Business experience:** Chieft Credit Officer since January 2014
Shannon Ganschow Sr. Vice President - Commercial Markets	**Business experience:** Sr. Vice President - Commercial Markets since January 2014
James F. Garvin Chief Financial Officer	**Business experience:** Chief Financial Officer since October 1999
Matt Ginder Executive Vice President - Marketplace Delivery	**Business experience:** Executive Vice President - Marketplace Delivery since January 2010 **Other business interests:** Appointed Trustee on the Village Board of Goodfield, IL
Terry L. Hinds Chief Lending Officer - Diversified Markets	**Business experience:** Chief Lending Officer - Diversified Markets since May 2006
Ron Homann Chief Risk Officer	**Business experience:** Chief Risk Officer since August 2006
Doug Kridner Senior Vice President - Finance	**Business experience:** Senior Vice President - Finance since March 2016

All of the senior officers have been with our association for more than five years.

Information related to compensation paid to senior officers is provided in our Annual Meeting Information Statement (AMIS). The AMIS is available for public inspection at our office.

Transactions with Senior Officers and Directors

Information regarding related party transactions is discussed in Note 10 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:

2000 Jacobssen Drive
Normal, IL 61761
(309) 268-0100
www.1stfarmcredit.com

The total directors' travel, subsistence, and other related expenses were $189 thousand, $211 thousand, and $120 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 $90 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 Agribusiness Program

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 AGRIBUSINESS

1st Farm Credit Services, ACA

(Unaudited)

1st Farm Credit Services maintains a Young, Beginning, Small ("YBS") Farmer program and policy to support its mission in serving this key client segment. The YBS program and policy are reviewed annually by the board of directors. A description of the YBS program and a status report on key program components are set out below.

Farm Credit Administration Regulations Define YBS Farmer

YBS farmers or agribusinesses are those meeting any of the following criteria:

- Young farmers/agribusiness owners are 35 years old or younger as of the date the loan was originally made (based on the youngest liable party on the loan).
- Beginning farmers/agribusiness owners have 10 years or less experience as the primary manager of the farming operation as of the date the loan was originally made.
- Small farmers normally generate less than $250,000 in annual sales from agricultural production as of the date the loan was originally made.

YBS Farmer Demographics

The association has used the 2012 USDA Ag census as its source of demographic data in our market for Young, Beginning, and Small Farmers. The association has 32,859 farmers in its 42 county territory. 6.7% or 2,192 are young farmers, 18.6% or 6,103 are beginning farmers, and 74.0% or 24,312 are small farmers. This data is as of 2012 whereas our portfolio data is current. The USDA data includes farmers who do not borrow money. The 2012 Ag census data is based on the number of farmers where the 1st Farm Credit Services portfolio data is based on number of loans in each category.

Mission Statement

To achieve our vision, 1st Farm Credit Services must effectively serve the Young, Beginning, and Small Farmers in our market place. Our success is dependent on being able to provide sound and constructive credit and financial services to YBS farmers who represent the future of agriculture in Illinois. 1st Farm Credit Services will also support local Young, Beginning, and Small Farmer groups in the communities with various outreach programs and initiatives on an ongoing basis.

1st Farm Credit Services will accomplish this mission by:

- Providing special loan programs, and underwriting to meet the needs of YBS farmers
- Offering either directly, or through external relationships a number of financial services which will benefit the YBS client in risk management
- Making full use of both the FSA and IFDA guaranteed loan programs
- Establishing both quantitative portfolio goals, and qualitative goals for services offered and
- Continuing to participate in numerous outreach programs which benefit YBS farmers

Portfolio Quantitative Goals

The Association will strive to maintain a portfolio mix of young, beginning farmers which matches that in the marketplace based on recent USDA Ag census data. As of 2012, 6.7% of all farmers were young and 18.6% of all farmers were beginning in our market territory. The small farmer segment in our territory is comprised of 24,312 farmers based on the 2012 USDA Ag census. 53% of these operations have Gross Farm Income of less than $10,000 and 62% of small farmers in Illinois do not borrow money. These two factors were considered when setting our small farmer goals.

Based on this information, the Association's quantitative targets is to maintain the following portfolio goals during the business plan period:

	% of Total Number of Loans		**% of Total Number of New Loans**		**% of Total $ of New Loans**	
	Goal	2016 results	Goal	2016 results	Goal	2016 results
Young Farmers	8.0%	15.7%	8.0%	13.3%	5.0%	11.7%
Beginning Farmers	15.0%	17.6%	15.0%	14.7%	5.0%	16.3%
Small Farmers	40.0%	34.5%	40.0%	23.9%	20.0%	11.4%

Qualitative Goals for Our YBS Program

The following related services were offered directly or indirectly through others to Young, Beginning, and Small Farmers during 2016:

- Crop Insurance, both Hail and MPCI
- Farm Product Marketing Assistance through other local providers
- Farm Records and Tax Prep Services through other local providers (FCS subsidizes part of first year's cost)
- Financial Planning and Management Services through other local providers
- Fee Real Estate Appraisal Services
- Equipment and Facility Leasing

1st Farm Credit Services made use of Federal and State Loan Guarantee Programs in providing loans and leases to Young, Beginning, and Small Farmers.

- 1st Farm Credit Services maintains a Preferred Lender Program designation with FSA
- 1st Farm Credit Services offered and supported the use of the State of Illinois, Illinois Farm Development Authority Loan Restructuring and Guarantee Programs

Outreach Programs

The Association has developed an annual marketing and promotion plan for the Young, Beginning, and Small Farmer market segment. This program includes various promotions and programs that will both build awareness and provide financial assistance to local programs and groups which assist young, beginning, and small farmers. Additionally, the association continues periodic contacts with state and federal guarantee agencies to improve our working relationship and better understand their programs.

1st Farm Credit Services will annually maintain the following Outreach Programs for YBS Farmers:

- Annual scholarship program for high school, community college, and college students pursuing an agriculture or agricultural-related degree.
- 1st Farm Credit Services in late 2010 funded a $1,000,000 Donor Advised Fund through IAA Foundation to support Ag Education, Ag Youth, and Ag Leadership in Illinois. The association added another $250,000 to this fund in late 2012. In 2016, the recipients were Illinois 4-H, Illinois FFA, Illinois Agriculture in the Classroom, Illinois Agriculture Leadership Foundation, University of Illinois College of ACES, Illinois State University Department of Agriculture, Western Illinois University School of Agriculture, AgrAbility, Annie's Project, Women Changing the Face of Agriculture Conference, Cook County Farm Bureau for Urban Entrepreneur high school students in the Chicago metropolitan area, Chicago High School For Agricultural Sciences, Highland Community College, and Good Food Accelerator – for local food production education.
- Annual sponsorship of Risk Management Seminars and Brock Seminars with paid invitations made to interested YBS clients.
- Support state and local FFA and 4-H Programs. 1st Farm Credit Services has a 4-H and FFA Community Improvement Grant Program where clubs and chapters can apply for one of 30 $250 grants available each calendar year.
- Awarded FFA Blue Jackets to 15 FFA members through the Big Dreams in Blue Jackets program.
- Pilot an YBS Educational program in one of our branch offices with the involvement of FBFM, FSA, ASCS, and Advanced Trading.
- Membership in and support of local Young Farmer Groups/Clubs in our territory.
- Participate in and support the Cultivating Master Farmers program, to offer education and networking to young farmers.
- Publish our "Country Spirit" magazine quarterly which offers various articles which provide valuable information to YBS Farmers.
- In 2016, 1st Farm Credit Services donated nearly $100,000 to more than 100 FFA Chapters, 4-H Clubs and community or county groups dedicated to youth in agriculture. The donation was part of the 100 Year celebration of the Farm Credit System.
- Maintain ongoing contact with other farm groups to participate in initiatives which will benefit YBS Farmers.

Safety and Soundness of Program

The Association's Young, Beginning, and Small Farmer program has established specific lending standards for clients who use the program. The program has also established lending limits for new loan extension under the program and should the Association credit quality fall below minimum guidelines, the program calls for the Board of Directors to review the program for changes or possible suspension. At this time the association's credit quality is well above minimum guidelines outlined in the program.

FUNDS HELD PROGRAM

1st Farm Credit Services, ACA

(Unaudited)

1st Farm Credit Services, ACA (the Association) offers a Funds Held Program (Funds Held) that provides for customers to make advance payments on designated real estate and intermediate term loans. The following terms and conditions apply to all Funds Held unless the loan agreement or related documents between the Association and customer provide for other limitations.

Payment Application

Loan payments received by the Association before the loan has been billed will be placed in Funds Held as of the date received and applied against the next installment or other related charges on the installment due date. Loan payments received after the loan has been billed will be applied directly to the installment due on the loan or other related charges. Funds received in excess of the billed amount or other related charges will be placed in Funds Held, unless the client has specified that the funds be applied as a special payment of principal. At any time, the client may request that existing Funds Held be applied as a special principal payment or interest payment on the related loan. When a loan installment comes due, amounts in Funds Held for the loan will be automatically applied toward the installment on the due date. Any accrued interest on Funds Held will be applied to the payment first. Any excess funds will remain in the account. If the balance in Funds Held does not fully satisfy the entire payment, the client must pay the difference by the installment due date.

Account Maximum

The amount in Funds Held (principal portion) may not exceed the unpaid principal balance of the loan and may be limited by prepayment restrictions. Funds Held is not a depository account and is not insured.

Interest Rate

Interest will accrue on Funds Held accounts at a simple rate two (2) percentage points below the interest rate charged on the related loan. The Association may change the interest rate paid from time to time and shall notify borrowers of such change in the manner deemed appropriate by the Association. Interest on Funds Held account balances (exclusive of funds applied directly to billed amounts) will accrue from the date of receipt of the funds until the date the funds are applied to the loan. Borrowers receive periodic statements of accounts, including Funds Held account balances, interest rates and amounts of interest credited to the account.

Withdrawals

Unlimited withdrawals per month are allowed for any eligible loan purpose. The minimum withdrawal is $500.

Association Options

In the event of default, death or if the Association discontinues the Funds Held program, the Association may apply funds in the account to the unpaid loan balance and other amounts due and shall return any excess funds to the customer.

Uninsured Account

Funds Held is not a depository account and is not insured. In the event of Association liquidation, customers having balances in Funds Held shall be notified according to FCA Regulations.

Questions: Please direct any questions regarding Funds Held to your local Farm Credit Services representative.

1ST FARM CREDIT SERVICES®

YOUR FIRST CHOICE

www.1stfarmcredit.com • 800-444-FARM • 2000 Jacobssen Drive, Normal, IL 61761