GREENSTONE FARM CREDIT SERVICES

Annual Report 2016

Prepared *for progress*

MARCH 3, 2017 — MESSAGE FROM THE CEO AND BOARD CHAIR:

We are pleased to report that in spite of a challenging agricultural economy, GreenStone continued to perform at a high level in 2016 due in large part to the efforts of our members who work hard to manage their farm businesses in a financially responsible manner.

USDA national net farm income projections in November for 2016, forecast a reduction of nearly 50 percent from the record set in 2013. There are very few businesses in any industry that can take a significant loss like that and not be adversely impacted. Certainly, our members are no different.

Yet, based on our observations and portfolio performance, GreenStone's members, in general, are effectively managing through these difficult times. By closely monitoring and/or reducing expenses, implementing new risk management tools, limiting capital purchases and other measures, they are repositioning their businesses to weather what is projected to be another three to four years of negative margins in many commodities. Many producers also started preparing for this "storm" before it was even forecasted by not overextending themselves in good times, so they would have the risk bearing capacity to sustain themselves through the bad.

GreenStone's performance certainly reflects these and other actions taken by the majority of its membership. As a result, our balance sheet remains strong, positioning us to continue supporting our members through the low part of this economic cycle.

Like many of our members, GreenStone began preparing for this cycle long ago by maintaining prudent levels of capital. More recently, by establishing debt per acre caps on real estate lending and talking to members early in the downturn, we were able to help them prepare plans for anticipated adversity, among other sustainable lending practices.

The most important thing we can do in difficult financial times like these is simply to be there for our members and treat them in a fair, respectful, courteous, and timely manner. This does not necessarily mean lending them more money but, rather, working with them individually to develop a plan(s) to meet the needs of their unique situation—even if it includes the possibility of a career change while preserving as much of their equity as possible.

Even though the present horizon seems bleak, this too shall change. In fact, the 2016 projected net farm income is just under 7 percent of the 88-year average on an inflation adjusted basis. Plus, the level of the current 2016 estimate is not at all uncommon. Since 1990, net farm income has been lower than 2016 levels 30 percent of the time, or for eight of 27 years. The record net farm income of 2013 is more the exception than the forecasted levels of 2016. Farmers who understand this and manage their business accordingly, survive the inevitable downturns and can actually capitalize on the opportunities presented.

We remain optimistic about the long-term outlook for American agriculture. The industry is relatively healthy compared to the depth of downturns over history, and GreenStone is well positioned to support its members. Global demand for food, fuel, and fiber will only continue to increase as the world's population grows and emerging economies mature. American farmers are well positioned to fill that demand given their high productivity, technology infrastructure, and access to energy supplies, transportation channels, and processing facilities. Plus, do not overlook the fact that the U.S enjoys a more stable legal, regulatory, and political system than many other countries that compete with us for the agricultural market.

The future will not be without its uncertainties and setbacks. However, there is one thing you can count on—GreenStone and the entire Farm Credit System are well positioned as we begin another century serving rural communities and agriculture.

Thank you again for placing your trust in us and choosing GreenStone as your financial provider of choice. We wish you the best of success in 2017 and beyond!

Edward L. Reed
Chairperson of the Board

David B. Armstrong
Chief Executive Officer

2016 FINANCIAL HIGHLIGHTS –

$131.9 Million
NET INCOME

24,000
MEMBERS

Over $8 Billion
TOTAL ASSETS
(owned and managed)

6.2 percent
TOTAL LOAN GROWTH
(owned and managed)

$33 Million
CASH PATRONAGE
PAID IN MARCH 2017

Balancing *our efforts*

FARMER VETERAN CONTINUES SERVICE IN NEW WAYS–

Jed Welder is the owner and operator of Trinity Farms in Greenville, Mich., where he raises corn and soybeans on 800 acres, along with several acres of hops. But before he embarked on a career as a farmer, Jed served as an armor officer in the United States Army for more than 10 years, with tours in Iraq, Afghanistan and Bosnia.

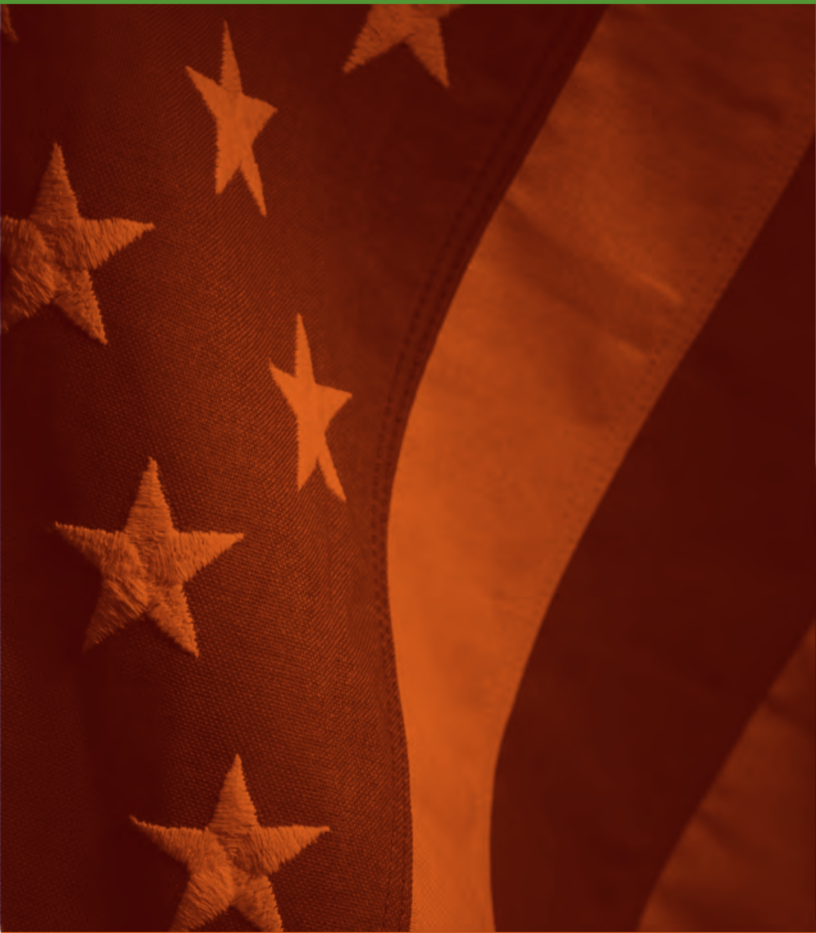
Today, Jed continues his service through organizations like the Farmer Veteran Coalition of Michigan and by supporting the Farm Credit System on behalf of farmers across the country. Early in 2016, U.S. Senator Debbie Stabenow invited Jed to testify before the Senate Committee on Agriculture about his experience working with GreenStone.

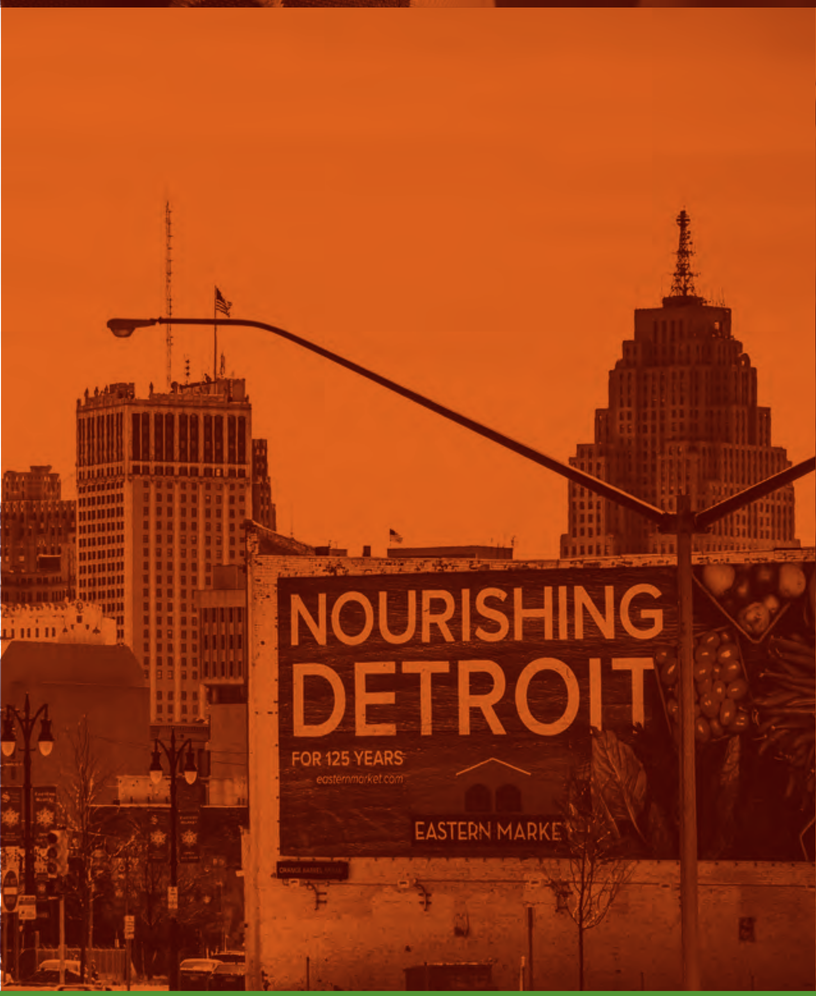
In his testimony, Jed expressed the need for the reliable and consistent credit and financial services that Farm Credit provides. "This is a challenging time for farmers like me across the country. Right now, we are planting corn and soybeans with prices very near breakeven," Jed said.

Given the current tough economic reality for much of the industry, Jed recognizes the importance of working with a lender like GreenStone, who not only understands the market cycles, but will be there to support rural communities and agriculture in good years and in challenging times as well.

"There is an exciting revolution in precision agriculture and technology that will help us be more efficient, but at the same time, the cost of farming increases every year," Jed shared. "Having a lender that works with me, that knows my farm and the challenges I face, is more important than ever."

After years of serving his country, Jed and his family serve again, this time through the hard work and dedication that is required of the farmers who provide the world with food and fuel.

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SUPPORTING AGRICULTURE'S NEXT GENERATION–

As part of GreenStone's commitment to youth in agriculture, in 2016 the cooperative once again awarded $40,000 in scholarships to 22 incoming college freshmen from across the association's territory.

"We know the future of our industry resides in the youth of today, and these scholarships are a powerful way for GreenStone to help students achieve their dream of higher education, and become agriculture's next generation of leaders," said Dave Armstrong, President and CEO of GreenStone. "These awards speak volumes to the students' accomplishments, good citizenship, and passion to continue their growth and development for our industry's future. GreenStone is proud to assist in furthering their education."

Applicants were evaluated on a wide range of qualifications and are pursuing a degree related to agriculture. Madeline Meyer of Ionia, Mich. was awarded a $2,000 scholarship. She is pursuing an animal science degree at Michigan State University, and plans to attend veterinary school to become a large animal veterinarian. Growing up on a farm herself, Madeline recognizes the important values farm life instilled in her, and hopes to raise her own children on a farm someday. "I want to raise my own children on a farm, just as I was raised, because I truly believe that a farm is the best place in the world to grow up."

COMMITMENT TO THE COMMUNITIES WE CALL HOME–

GreenStone supports organizations, programs and initiatives dedicated to advancing agriculture—today and tomorrow. From encouraging a new generation of producers, and helping educate consumers about the importance of agriculture, our commitment to thriving rural communities extends beyond providing financial services.

Growing a Row

GreenStone and the Wisconsin Timber Rattlers baseball team partnered once again on a vegetable garden at Neuroscience Group Field at Fox Cities Stadium. The GreenStone garden produced 320 pounds of produce for the St. Joseph Food Program, feeding hungry families in Calumet, Outagamie and Winnebago Counties. Students from Freedom High School's FFA Chapter were key partners in the project, volunteering their time to maintain the garden and harvest produce.

Investing in the Future

We recognize youth interested in agriculture are the future of our industry and that is why GreenStone invests in youth programs across our territory. From volunteer hours to monetary support, GreenStone is proud to advance our industry's future. For example, in 2016 alone, GreenStone gave more than $30,000 to Michigan and Wisconsin's FFA programs. Those dollars help students find their passion through agriculture by funding supplies and programming to ensure the next generation is ready to lead.

Transforming Detroit

GreenStone recognizes the importance of diversity in agriculture – including both rural and urban – and continues to move forward, in part, through a partnership with Hantz Woodlands. Together, the effort continued in 2016 to transform blight to beauty, as vacant, abandoned properties in Detroit are converted to wooded lots that can eventually be used for timber. To help with the effort, in May GreenStone employees rolled up their sleeves and got to work planting hundreds of trees in the city.

United We Farm

GreenStone provided eight Michigan veterans with scholarships to attend the 2016 Farmer Veteran Coalition National Stakeholders Conference, United We Farm. The conference provided educational opportunities with topics covering business, livestock management and bee keeping, among others.

MENTORSHIP PROGRAM PROPELS NEW FARMERS FORWARD–

GreenStone kicked off 2016 by launching the Farm Forward Mentorship program, pairing young, beginning and small farmers with experienced mentors. Initially developed in coordination with GreenStone's 100th anniversary, the yearlong program facilitated conversations and experiences to help propel new farmers forward in their careers.

"We recognize starting a career in farming can be challenging," said GreenStone President and CEO Dave Armstrong. "Today's farmers are American agriculture's greatest asset. The scope of their knowledge goes far beyond the field."

The program officially launched for the mentor/mentee pairings with a training session in East Lansing. Throughout the year, the program included several coordinated conversations and site visits to mentor and mentee farms, all designed to foster conversations around business areas they prioritized. Professional business coaches and mentoring consultants facilitated the mentorship process and guided the participants throughout the year. Carl Jessen, former GreenStone President and CEO, currently of Jessen Coaching, LLC and Susan Combs, Coaching & Consulting, LLC, led the group through the mentorship program.

Paul Windemueller of Dream Winds Dairy in Coopersville, Mich., started his career in 2014 with 30 cows and is now milking over 200. His mentor, Glen Feldpausch, has over 30 years of experience as a dairy farmer, and is located nearby in St. Johns.

"I really enjoyed visiting Glen's farm. It was neat to see his operation and learn how his farm progressed. It really helped me with a frame of reference for my own farm. I'm able to look to the future, and see where buildings should be placed and how growth can affect the operation overall," Paul shared about his experience. "It was also really nice just to be able to give him a call and have him help me think through things."

Glen agrees that the regular phone calls with Paul were beneficial to them both. "We talked through a lot of options," he said. "Sometimes he even gave me ideas for my own operation!"

The 2017 class of the Farm Forward Mentorship is already underway. "GreenStone is committed to advancing agriculture – today and tomorrow," said Dave. "The Farm Forward Mentorship program supports young professionals in agriculture, and is a great demonstration of our commitment to rural communities extending beyond providing financial products and services."

2016 FINANCIALS

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

GREENSTONE FARM CREDIT SERVICES, ACA
(Dollars in thousands)

	2016	2015	2014	2013	2012
STATEMENT OF CONDITION DATA					
Loans	$7,801,558	$7,292,647	$6,721,782	$6,249,883	$5,726,832
Allowance for loan losses	46,382	34,290	34,106	38,772	41,964
Net loans	7,755,176	7,258,357	6,687,676	6,211,111	5,684,868
Investment in AgriBank, FCB	159,936	111,217	103,368	157,945	151,615
Investment securities	16,749	20,587	25,661	32,233	40,757
Acquired property	1,583	2,440	1,904	12,751	31,928
Other assets	145,785	134,039	127,727	127,174	118,901
Total assets	$8,079,229	$7,526,640	$6,946,336	$6,541,214	$6,028,069
Obligations with maturities of one year or less	$6,610,896	$6,157,517	$5,683,362	$5,385,302	$75,392
Obligations with maturities greater than one year	—	—	—	—	4,903,770
Total liabilities	6,610,896	6,157,517	5,683,362	5,385,302	4,979,162
Protected members' equity	1	2	2	3	3
Capital stock and participation certificates	21,693	21,436	21,105	20,614	19,742
Unallocated surplus	1,446,639	1,347,685	1,241,867	1,135,295	1,029,162
Total members' equity	1,468,333	1,369,123	1,262,974	1,155,912	1,048,907
Total liabilities and members' equity	$8,079,229	$7,526,640	$6,946,336	$6,541,214	$6,028,069
STATEMENT OF INCOME DATA					
Net interest income	$194,499	$181,169	$173,768	$168,525	$155,630
(Provision for) reversal of credit losses	(20,161)	(3,273)	2,689	3,947	(10,045)
Patronage income	23,550	23,433	27,964	29,017	26,005
Financially related services income	9,479	9,514	8,745	7,442	9,665
Fee income	15,444	13,572	12,998	16,145	16,876
Other income (loss), net	1,377	1,021	4,035	(6,686)	(3,797)
Operating expenses	(90,452)	(85,570)	(79,524)	(79,114)	(70,748)
(Provision for) benefit from income taxes	(1,819)	1,221	(7,918)	(4,166)	2,571
Net income	$131,917	$141,087	$142,757	$135,110	$126,157
KEY FINANCIAL RATIOS					
Return on average assets	1.7%	2.0%	2.2%	2.2%	2.2%
Return on average members' equity	9.3%	10.7%	11.7%	12.2%	12.5%
Net interest income as a percentage of average earning assets	2.6%	2.7%	2.8%	2.9%	2.9%
Members' equity as a percentage of total assets	18.2%	18.2%	18.2%	17.7%	17.4%
Net charge-offs (recoveries) as a percentage of average loans	0.1%	—	—	(0.1%)	0.3%
Allowance for loan losses as a percentage of loans	0.6%	0.5%	0.5%	0.6%	0.7%
Permanent capital ratio	16.1%	16.0%	16.2%	14.7%	14.6%
Total surplus ratio	15.8%	15.8%	15.9%	14.3%	14.3%
Core surplus ratio	15.8%	15.8%	15.9%	14.3%	14.3%
OTHER					
Patronage distribution payable to members	$32,979	$35,272	$36,200	$29,000	$26,495

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

GREENSTONE FARM CREDIT SERVICES, ACA

The following commentary reviews the consolidated financial condition and consolidated results of operations of GreenStone Farm Credit Services, ACA (the Association) and its subsidiaries, GreenStone Farm Credit Services, FLCA and GreenStone 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:

GreenStone Farm Credit Services, ACA	AgriBank, FCB
3515 West Road	30 East 7th Street, Suite 1600
East Lansing, MI 48823	St. Paul, MN 55101
(800) 968-0061	(651) 282-8800
www.greenstonefcs.com	*www.agribank.com*
Travis.Jones@greenstonefcs.com	*financialreporting@agribank.com*

Our Annual Report is available on our website no later than 75 days after the end of the calendar year and members are provided a copy of such report no later than 90 days after the end of the calendar year. The Quarterly Reports are available on our website no later than 40 days after the end of each calendar quarter. To request free copies of our Annual or Quarterly Reports, contact us as stated above.

Forward-Looking Information

This Annual Report includes forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. Words such as "anticipate", "believe", "estimate", "may", "expect", "intend", "outlook", "could", "should", "will" 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

For the third consecutive year, farm sector profitability is forecast to decline in 2016. The United States Department of Agriculture (USDA) is forecasting net cash farm income at $90.1 billion, down approximately 14.6% from 2015 levels. These declines follow the 19.8% decline in net cash income that occurred in 2015. Overall, cash receipts are forecast to decline $23.4 billion (6.2%) in 2016 due primarily to the reduction in livestock receipts. Production expenses are forecast to fall 2.6% for 2016, following an 8.1% decline in 2015. Crop receipts are forecast to remain essentially unchanged from 2015.

When the USDA's final 2016 statistics are reported, overall crop cash receipts are expected to remain nearly unchanged from 2015 due to a number of factors. Corn cash receipts are forecast to decrease by almost $2 billion (4%) due to the weakening of corn prices in 2016 that more than offset production gains. Corn cash receipts in 2016 represent a decline of approximately 36% in inflation-adjusted terms from 2012. Wheat harvests were strong but wheat receipts are expected to decline by almost $1 billion (10%) due to price declines. The increased soybean production, coupled with higher prices in 2016, is expected to increase soybean cash receipts by over $5 billion (16%). Fruit and vegetable receipts are also forecast to face downward pressure in 2016.

Animal and animal product cash receipts are expected to decline $23.4 billion (12.3%) in 2016. Relative to 2015, prices are expected to fall for almost all major animal and animal product commodities, especially eggs. Poultry and egg cash receipts are expected to fall over 18% in 2016 due primarily to the decline in egg prices. In 2015, the egg laying industry was impacted by the Highly Pathogenic Avian Influenza (HPAI) that resulted in birds being removed from the flock, which drove egg prices to new highs. Post HPAI, the egg laying industry has returned to higher production levels resulting in large declines in egg prices. After reaching a record high of $49.9 billion in 2014, milk receipts are forecast to drop $15.4 billion (31.2%) in 2016 as declining prices continue to outweigh expected increases in milk production. Hog production is expected to rise for the full year of 2016 as the industry recovers from the Porcine Epidemic Diarrhea Virus (PEDv) in 2014. As a result, hog prices dropped in 2016, leading to a forecast drop in hog cash receipts of nearly 7%.

The United States Department of Commerce reported an increase to the real Gross Domestic Product (GDP) at an annual rate of 1.9% in the fourth quarter of 2016. This compares to an increase of 3.5% in the third quarter. The fourth quarter increase in real GDP reflected positive contributions from personal consumption expenditures, private inventory investment, and residential and nonresidential fixed investment. These contributions to GDP were partly offset by declines from exports and federal government spending.

The unemployment rate held steady at 5.0% in December 2016, down 0.6% from a year ago. Encouragingly, the labor force participation rate edged up to 62.6%, and workers employed part-time for economic reasons fell modestly. The share of long-term unemployment rose in December, but it is down significantly from a year ago.

Nonfarm payrolls rose 156,000 in December and the average growth over the past 12 months was 180,000. Job gains have been slowing since 2014, attributed to higher wages and as the unemployment rate approaches full employment. Through November, average hourly earnings rebounded 0.4% from the prior month, bringing the year over year rate to 2.9%. These patterns support rising wage pressures as worker shortages develop. To sustain faster economic growth in the years ahead, better skills and higher labor participation will be needed.

Purchases of new homes fell 10.4% for the month of December to a seasonally adjusted annual rate of 536,000, as a 0.4% rise in mortgage rates and the return of winter weather cooled off sales. Despite the decline, new home sales rose 12.2% in 2016 compared to 2015. National Association of Home Builders (NAHB) reported an 11.3 percent increase in December in private residential construction permits to a seasonally adjusted annual rate of 1.23 million units. This came from a surge in multifamily construction of 57.0% in December and an increase of 4.7% of single-family construction permits. Local housing data shows improvement for both Michigan and Wisconsin. Building permits for single family homes for 2016, measured by the NAHB, were up 11.7% for Michigan and 10.9% for Wisconsin.

After a full year since the first rate action was taken in the current tightening campaign, the Federal Open Market Committee (FOMC) raised the federal funds target rate 25 basis points in December 2016 to a range of 0.50% to 0.75%. The committee's median estimate for the benchmark rate at the end of 2017 was raised to 1.4%. The median estimate of the funds rate was 2.1% for 2018, and 2.9% by the end of 2019. In the updated policy statement, the Fed's assessment of the U.S. economy noted the solid progress toward maximum employment and 2% inflation.

On balance, markets have responded positively to the results of the presidential election and to early indications of a fiscal stimulus in the form of tax cuts and increased spending on infrastructure. A change in the U.S. trade relationship with China and Mexico is of particular concern for agricultural competitiveness. Nearly one-third of U.S. agricultural exports in 2013-2015 were destined for these two countries alone. China alone was the destination for roughly 60% of U.S. soybean exports, on average, during this period.

The U.S. dollar strengthened with respect to most of the currencies of its closest trading partners and competitors after the election. The agricultural exports-weighted dollar value index is expected to reflect a 2.6% appreciation in 2016, and a further increase of 2.1% appreciation in 2017. Exports have become an increasingly important component of demand for the U.S. animal protein industries. A large factor of the demand for U.S. animal protein is the foreign currency price of the U.S. dollar. As the dollar appreciates in value relative to other foreign currencies, it makes U.S. grains and animal proteins more expensive and creates headwinds for the export market.

Fiscal year 2017 grain and feed exports are forecast to remain relatively stable at $29.6 billion. Corn exports are forecast at 56.5 million tons, supported by strong early-season sales and shipments in response to tight supplies in South America. Wheat exports are forecast at $5.4 billion. Reduced supplies in the European Union have provided an opportunity for U.S. wheat exports.

Fiscal 2017 livestock, dairy, and poultry exports are forecast to rise $700 million to $26.5 billion, largely due to dairy and livestock byproducts. Dairy increases by $500 million to $5.3 billion as key milk-producing countries reduce milk output, leading to higher global prices, enabling U.S. exports to expand. Poultry and products are forecast slightly lower to $4.7 billion, as a decline in both broiler meat quantity and value is only partially offset by gains in other poultry meat and egg and egg products.

Oil prices have rose throughout 2016, recovering from lows in January and leveling off in later months of 2016. In September, Brent crude oil prices reached $46.57 per barrel, up from $30.70 at the start of 2016. At the November 30th meeting, members of the Organization of the Petroleum Exporting Countries (OPEC) announced a framework for supply reductions among most of its members. Several non-OPEC producers also announced their intention to freeze or reduce production. If the agreement is executed as planned, it could encourage a quicker return to supply growth. A price recovery above $50 per barrel could contribute to supply growth in U.S. oil regions and in other non-OPEC producing countries that do not participate in the OPEC-led supply reductions. The Brent crude oil price for 2017 is forecast to average $52 per barrel.

After a two-year slump, global dairy prices rallied since mid-year 2016. Low oil prices and grain prices, plus a strong U.S. dollar, all put downward pressure on world dairy commodity prices. Milk production in the U.S. has been in expansion mode, increasing 2.4% as of November 2016 compared to the year earlier. Factors contributing to the growing U.S. milk supply in recent months include higher milk prices, lower feed prices, lower cull cow prices, and the improvement of the drought conditions in the western parts of the U.S. The all-in milk price forecast for the fourth quarter of 2016 was $17.40-$17.50 per hundredweight (cwt). For the year, the all-in milk price forecast was $16.20 per cwt. Based on recent data, USDA is forecasting fewer expected milk cows in 2017, more than offsetting the slight increase in milk per cow. Milk production forecast for 2017 is 217.1 billion pounds. The 2017 all-in milk forecast is $17.60-$18.40 per cwt.

Pork production is expected to be 2.6% higher in the fourth quarter of 2016 compared to the same prior year period. Hog prices are responding to larger product supplies and packing plants running near capacity. Lean hogs are expected to finish at $45.78 per cwt for 2016, a 9.7% decline from 2015. Hog supplies are forecast to be up 4.0% in 2017. New hog processing plants are expected to come online in 2017, but the larger plants are not expected to be operational until late summer or fall. For now, processing capacity still remains somewhat tight and has given more control to the packers to dictate pricing direction. The USDA is forecasting further price deterioration in 2017, with a lean hog price of $39-$41 per cwt.

Broiler production for 2016 is expected to be 1.6% above 2015 levels, or 40.7 billion pounds. Export markets were favorable in 2016, increasing 5.4% to 6.7 billion pounds. Further increases in production are forecast for 2017 at 41.6 billion pounds, while exports also increase to 6.9 billion pounds. Turkey production is expected to be 6.0 billion pounds in 2016, or 6.9% higher than 2015. Turkey exports are improving from 2015 levels when trade was affected by HPAI, but still well below 2012-2014 export levels. Turkey exports in 2016 are expected to increase by 8.6% to 575 million pounds. Production forecast continues to increase in 2017 to 6.1 billion pounds, while exports increase by 9.5% to 630 million pounds.

The value of total farm sector equity is forecast down by $79.9 billion (3.1%) in 2016, due to a rise in farm sector debt and a modest decline in sector assets relative to 2015. The value of real estate, the largest component by far of the asset portfolio, is forecast down by $12.0 billion (0.5%), while value of crops, livestock, and inputs are down by $17.4 billion (9.3%), and the value of machinery and vehicles are expected to be down $22.7 billion (9.5%) from 2015. The balance sheet forecast indicates a fourth consecutive year in which farm solvency measures have declined. The USDA estimates a decrease in U.S. crop land value of $40 per acre (1.0%) to $4,090 per acre from the previous year. In Michigan, cropland real estate value decreased to an average of $4,500 per acre, down 1.1% from 2015. Overall, we feel most loans will remain adequately collateralized during 2017 as the value of assets adjusts to current market conditions. The decline in collateral values is being taken into account in our evaluation of the level of allowance for loan losses.

Loan Portfolio

LOAN PORTFOLIO

Total loans were $7.8 billion at December 31, 2016, an increase of $508.9 million from December 31, 2015.

Components of Loans
(in thousands)

As of December 31	2016	2015	2014
Accrual loans:			
Real estate mortgage	$4,590,963	$4,322,681	$3,958,382
Production and intermediate term	2,017,184	2,160,692	2,031,889
Agribusiness	842,667	445,927	371,514
Other	304,222	321,393	312,444
Nonaccrual loans	46,522	41,954	47,553
Total loans	$7,801,558	$7,292,647	$6,721,782

The other category is primarily comprised of rural residential real estate and communication related loans, as well as loans originated under the Mission Related Investment authority.

As part of the AgriBank Asset Pool program (managed loans), we have sold participation interests in real estate loans to AgriBank. Our total participation interests in this program were $212.9 million, $256.9 million, and $305.9 million at December 31, 2016, 2015, and 2014, respectively.

Our growth in owned and managed loans for 2016 was 6.2%. This level of growth is slightly lower than the 7.4% growth rate experienced in 2015. Growth in all of our market segments was positively impacted by continued historically low interest rates in both 2016 and 2015. Owned and managed mortgage volume increased 8.0% over December 2015. The year end commercial loan volume increased 1.2% when compared to December 2015. Loan growth was solid in all market segments as our three major segments each exceeded 3.5% growth. Our Traditional Farm segment, including our large commercial loans, grew 6.9% in both 2016 and 2015. The Capital Markets segment experienced a 13.2% growth rate in 2016 compared to a 16.1% growth rate in 2015. Our Country Living segment growth rate was 3.9% in 2016 compared to 3.6% in 2015. This growth is partially reflective of the improving economic conditions in our marketplace where more lenders are expanding their lending.

The outlook for overall portfolio growth for 2017 will have similar challenges to our experience in 2016. Increased competitive pressure is expected to create additional challenges to our growth in the Capital Markets and Commercial Producers segments. New entrants into the agricultural lending market will continue to put pressure on our growth level and returns in these segments. We expect moderate demand for expansion capital in dairy and some animal protein sectors during 2017. The level of this demand will depend on the expected profit margins in these segments, which look challenged today due to lower market prices. We are seeing a slight decline in land values in our regions. The general non-farm economic weakness that has been in place in our territory for the last several years is slowly giving way to improvement. This should provide further opportunities in the Country Living segment, which is experiencing high levels of competition with regard to pricing and new competitors continuing to reach the rural segment. Overall, we expect all market segments to show positive growth in 2017, with the Commercial Producers and Capital Market segments providing the highest growth rates. However, we also expect continued loan pricing pressure within all market segments.

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

PORTFOLIO DISTRIBUTION

We are chartered to operate throughout Michigan and in certain counties in Wisconsin. Our portfolio is fairly evenly distributed among the territory with no material concentrations in any one county. This is evidenced by there being no individual county representing greater than 5.0% of our total loan volume at December 31, 2016.

Agricultural Concentrations

As of December 31	2016	2015	2014
Dairy	24.2%	23.1%	22.4%
Cash crops	21.3	22.5	22.9
Country home living	16.5	16.8	16.8
Timber	4.5	4.4	4.2
Agribusiness	4.5	4.3	4.3
Hogs	3.3	3.1	3.0
Fruit	3.0	3.1	3.1
Livestock	2.8	3.0	3.1
Poultry	2.4	2.3	1.9
Potatoes	1.9	1.8	1.8
Greenhouse and nursery	1.8	2.0	2.3
Sugar beets	1.7	1.7	1.7
Vegetables	1.6	1.3	1.3
Landlords	1.4	1.5	1.5
Broilers	1.1	1.1	0.5
Grains and field beans	0.7	1.0	0.7
Government guarantee	0.4	0.5	0.5
Food products and distribution	0.3	0.6	0.5
Other	6.6	5.9	7.5
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 level of portfolio diversification has not changed materially over the last year and continues to be one of our portfolio strengths. Due mainly to our diversity in commodities and the varied operating cycles that those commodities experience, our commercial volume levels do not show significant levels of seasonality.

PORTFOLIO CREDIT QUALITY

The credit quality of our loan portfolio remained stable throughout 2016. Adversely classified owned assets increased from 1.4% of the portfolio at December 31, 2015 to 1.8% of the portfolio at December 31, 2016. Adversely classified assets are assets that we identified as showing some credit weakness outside normal credit standards. The credit quality of our core market of traditional production farm loans remained very sound. Weaker borrowers in our greenhouse/nursery, part-time farmer, general crop and livestock farms, and dairy portfolios continued to be challenged financially during 2016. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

The resulting level of credit quality, when combined with our earnings and addition to capital surplus, resulted in adverse asset to risk funds ratio of 10.8% at December 31, 2016. This ratio has increased from 8.3% at December 31, 2015, but remains sound and well below our goal of maintaining the ratio at or below 25.0%. This ratio is a good measure of our risk-bearing ability.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At December 31, 2016, $279.0 million of our loans were, to some level, guaranteed under these programs.

RISK ASSETS

Components of Risk Assets
(dollars in thousands)

As of December 31	2016	2015	2014
Loans:			
Nonaccrual	$46,522	$41,954	$47,553
Accruing restructured	3,374	3,459	3,173
Accruing loans 90 days or more past due	65	34	—
Total risk loans	49,961	45,447	50,726
Acquired property	1,583	2,440	1,904
Total risk assets	$51,544	$47,887	$52,630
Total risk loans as a percentage of total loans	0.6%	0.6%	0.7%
Nonaccrual loans as a percentage of total loans	0.6%	0.6%	0.7%
Current nonaccrual loans as a percentage of total nonaccrual loans	76.5%	78.6%	75.9%
Total delinquencies as a percentage of total loans	0.4%	0.3%	0.3%

Note: Accruing loans include accrued interest receivable.

Our risk assets remained at acceptable levels during 2016. Total risk loans as a percentage of total loans remain well within our established risk management guidelines.

The increase in nonaccrual volume from December 31, 2015 was partially due to a large dairy relationship that transferred into nonaccrual during 2016 totaling $2.0 million. As of December 31, 2016, 41.0% of the nonaccrual loan portfolio was comprised of greenhouse/nursery loans, 22.3% general crop and livestock farms, and 14.4% part-time farmers.

Accruing restructured loans decreased slightly during 2016. At December 31, 2016, 96.6% of our accruing restructured loans were current in their payment status.

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

Acquired property inventory decreased during 2016 primarily due to $1.6 million of properties sold, which were partially offset by $882 thousand of loans transferred in.

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	0.6%	0.5%	0.5%
Nonaccrual loans	99.7%	81.7%	71.7%
Total risk loans	92.8%	75.5%	67.2%
Net charge-offs as a percentage of average loans	0.1%	—	—
Adverse assets to risk funds	10.8%	8.3%	9.4%

The allowance for loan losses increased $12.1 million from December 31, 2015 to December 31, 2016 to $46.4 million. During 2016, a provision for loan losses of $19.9 million was recorded, which was partially offset by $7.8 million of net charge-offs. 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, 11, 12, and 13 to the accompanying Consolidated Financial Statements.

Investment Securities

In addition to loans, we held investment securities. Investment securities totaled $16.7 million, $20.6 million, and $25.7 million at December 31, 2016, 2015, and 2014, respectively. Our investment securities consisted of loans fully guaranteed by the Small Business Administration. The 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.

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	$131,917	$141,087	$142,757
Return on average assets	1.7%	2.0%	2.2%
Return on average members' equity	9.3%	10.7%	11.7%

Changes in these ratios relate directly to:

- Changes in income discussed on the following page
- 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
(in thousands)

For the year ended December 31	2016	2015	2014
Net interest income	$194,499	$181,169	$173,768
(Provision for) reversal of credit losses	(20,161)	(3,273)	2,689
Patronage income	23,550	23,433	27,964
Financially related services income	9,479	9,514	8,745
Fee income	15,444	13,572	12,998
Acquired property net income	161	267	3,485
Miscellaneous income, net	1,216	754	550
Operating expenses	(90,452)	(85,570)	(79,524)
(Provision for) benefit from income taxes	(1,819)	1,221	(7,918)
Net income	$131,917	$141,087	$142,757

Changes in Significant Components of Net Income
(in thousands)

Increase (decrease) in net income	2016 vs. 2015	2015 vs. 2014
Net interest income	$13,330	$7,401
(Provision for) reversal of credit losses	(16,888)	(5,962)
Patronage income	117	(4,531)
Financially related services income	(35)	769
Fee income	1,872	574
Acquired property net income	(106)	(3,218)
Miscellaneous income, net	462	204
Operating expenses	(4,882)	(6,046)
(Provision for) benefit from income taxes	(3,040)	9,139
Net income	$(9,170)	$(1,670)

NET INTEREST INCOME

Changes in Net Interest Income
(in thousands)

	2016 vs. 2015	2015 vs. 2014
Changes in volume	$17,503	$16,439
Changes in interest rates	(3,274)	(8,994)
Changes in nonaccrual income and other	(899)	(44)
Net change	$13,330	$7,401

Net interest income included income on nonaccrual loans that totaled $1.0 million, $1.4 million, and $2.1 million in 2016, 2015, and 2014, respectively. Nonaccrual income is recognized when received in cash, collection of the recorded investment is fully expected, and prior charge-offs have been recovered.

Net interest margin (net interest income as a percentage of average earning assets) was 2.6%, 2.7%, and 2.8% in 2016, 2015, and 2014, respectively. We expect margins to compress in the future if interest rates rise and competition increases.

PROVISION FOR (REVERSAL OF) CREDIT LOSSES

The recorded provision for loan losses during 2016 of $19.9 million was primarily due to added risk in our loan portfolio related to lower grain and milk prices as well as deteriorating values for equipment and land. In addition, a $232 thousand credit loss provision was recorded on unfunded loan commitments resulting in a total net provision of $20.2 million. 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 $15.8 million, $14.6 million, and $17.2 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 $5.3 million, $6.4 million, and $8.3 million in 2016, 2015, and 2014, respectively.

We also received a partnership distribution resulting from our participation in the AgDirect trade credit financing program. The program is facilitated by another AgriBank District association through a limited liability partnership (AgDirect, LLP), in which we are a partial owner. AgriBank purchases a 100% participation interest in the program loans from AgDirect, LLP. Patronage distributions are paid to AgDirect, LLP, which in turn pays partnership distributions to the participating associations. We received a partnership distribution in an amount that approximated our share of the net earnings of the loans in the program, adjusted for required return on capital and servicing and origination fees. We received a partnership distribution of $2.3 million in 2016 and $2.4 million in 2015 and 2014.

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	$56,675	$56,391	$51,320
Purchased and vendor services	3,658	3,080	3,641
Communications	1,402	1,418	1,515
Occupancy and equipment	8,599	7,452	7,454
Advertising and promotion	2,604	2,545	2,542
Examination	1,795	1,526	1,438
Farm Credit System insurance	10,669	7,443	6,244
Other	5,050	5,715	5,370
Total operating expenses	$90,452	$85,570	$79,524
Operating rate	1.2%	1.3%	1.3%

The increase in operating expenses was primarily related to FCSIC premiums. FCSIC insurance expense increased in 2016, primarily due to loan growth and an increase in the premium rate charged on accrual loans by FCSIC from 13 basis points in 2015 to 17 basis points in 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 (BENEFIT FROM) INCOME TAXES

The variance in provision for (benefit from) income taxes was related to our estimate of taxes based on taxable income on the ACA entity. Patronage distributions to members reduced our tax liability in 2016, 2015, and 2014. Additional discussion is included in Note 9 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 7 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 $464.3 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	$6,168,075	$5,602,093	$5,144,589
Average interest rate	1.7%	1.7%	1.6%

The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from unallocated surplus.

We have entered into a Standby Commitment to Purchase Agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac), a System institution, to help manage credit risk. If a loan covered by the agreement goes into default, subject to certain conditions, we have the right to sell the loan to Farmer Mac. This agreement remains in place until the loan is paid in full. The guaranteed volume of loans subject to the purchase agreement was $8.4 million, $9.5 million, and $10.1 million at December 31, 2016, 2015, and 2014, respectively. We paid Farmer Mac commitment fees totaling $42 thousand, $51 thousand, and $55 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.

Capital Adequacy

Total members' equity increased $99.2 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	$1,468,333	$1,369,123	$1,262,974	
Surplus as a percentage of members' equity	98.5%	98.4%	98.3%	
Permanent capital ratio	16.1%	16.0%	16.2%	7.0%
Total surplus ratio	15.8%	15.8%	15.9%	7.0%
Core surplus ratio	15.8%	15.8%	15.9%	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 8 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 13.5% to 18.5%. We anticipate that we will exceed all regulatory requirements, including the capital conservation buffer. Further, we expect we will be within our targeted range for capital adequacy measures.

The changes in our capital ratios reflect changes in capital and assets. Refer to the Loan Portfolio and the Investment Securities sections for further discussion of the changes in assets. Additional members' equity information is included in Note 8 to the accompanying Consolidated Financial Statements.

Relationship with AgriBank

BORROWING

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement (GFA), as discussed in Note 7 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 include 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.

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%. Effective January 1, 2017 we are required to invest 2.25% of the average quarterly balance of our note payable, with an additional amount required on growth in excess of a sustainable growth rate. Effective January 1, 2014, we entered into a contractual agreement with AgriBank whereby our required investment in AgriBank was reduced by $40.0 million. In return for this lower required investment amount, we agreed to pay an additional spread on a portion of our note payable with AgriBank equal to the reduction in our required investment. This contractual agreement was terminated effective December 31, 2016.

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 as discussed in the Loan Portfolio section.

At December 31, 2016, $73.7 million of our investment in AgriBank consisted of stock representing distributed AgriBank surplus and $86.2 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 the annual average daily balance of 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, and insurance services.

The total cost of services we purchased from AgriBank was $1.8 million in 2016, 2015, and 2014. Costs of services purchased from AgriBank are partially dependent on the number of clients. If the number of clients decreases, the cost of services may increase.

IMPACT ON MEMBERS' INVESTMENT

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

Other Relationships and Programs

RELATIONSHIPS WITH OTHER FARM CREDIT INSTITUTIONS

ProPartners Financial: We participate in ProPartners Financial (ProPartners) alliance with certain other associations in the Farm Credit System to provide producer financing through agribusiness companies that sell 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 $156.9 million, $162.5 million, and $171.4 million of ProPartners volume at December 31, 2016, 2015, and 2014, respectively. We also had $190.0 million of available commitment on ProPartners loans at December 31, 2016.

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

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.

As the facilitating association for BGM, we provide various support functions. This includes support for technology, human resources, accounting, payroll, reporting, auditing, and other finance functions.

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 some of the transactions. 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 $119 thousand, $80 thousand, and $48 thousand at December 31, 2016, 2015, and 2014, respectively.

Farm Credit Services of America, ACA: We have a relationship with Farm Credit Services of America, ACA (FCS of America), an AgriBank District association, which involves purchasing or selling participation interests in loans. As part of this relationship, our equity investment in FCS of America was $1 thousand at December 31, 2015 and 2014. We had no equity investment as of December 31, 2016.

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 $59 thousand. The total cost of services we purchased from Foundations was $302 thousand, $258 thousand, and $234 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.

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 $15.9 million, $16.8 million, and $17.3 million at December 31, 2016, 2015, and 2014, respectively.

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

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

AgriSolutions: We have an alliance with AgriSolutions, a farm software and consulting company, to provide farm records, income tax planning and preparation services, farm business consulting, and producer education seminars.

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

Regulatory Matters

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

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

The final rule replaced existing core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The final rule also added a tier 1 leverage ratio and an unallocated retained earnings equivalents leverage ratio. The permanent capital ratio continues to remain in effect with the final rule. Refer to Note 8 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

GREENSTONE FARM CREDIT SERVICES, ACA

We prepare the Consolidated Financial Statements of GreenStone 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.

Edward L. Reed
Chair of the Board
GreenStone Farm Credit Services, ACA

David B. Armstrong
Chief Executive Officer
GreenStone Farm Credit Services, ACA

Travis D. Jones
Executive Vice President – Chief Financial Officer
GreenStone Farm Credit Services, ACA

March 3, 2017

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

GREENSTONE FARM CREDIT SERVICES, ACA

The GreenStone 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.

David B. Armstrong
Chief Executive Officer
GreenStone Farm Credit Services, ACA

Travis D. Jones
Executive Vice President – Chief Financial Officer
GreenStone Farm Credit Services, ACA

March 3, 2017

REPORT OF AUDIT COMMITTEE

GREENSTONE FARM CREDIT SERVICES, ACA

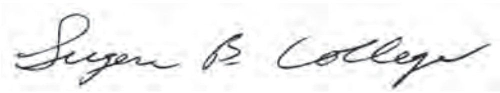
The Consolidated Financial Statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of a subset of the Board of Directors of GreenStone Farm Credit Services, ACA (the Association). The Audit Committee oversees the scope of the Association's internal audit program, 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.



Eugene B. College
Chair of the Audit Committee
GreenStone Farm Credit Services, ACA

Darl E. Evers, Scott A. Roggenbuck, and Dale L. Wagner
Members of the Audit Committee

March 3, 2017

Report of Independent Auditors

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

We have audited the accompanying Consolidated Financial Statements of GreenStone 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 GreenStone 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 3, 2017

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

CONSOLIDATED STATEMENTS OF CONDITION

GREENSTONE FARM CREDIT SERVICES, ACA
(In thousands)

As of December 31	2016	2015	2014
ASSETS			
Loans	$7,801,558	$7,292,647	$6,721,782
Allowance for loan losses	46,382	34,290	34,106
Net loans	7,755,176	7,258,357	6,687,676
Investment in AgriBank, FCB	159,936	111,217	103,368
Investment securities	16,749	20,587	25,661
Accrued interest receivable	54,054	50,409	47,645
Premises and equipment, net	41,740	39,753	34,526
Acquired property	1,583	2,440	1,904
Deferred tax assets, net	5,279	4,917	5,170
Other assets	44,712	38,960	40,386
Total assets	$8,079,229	$7,526,640	$6,946,336
LIABILITIES			
Note payable to AgriBank, FCB	$6,506,325	$6,060,273	$5,582,495
Accrued interest payable	27,164	23,976	21,324
Patronage distribution payable	32,979	35,272	36,200
Other liabilities	44,428	37,996	43,343
Total liabilities	6,610,896	6,157,517	5,683,362
Contingencies and commitments (Note 12)			
MEMBERS' EQUITY			
Protected members' equity	1	2	2
Capital stock and participation certificates	21,693	21,436	21,105
Unallocated surplus	1,446,639	1,347,685	1,241,867
Total members' equity	1,468,333	1,369,123	1,262,974
Total liabilities and members' equity	$8,079,229	$7,526,640	$6,946,336

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

CONSOLIDATED STATEMENTS OF INCOME

GREENSTONE FARM CREDIT SERVICES, ACA
(In thousands)

For the year ended December 31	2016	2015	2014
Interest income	$302,346	$275,298	$258,253
Interest expense	107,847	94,129	84,485
NET INTEREST INCOME	194,499	181,169	173,768
Provision for (reversal of) credit losses	20,161	3,273	(2,689)
NET INTEREST INCOME AFTER PROVISION FOR (REVERSAL OF) CREDIT LOSSES	174,338	177,896	176,457
Non-interest income			
Patronage income	23,550	23,433	27,964
Financially related services income	9,479	9,514	8,745
Fee income	15,444	13,572	12,998
Acquired property net income	161	267	3,485
Miscellaneous income, net	1,216	754	550
TOTAL NON-INTEREST INCOME	49,850	47,540	53,742
Operating expenses			
Salaries and employee benefits	56,675	56,391	51,320
Other operating expenses	33,777	29,179	28,204
TOTAL OPERATING EXPENSES	90,452	85,570	79,524
INCOME BEFORE INCOME TAXES	133,736	139,866	150,675
Provision for (benefit from) income taxes	1,819	(1,221)	7,918
NET INCOME	$131,917	$141,087	$142,757

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

GREENSTONE FARM CREDIT SERVICES, ACA
(In thousands)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance as of December 31, 2013	$3	$20,614	$1,135,295	$1,155,912
Net income	—	—	142,757	142,757
Unallocated surplus designated for patronage distributions	—	—	(36,185)	(36,185)
Capital stock and participation certificates issued	—	1,931	—	1,931
Capital stock and participation certificates retired	(1)	(1,440)	—	(1,441)
Balance as of December 31, 2014	2	21,105	1,241,867	1,262,974
Net income	—	—	141,087	141,087
Unallocated surplus designated for patronage distributions	—	—	(35,269)	(35,269)
Capital stock and participation certificates issued	—	1,976	—	1,976
Capital stock and participation certificates retired	—	(1,645)	—	(1,645)
Balance as of December 31, 2015	2	21,436	1,347,685	1,369,123
Net income	—	—	131,917	131,917
Unallocated surplus designated for patronage distributions	—	—	(32,963)	(32,963)
Capital stock and participation certificates issued	—	1,925	—	1,925
Capital stock and participation certificates retired	(1)	(1,668)	—	(1,669)
Balance as of December 31, 2016	$1	$21,693	$1,446,639	$1,468,333

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

GREENSTONE FARM CREDIT SERVICES, ACA
(In thousands)

For the year ended December 31	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$131,917	$141,087	$142,757
Depreciation on premises and equipment	2,795	2,630	2,453
(Gain) loss on sale of premises and equipment, net	(514)	(135)	2
Amortization of premiums on loans and investment securities, net	590	652	976
Provision for (reversal of) credit losses	20,161	3,273	(2,689)
Stock patronage received from Farm Credit Institutions	(39)	(32)	(16,168)
Write-down on acquired property	197	211	463
Gain on acquired property,net	(149)	(317)	(4,077)
Changes in operating assets and liabilities:			
Increase in accrued interest receivable	(13,397)	(13,491)	(12,860)
(Increase) decrease in other assets	(6,897)	1,186	3,184
Increase in accrued interest payable	3,188	2,652	1,216
Increase (decrease) in other liabilities	6,432	(5,347)	3,171
Net cash provided by operating activities	144,284	132,369	118,428
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in loans, net	(507,649)	(564,303)	(451,449)
(Purchases) redemptions of investment in AgriBank, FCB, net	(48,719)	(7,849)	70,727
Redemptions (purchases) of investment in other Farm Credit Institutions, net	822	525	(845)
Decrease in investment securities, net	3,385	4,495	5,644
Decrease in acquired property	1,668	1,299	1,362
Purchases of premises and equipment, net	(4,268)	(7,722)	(1,011)
Net cash used in investing activities	(554,761)	(573,555)	(375,572)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in note payable to AgriBank, FCB, net	446,052	477,778	286,473
Patronage distributions paid	(35,256)	(36,197)	(28,985)
Capital stock and participation certificates retired, net	(319)	(395)	(344)
Net cash provided by financing activities	410,477	441,186	257,144
Net change in cash	—	—	—
Cash at beginning of year	7	7	7
Cash at end of year	$7	$7	$7
SUPPLEMENTAL SCHEDULE OF NON-CASH ACTIVITIES			
Stock financed by loan activities	$1,874	$1,932	$1,896
Stock applied against loan principal	1,297	1,199	1,054
Stock applied against interest	2	7	8
Interest transferred to loans	9,750	10,720	8,534
Loans transferred to acquired property	882	2,633	2,908
Qualified cash patronage distributions payable to members	32,979	35,272	36,200
Financed sales of acquired property	23	904	16,007
SUPPLEMENTAL INFORMATION			
Interest paid	$104,659	$91,477	$83,269
Taxes paid	3,105	2,316	5,897

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

GREENSTONE 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

GreenStone Farm Credit Services, ACA (the Association) and its subsidiaries, GreenStone Farm Credit Services, FLCA and GreenStone 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 state of Michigan and the counties of Brown, Door, Florence, Kewaunee, Manitowac, Marinette, Menominee, Oconto, Outagamie, Shawano, and Waupaca in the state of Wisconsin.

We borrow from AgriBank and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans and provides lease financing options. The ACA and PCA make short-term and intermediate-term loans and provide lease financing options for agricultural production or operating purposes. At this time, the ACA holds all short-term and intermediate-term loans and the PCA has no assets.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING PRINCIPLES AND REPORTING POLICIES

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

PRINCIPLES OF CONSOLIDATION

The Consolidated Financial Statements present the consolidated financial results of GreenStone 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. Material loan fees, net of related costs, are deferred and recognized over the life of the loan as an adjustment to net interest income. The net amount of loan fees and related origination costs are not material to the Consolidated Financial Statements taken as a whole.

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

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

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a formally restructured loan for regulatory purposes. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as troubled debt restructurings are considered risk loans (as defined below).

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

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

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

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

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

Changes in the allowance for loan losses consist of provision activity, recorded in "Provision for (reversal of) credit losses" in the Consolidated Statements of Income, and 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.

Acquired Property: Acquired property, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at 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 "Acquired property net income" in the Consolidated Statements of Income.

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

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. All employees hired after December 31, 2006 only participate in this plan.

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

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.

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.

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 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.

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
In June 2016, the FASB issued ASU 2016-13 "Financial Instruments – Credit Losses."

Description
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.

Effective date and financial statement impact
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.

Standard
In February 2016, the FASB issued ASU 2016-02 "Leases."

Description
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.

Effective date and financial statement impact
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.

Standard
In January 2016, the FASB issued ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities."

Description
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.

Effective date and financial statement impact
The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2018 and interim periods with annual periods beginning after December 15, 2019. Certain disclosure changes are permitted to be immediately adopted for annual reporting periods that have not yet been made available for issuance. Nonpublic entities are no longer required to include certain fair value of financial instruments disclosures as part of these disclosure changes. We have immediately adopted this guidance and have excluded such disclosures from our Notes to Consolidated Financial Statements. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2017 for other applicable sections of the guidance. We are currently evaluating the impact of the remaining guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.

Standard
In February 2015, the FASB issued ASU 2015-02 "Consolidation-Amendments to the Consolidation Analysis."

Description
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."

Effective date and financial statement impact
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
In August 2014, the FASB issued ASU 2014-15 "Presentation of Financial Statements-Going Concern."

Description
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.

Effective date and financial statement impact
This guidance became effective for all entities for interim and annual periods ending after December 15, 2016. The adoption of this guidance did not have a material impact on our financial condition, results of operations, cash flows, or financial statement disclosures.

Standard
In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers."

Description
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.

Effective date and financial statement impact
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	Percentage	Amount	Percentage	Amount	Percentage
Real estate mortgage	$4,612,265	59.1%	$4,345,125	59.6%	$3,985,716	59.3%
Production and intermediate term	2,039,670	26.1	2,177,244	29.9	2,048,001	30.5
Agribusiness	842,667	10.8	445,927	6.1	371,514	5.5
Other	306,956	4.0	324,351	4.4	316,551	4.7
Total	$7,801,558	100.0%	$7,292,647	100.0%	$6,721,782	100.0%

The other category is primarily comprised of rural residential real estate, communication, and energy related loans as well as loans 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 5.1% of total loans and commitments.

While these concentrations represent our maximum potential credit risk, as it relates to recorded loan principal, the vast majority of our lending activities are collateralized. This reduces our exposure to credit loss associated with our lending activities. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock. Long-term real estate loans are secured by the first liens on the underlying real property. FCA regulations state that long-term real estate loans are not to exceed 85% (97% if guaranteed by a government agency) of the property's appraised value at origination and our underwriting standards generally limit lending to no more than 65-75% 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)

	AgriBank Participations		Other Farm Credit Institutions Participations		Non-Farm Credit Institutions Participations		Total Participations	
As of December 31, 2016	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ —	$(262,238)	$208,772	$(100,946)	$136,182	$ —	$344,954	$(363,184)
Production and intermediate term	—	(37,810)	224,706	(57,722)	9,303	(2)	234,009	(95,534)
Agribusiness	—	(6,208)	469,377	(23,182)	18,571	—	487,948	(29,390)
Other	—	(8,103)	106,402	—	—	—	106,402	(8,103)
Total	$ —	$(314,359)	$1,009,257	$(181,850)	$164,056	$(2)	$1,173,313	$(496,211)
As of December 31, 2015								
Real estate mortgage	$ —	$(263,031)	$228,838	$(70,058)	$125,802	$(3)	$354,640	$(333,092)
Production and intermediate term	—	(41,260)	282,214	(88,833)	39,440	(6)	321,654	(130,099)
Agribusiness	—	(31,804)	227,093	(34,232)	—	—	227,093	(66,036)
Other	—	(9,735)	117,287	—	—	—	117,287	(9,735)
Total	$ —	$(345,830)	$855,432	$(193,123)	$165,242	$(9)	$1,020,674	$(538,962)
As of December 31, 2014								
Real estate mortgage	$ —	$(310,737)	$186,601	$(62,669)	$127,277	$ —	$313,878	$(373,406)
Production and intermediate term	—	(31,359)	274,451	(79,089)	39,339	(9)	313,790	(110,457)
Agribusiness	—	(29,644)	152,988	(30,929)	20,000	—	172,988	(60,573)
Other	—	(10,967)	110,351	—	—	—	110,351	(10,967)
Total	$ —	$(382,707)	$724,391	$(172,687)	$186,616	$(9)	$911,007	$(555,403)

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) – loans are currently collectible but exhibit some potential weakness. These loans involve increased credit risk, but not to the point of justifying a substandard classification.
- Substandard – loans exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – loans exhibit similar weaknesses as substandard loans. Doubtful loans have additional weaknesses in existing factors, conditions, and values that make collection in full highly questionable.
- Loss – loans are considered uncollectible.

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

Credit Quality of Loans
(dollars in thousands)

	Acceptable		Special Mention		Substandard/ Doubtful		Total
As of December 31, 2016	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount
Real estate mortgage	$4,440,901	95.6%	$129,709	2.8%	$72,690	1.6%	$4,643,300
Production and intermediate term	1,940,047	94.2	67,588	3.3	51,683	2.5	2,059,318
Agribusiness	815,213	96.5	18,408	2.2	11,380	1.3	845,001
Other	298,493	97.0	2,520	0.8	6,621	2.2	307,634
Total	$7,494,654	95.4%	$218,225	2.8%	$142,374	1.8%	$7,855,253
As of December 31, 2015							
Real estate mortgage	$4,266,077	97.6%	$53,291	1.2%	$54,069	1.2%	$4,373,437
Production and intermediate term	2,143,198	97.5	14,405	0.7	39,709	1.8	2,197,312
Agribusiness	441,979	98.9	2,728	0.6	2,190	0.5	446,897
Other	313,623	96.5	3,578	1.1	7,856	2.4	325,057
Total	$7,164,877	97.6%	$74,002	1.0%	$103,824	1.4%	$7,342,703
As of December 31, 2014							
Real estate mortgage	$3,906,430	97.4%	$48,722	1.2%	$57,448	1.4%	$4,012,600
Production and intermediate term	2,016,682	97.6	8,174	0.4	41,877	2.0	2,066,733
Agribusiness	370,896	99.6	1,469	0.4	—	—	372,365
Other	303,558	95.7	3,892	1.2	9,931	3.1	317,381
Total	$6,597,566	97.5%	$62,257	0.9%	$109,256	1.6%	$6,769,079

Note: Accruing loans include accrued interest receivable.

Aging Analysis of Loans
(in thousands)

As of December 31, 2016	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	90 Days Past Due and Accruing
Real estate mortgage	$14,447	$3,890	$18,337	$4,624,963	$4,643,300	$ —
Production and intermediate term	5,612	2,374	7,986	2,051,332	2,059,318	65
Agribusiness	—	—	—	845,001	845,001	—
Other	2,518	444	2,962	304,672	307,634	—
Total	$22,577	$6,708	$29,285	$7,825,968	$7,855,253	$65
As of December 31, 2015						
Real estate mortgage	$9,265	$2,920	$12,185	$4,361,252	$4,373,437	$ —
Production and intermediate term	2,711	2,537	5,248	2,192,064	2,197,312	34
Agribusiness	—	—	—	446,897	446,897	—
Other	2,049	1,076	3,125	321,932	325,057	—
Total	$14,025	$6,533	$20,558	$7,322,145	$7,342,703	$ 34
As of December 31, 2014						
Real estate mortgage	$9,501	$4,089	$13,590	$3,999,010	$4,012,600	$ —
Production and intermediate term	3,823	2,502	6,325	2,060,408	2,066,733	—
Agribusiness	—	—	—	372,365	372,365	—
Other	2,649	1,042	3,691	313,690	317,381	—
Total	$15,973	$7,633	$23,606	$6,745,473	$6,769,079	$ —

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	$35,568	$32,981	$36,080
Past due	10,954	8,973	11,473
Total nonaccrual loans	46,522	41,954	47,553
Accruing restructured loans	3,374	3,459	3,173
Accruing loans 90 days or more past due	65	34	—
Total risk loans	$49,961	$45,447	$50,726
Volume with specific reserves	$25,850	$27,935	$33,272
Volume without specific reserves	24,111	17,512	17,454
Total risk loans	$49,961	$45,447	$50,726
Total specific reserves	$11,355	$11,904	$15,895
For the year ended December 31	**2016**	**2015**	**2014**
Income on accrual risk loans	$257	$233	$158
Income on nonaccrual loans	1,037	1,413	2,145
Total income on risk loans	$1,294	$1,646	$2,303
Average recorded risk loans	$49,487	$50,285	$62,702

Note: Accruing loans include accrued interest receivable.

The increase in nonaccrual volume from December 31, 2015 was partially due to a large dairy relationship transferred into nonaccrual during 2016 totaling $2.0 million. As of December 31, 2016, 41.0% of the nonaccrual loan portfolio was comprised of greenhouse/nursery loans, 22.3% general crop and livestock farms, and 14.4% part-time farmers.

Accruing restructured loans decreased slightly during 2016. At December 31, 2016, 96.6% of our accruing restructured loans were current in their payment status.

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. This agreement remains in place until the loan is paid in full. The guaranteed volume of loans subject to the purchase agreement was $8.4 million, $9.5 million, and $10.1 million at December 31, 2016, 2015, and 2014, respectively. Fees paid to Farmer Mac for these commitments totaled $42 thousand, $51 thousand, and $55 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 mortgage	$21,301	$22,445	$27,334
Production and intermediate term	22,486	16,552	16,112
Other	2,735	2,957	4,107
Total	$46,522	$41,954	$47,553

Additional Impaired Loan Information by Loan Type
(in thousands)

	As of December 31, 2016			For the year ended December 31, 2016	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$8,785	$10,861	$2,675	$9,402	$ —
Production and intermediate term	15,267	19,420	8,078	13,764	—
Agribusiness	—	—	—	—	—
Other	1,798	2,115	602	1,866	—
Total	$25,850	$32,396	$11,355	$25,032	$ —
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$15,221	$29,085	$ —	$16,290	$577
Production and intermediate term	7,791	15,753	—	7,024	429
Agribusiness	—	5	—	—	123
Other	1,099	3,935	—	1,141	165
Total	$24,111	$48,778	$ —	$24,455	$1,294
Total impaired loans:					
Real estate mortgage	$24,006	$39,946	$2,675	$25,692	$577
Production and intermediate term	23,058	35,173	8,078	20,788	429
Agribusiness	—	5	—	—	123
Other	2,897	6,050	602	3,007	165
Total	$49,961	$81,174	$11,355	$49,487	$1,294

	As of December 31, 2015			For the year ended December 31, 2015	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$13,492	$17,415	$4,864	$15,425	$ —
Production and intermediate term	12,268	14,355	6,259	13,030	—
Agribusiness	—	—	—	—	—
Other	2,175	2,525	781	2,281	—
Total	$27,935	$34,295	$11,904	$30,736	$ —
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$11,685	$26,021	$ —	$13,360	$589
Production and intermediate term	4,881	11,410	—	5,185	620
Agribusiness	—	57	—	14	179
Other	946	4,053	—	990	258
Total	$17,512	$41,541	$ —	$19,549	$1,646
Total impaired loans:					
Real estate mortgage	$25,177	$43,436	$4,864	$28,785	$589
Production and intermediate term	17,149	25,765	6,259	18,215	620
Agribusiness	—	57	—	14	179
Other	3,121	6,578	781	3,271	258
Total	$45,447	$75,836	$11,904	$50,285	$1,646

	As of December 31, 2014			For the year ended December 31, 2014	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$18,506	$20,509	$7,793	$21,680	$ —
Production and intermediate term	12,008	14,176	7,140	14,543	—
Agribusiness	—	—	—	—	—
Other	2,758	3,317	962	3,057	—
Total	$33,272	$38,002	$15,895	$39,280	$ —
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$11,241	$26,197	$ —	$13,170	$987
Production and intermediate term	4,697	10,758	—	5,689	891
Agribusiness	—	59	—	2,882	314
Other	1,516	4,967	—	1,681	111
Total	$17,454	$41,981	$ —	$23,422	$2,303
Total impaired loans:					
Real estate mortgage	$29,747	$46,706	$7,793	$34,850	$987
Production and intermediate term	16,705	24,934	7,140	20,232	891
Agribusiness	—	59	—	2,882	314
Other	4,274	8,284	962	4,738	111
Total	$50,726	$79,983	$15,895	$62,702	$2,303

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 had two relationships in which we had commitments to lend additional money whose loans were at risk at December 31, 2016. The balance of the unfunded loan commitments was $3.0 million. Refer to the allowance for loan losses section in Note 3 for further discussion.

TROUBLED DEBT RESTRUCTURINGS

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

TDR Activity
(in thousands)

For the year ended December 31	2016		2015		2014	
	Pre-modification	Post-modification	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	$335	$337	$143	$177	$298	$299
Production and intermediate term	64	53	283	285	46	44
Other	28	20	108	111	94	104
Total	$427	$410	$534	$573	$438	$447

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

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

TDRs that Occurred Within the Previous 12 Months that Subsequently Defaulted
(in thousands)

	2016	2015	2014
Production and intermediate term	$28	$30	$—
Other	—	—	104
Total	$28	$30	$104

TDRs Outstanding
(in thousands):

As of December 31	2016	2015	2014
Accrual status:			
Real estate mortgage	$2,706	$2,732	$2,412
Production and intermediate term	506	563	594
Other	162	164	167
Total TDRs in accrual status	$3,374	$3,459	$3,173
Nonaccrual status:			
Real estate mortgage	$972	$841	$1,366
Production and intermediate term	252	425	346
Other	263	382	254
Total TDRs in nonaccrual status	$1,487	$1,648	$1,966
Total TDRs:			
Real estate mortgage	$3,678	$3,573	$3,778
Production and intermediate term	758	988	940
Other	425	546	421
Total TDRs	$4,861	$5,107	$5,139

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

ALLOWANCE FOR LOAN LOSSES

Changes in Allowance for Loan Losses
(in thousands)

For the year ended December 31	2016	2015	2014
Balance at beginning of year	$34,290	$34,106	$38,772
Provision for (reversal of) loan losses	19,929	2,640	(2,378)
Loan recoveries	983	820	738
Loan charge-offs	(8,820)	(3,276)	(3,026)
Balance at end of year	$46,382	$34,290	$34,106

The allowance for loan losses increased $12.1 million from December 31, 2015 to December 31, 2016. During 2016, a provision for loan losses of $19.9 million was recorded, which was partially offset by $7.8 million of net charge-offs.

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

Credit Loss Information on Unfunded Commitments
(in thousands)

For the year ended December 31	2016	2015	2014
Provision for (reversal of) credit losses	$232	$631	$(311)
As of December 31	**2016**	**2015**	**2014**
Accrued credit losses	$2,960	$2,729	$2,097

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2015	$13,740	$18,145	$864	$1,541	$34,290
Provision for loan losses	7,361	1,099	11,467	2	19,929
Loan recoveries	449	459	2	73	983
Loan charge-offs	(340)	(1,776)	(6,300)	(404)	(8,820)
Balance as of December 31, 2016	$21,210	$17,927	$6,033	$1,212	$46,382
Ending balance: individually evaluated for impairment	$2,675	$8,078	$ —	$602	$11,355
Ending balance: collectively evaluated for impairment	$18,535	$9,849	$6,033	$610	$35,027
Recorded investments in loans outstanding:					
Ending balance as of December 31, 2016	$4,643,300	$2,059,318	$845,001	$307,634	$7,855,253
Ending balance: individually evaluated for impairment	$24,006	$23,058	$—	$2,897	$49,961
Ending balance: collectively evaluated for impairment	$4,619,294	$2,036,260	$845,001	$304,737	$7,805,292

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2014	$12,569	$18,788	$923	$1,826	$34,106
Provision for (reversal of) loan losses	1,290	1,495	(49)	(96)	2,640
Loan recoveries	447	223	4	146	820
Loan charge-offs	(566)	(2,361)	(14)	(335)	(3,276)
Balance as of December 31, 2015	$13,740	$18,145	$864	$1,541	$34,290
Ending balance: individually evaluated for impairment	$4,864	$6,259	$ —	$781	$11,904
Ending balance: collectively evaluated for impairment	$8,876	$11,886	$864	$760	$22,386
Recorded investments in loans outstanding:					
Ending balance as of December 31, 2015	$4,373,437	$2,197,312	$446,897	$325,057	$7,342,703
Ending balance: individually evaluated for impairment	$25,177	$17,149	$ —	$3,121	$45,447
Ending balance: collectively evaluated for impairment	$4,348,260	$2,180,163	$446,897	$321,936	$7,297,256

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2013	$13,762	$20,241	$2,934	$1,835	$38,772
Provision for (reversal of) loan losses	67	(743)	(2,013)	311	(2,378)
Loan recoveries	191	383	2	162	738
Loan charge-offs	(1,451)	(1,093)	—	(482)	(3,026)
Balance as of December 31, 2014	$12,569	$18,788	$923	$1,826	$34,106
Ending balance: individually evaluated for impairment	$7,793	$7,140	$ —	$962	$15,895
Ending balance: collectively evaluated for impairment	$4,776	$11,648	$923	$864	$18,211
Recorded investments in loans outstanding:					
Ending balance as of December 31, 2014	$4,012,600	$2,066,733	$372,365	$317,381	$6,769,079
Ending balance: individually evaluated for impairment	$29,747	$16,705	$ —	$4,274	$50,726
Ending balance: collectively evaluated for impairment	$3,982,853	$2,050,028	$372,365	$313,107	$6,718,353

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. AgriBank's current bylaws allow AgriBank to increase the required investment to 4.0%. Effective January 1, 2017 we are required to invest 2.25% of the average quarterly balance of our note payable, with an additional amount required on growth in excess of a sustainable growth rate. Effective January 1, 2014, we entered into a contractual agreement with AgriBank whereby our required investment in AgriBank was reduced by $40.0 million. In return for this lower required investment amount, we agreed to pay an additional spread on a portion of our note payable with AgriBank equal to the reduction in our required investment. This contractual agreement was terminated effective December 31, 2016.

In addition, we are 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 $159.9 million, $111.2 million, and $103.4 million at December 31, 2016, 2015, and 2014, respectively.

NOTE 5: INVESTMENT SECURITIES

We held investment securities of $16.7 million, $20.6 million, and $25.7 million at December 31, 2016, 2015, and 2014, respectively. Our investment securities consisted of loans fully guaranteed by the Small Business Administration. The 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.

Additional Investment Securities Information
(dollars in thousands)

As of December 31	2016	2015	2014
Amortized cost	$16,749	$20,587	$25,661
Unrealized gains	787	831	933
Fair value	$17,536	$21,418	$26,594
Weighted average yield	1.8%	1.5%	0.7%

Investment income is recorded in "Interest income" in the Consolidated Statements of Income and totaled $331 thousand, $338 thousand, and $188 thousand in 2016, 2015, and 2014, respectively.

NOTE 6: PREMISES AND EQUIPMENT

Premises and Equipment
(in thousands)

As of December 31	2016	2015	2014
Land, buildings, and improvements	$48,995	$45,658	$40,782
Furniture and equipment	20,217	19,505	17,809
Subtotal	69,212	65,163	58,591
Less: accumulated depreciation	27,472	25,410	24,065
Premises and equipment, net	$41,740	$39,753	$34,526

NOTE 7: 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	$7,000,000	$7,000,000	$6,500,000
Outstanding principal under the line of credit	6,506,325	6,060,273	5,582,495
Interest rate	1.8%	1.7%	1.7%

Our note payable matured on January 31, 2017 and was renewed with an effective date of January 1, 2017 for $8.0 billion with a maturity date of December 31, 2019. The note will be renegotiated at that time. As discussed in Note 4, effective January 1, 2014, we agreed to pay an additional spread on a portion of our note payable in return for a reduction in our required investment in AgriBank. This contractual agreement was terminated effective December 31, 2016.

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 8: 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 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.

PROTECTION MECHANISMS

Under the Farm Credit Act, certain borrower equity is protected. We are required to retire protected borrower equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock and participation certificates that were outstanding as of January 6, 1988, or were issued prior to October 6, 1988 as a requirement for obtaining a loan. If we were to be unable to retire protected borrower equity at par value or stated value, the FCSIC would provide the amounts needed to retire this equity.

REGULATORY CAPITALIZATION REQUIREMENTS

Select Capital Ratios

As of December 31	2016	2015	2014	Regulatory Minimums
Permanent capital ratio	16.1%	16.0%	16.2%	7.0%
Total surplus ratio	15.8%	15.8%	15.9%	7.0%
Core surplus ratio	15.8%	15.8%	15.9%	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 regulatory 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%	—	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	1	1
Class B common stock (at-risk)	3,865,183	3,802,566	3,733,893
Class E participation certificates (at-risk)	473,348	484,581	487,093
Class F participation certificates (protected)	153	352	352

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

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

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

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

In the event of impairment, losses will be absorbed by concurrent impairment of all classes of stock and participation certificates; however, protected stock will be retired at par value regardless of impairment.

All classes of stock and participation certificates, except Class A common stock and Class F participation certificates are transferable to other customers who are eligible to hold such class as long as we meet the regulatory minimum capital requirements.

PATRONAGE DISTRIBUTIONS

We accrued patronage distributions of $33.0 million, $35.3 million, and $36.2 million at December 31, 2016, 2015, and 2014, respectively. 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.

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 9: INCOME TAXES

Provision for (Benefit from) Income Taxes
(dollars in thousands)

For the year ended December 31	2016	2015	2014
Current:			
Federal	$2,043	$(1,135)	$6,031
State	138	(339)	1,082
Total current	2,181	(1,474)	7,113
Deferred:			
Federal	(581)	254	789
State	219	(1)	16
Total deferred	(362)	253	805
Provision for (benefit from) income taxes	$1,819	$(1,221)	$7,918
Effective tax rate	1.4%	(0.9%)	5.3%

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

For the year ended December 31	2016	2015	2014
Federal tax at statutory rates	$46,808	$48,953	$52,737
State tax, net	310	497	695
Patronage distributions	(3,500)	(3,500)	(2,566)
Effect of non-taxable entity	(41,816)	(41,627)	(43,187)
Other	17	(5,544)	239
Provision for (benefit from) income taxes	$1,819	$(1,221)	$7,918

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	$7,951	$7,051	$7,745
Postretirement benefit accrual	934	986	985
Accrued incentive	806	931	942
Accrued patronage income not received	(661)	(431)	(649)
AgriBank 2002 allocated stock	(1,610)	(1,683)	(1,679)
Accrued pension asset	(1,945)	(1,471)	(1,560)
Depreciation	(110)	(241)	(386)
Other assets	268	207	208
Other liabilities	(354)	(432)	(436)
Deferred tax assets, net	$5,279	$4,917	$5,170
Gross deferred tax assets	$9,959	$9,175	$9,880
Gross deferred tax liabilities	$(4,680)	$(4,258)	$(4,710)

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

We have not provided for deferred income taxes on patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. Our total permanent investment in AgriBank is $46.0 million. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $1.3 billion 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 10: 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	5,010	5,911	4,360
Contributions by participating employers	90,000	62,722	52,032
Our allocated share of contributions	8,555	5,809	4,948

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

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

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

Nonqualified Retirement Plan: We also participate in the District-wide nonqualified defined benefit Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above the Internal Revenue Code compensation or other 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	435	737	540
Our cash contributions	258	258	258

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 entire 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	$58	$115	$51
Our cash contributions	152	152	153

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

DEFINED CONTRIBUTION PLANS

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

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

Employer contribution expenses for the defined contribution plan, included in "Salaries and employee benefits" in the Consolidated Statements of Income, were $2.4 million, $2.3 million, and $2.0 million in 2016, 2015, and 2014, respectively. These expenses were equal to our cash contributions for each year.

NOTE 11: 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)

As of December 31:	2016	2015	2014
Total related party loans	$46,446	$44,615	$40,563
For the year ended December 31:	2016	2015	2014
Advances to related parties	$23,571	$24,426	$30,462
Repayments by related parties	34,928	49,251	51,751

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 7, 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, and insurance services. The total cost of services we purchased from AgriBank was $1.8 million in 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 $59 thousand. The total cost of services purchased from Foundations was $302 thousand, $258 thousand, and $234 thousand in 2016, 2015, and 2014, respectively.

NOTE 12: CONTINGENCIES AND COMMITMENTS

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

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

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk that may be recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2016, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $2.1 billion. Additionally, we had $14.1 million of issued standby letters of credit as of December 31, 2016.

Commitments to extend credit and letters of credit generally have fixed expiration dates or other termination clauses and we may require payment of a fee. If commitments to extend credit and letters of credit remain unfulfilled or have not expired, they may have credit risk not recognized in the financial statements. Many of the commitments to extend credit and letters of credit will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Certain letters of credit may have recourse provisions that would enable us to recover from third parties amounts paid under guarantees, thereby limiting our maximum potential exposure. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers and we apply the same credit policies. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on management's credit evaluation of the borrower.

NOTE 13: 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 BASIS

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

Assets Measured at Fair Value on a Non-recurring Basis
(in thousands)

As of December 31, 2016	Fair Value Measurement Using			Total Fair	Total
	Level 1	Level 2	Level 3	Value	Losses
Impaired loans	$ —	$6,999	$8,221	$15,220	$(8,271)
Acquired property	—	4,360	—	4,360	(48)

As of December 31, 2015	Fair Value Measurement Using			Total Fair	Total
	Level 1	Level 2	Level 3	Value	Gains
Impaired loans	$ —	$9,168	$7,665	$16,833	$714
Acquired property	—	5,377	—	5,377	106

As of December 31, 2014	Fair Value Measurement Using			Total Fair	Total (Losses)
	Level 1	Level 2	Level 3	Value	Gains
Impaired loans	$ —	$10,157	$8,089	$18,246	$(1,753)
Acquired property	—	2,719	—	2,719	3,614

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.

Acquired property: 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 14: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 3, 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

GREENSTONE 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 this Annual Report.

DESCRIPTION OF PROPERTY

Property Information

Location	Description	Usage
Adrian, MI	Owned	Branch Office
Allegan, MI	Owned	Branch Office
Alma, MI	Owned	Branch Office
Alpena, MI	Owned	Branch Office
Ann Arbor, MI	Owned	Branch Office
Bad Axe, MI	Owned	Branch Office
Bay City, MI	Owned	Branch Office
Berrien Springs, MI	Owned	Branch Office
Cadillac, MI	Owned	Branch Office
Caro, MI	Owned	Branch Office
Charlotte, MI	Leased	Branch Office
Clintonville, WI	Owned	Branch Office
Coleman, WI	Owned	Branch Office
Concord, MI	Owned	Branch Office
Corunna, MI	Owned	Branch Office
De Pere, WI[1]	Owned	Held for Sale
West Rd, East Lansing, MI	Owned	Corporate
Abbey Rd, East Lansing, MI[2]	Owned	Leased to Tenant
Escanaba, MI	Leased	Branch Office
Grand Rapids, MI	Owned	Branch Office
Hart, MI	Leased	Branch Office
Hastings, MI	Owned	Branch Office
Hillsdale, MI	Owned	Branch Office
Howell, MI	Leased	Branch Office
Ionia, MI	Owned	Branch Office
Lakeview, MI	Owned	Branch Office
Lapeer, MI	Owned	Branch Office
Little Chute, WI	Owned	Branch Office
Manitowoc, WI	Leased	Branch Office
Mason, MI	Leased	Branch Office
Monroe, MI	Owned	Branch Office
Mt. Pleasant, MI	Owned	Branch Office
Saginaw, MI	Owned	Branch Office
Sandusky, MI	Owned	Branch Office
Schoolcraft, MI	Owned	Branch Office
St. Johns, MI	Owned	Branch Office
Sturgeon Bay, WI	Leased	Branch Office
Traverse City, MI	Owned	Branch Office

[1]Former branch office, currently held for sale.

[2]Former corporate office, currently occupied by a tenant on a long-term lease.

LEGAL PROCEEDINGS

Information regarding legal proceedings is discussed in Note 12 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 8 to the accompanying Consolidated Financial Statements.

DESCRIPTION OF LIABILITIES

Information regarding liabilities is discussed in Notes 7, 8, 9, 10, and 12 to the accompanying Consolidated Financial Statements.

SELECTED FINANCIAL DATA

The "Consolidated Five-Year Summary of Selected Financial Data" is presented at the beginning of this Annual Report.

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 this Annual Report.

BOARD OF DIRECTORS

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

Name	Term	Principal Occupation and Other Affiliations
Edward L. Reed (Age 54) Board Chair Executive Committee, Chair Compensation Committee, Vice Chair Service Began: 2008	2014-2018	**Principal Occupation:** Self-employed livestock and grain producer Partner: Reed Family Farms, LLC **Other Affiliations:** Board Member: Michigan Pork Producers Association
Bruce E. Lewis (Age 51) Board Vice Chair Executive Committee, Vice Chair Compensation Committee, Chair Service Began: 2011	2014-2017	**Principal Occupation:** Self-employed dairy and cash crop farmer **Other Affiliations:** Vice President: Hillsdale-Litchfield Local Michigan Milk Producers Association Advisory Committee and Resolutions Committee
Matthew L. Berge (Age 40) Finance Committee, Chair Service Began: 2013	2015-2019	**Principal Occupation:** Self-employed dairy and heifer operator Partner: Badger Pride Dairy, LLC Director: The Heifer Authority, LLC
Laura A. Braun (Age 57) Legislative/Public Policy Committee, Chair Service Began: 2012	2015-2019	**Principal Occupation:** Self-employed farmer and small business owner Partner: Golden Maple Farms, LLC Dealer: Stine Seeds **Other Affiliations:** AgriBank District Farm Credit Council Board Rural Development Fund Board
Wm. "Hank" Choate (Age 66) Finance Committee Service Began: 2014	2014-2017	**Principal Occupation:** Self-employed dairy and cash grain farmer Owner/Partner: Choate's Belly Acres Member: Liberty Centennial, LLC **Other Affiliations:** Michigan Milk Producers Association Board (milk marketing cooperative owned by dairy farmers in Michigan, Indiana, Ohio, and Wisconsin) United Dairy of Michigan Board Liberty Township Planning Committee NorthStar Cooperative Advisory Committee (member farmer owned cooperative that enhances producers profitability through integrated services) Michigan Farm Bureau Dairy Commodity Committee (considers and makes dairy policy recommendations for approval by its members) Jackson County Republican Committee
Eugene B. College (Age 71) Appointed Director Audit Committee, Chair Service Began: 2009	2014-2017	**Principal Occupation:** Retired Senior Vice President and Chief Financial Officer of Farm Credit Services of America, ACA
Christine M. Crumbaugh (Age 47) Executive Committee Compensation Committee Service Began: 2012	2015-2018	**Principal Occupation:** Self-employed grain farmer and sugar beet producer Vice President/Secretary/Treasurer/Manager: Crumbaugh Legacy, Inc. Member/Manager: Crumbaugh Legacy Farmland, LLC **Other Affiliations:** Natural Resources Commissioner for Governor Rick Snyder of Michigan Chair: Michigan Farm Bureau Feed Grains, Oilseeds, and Wheat Advisory Committee
Thomas R. Durand (Age 61) Legislative/Public Policy Committee Service Began: 2013	2016-2020	**Principal Occupation:** Self-employed sugar beet, dry beans, and grain farmer President: Durand Farms, Inc. **Other Affiliations:** President: Corn Marketing Program of Michigan appointed by Governor Rick Snyder

Name	Term	Principal Occupation and Other Affiliations
Darl E. Evers (Age 73) Audit Committee Service Began: 1990	2014-2018	**Principal Occupation:** Self-employed grain and livestock farmer Partner: Evers and Evers Farm, LLC
Terri J. Hawbaker (Age 36) Finance Committee, Vice Chair Service Began: 2015	2015-2019	**Principal Occupation:** Self-employed dairy farmer Owner/Operator: Grazeway Dairy Farms
Ronald W. Lucas (Age 60) Legislative/Public Policy Committee, Vice Chair Service Began: 2013	2016-2020	**Principal Occupation:** Self-employed dairy farmer Partner: Lucas Dairy Farms LLC **Other Affiliations:** Township Supervisor for Wellington Township Secretary/Treasurer: Hillman Local Michigan Milk Producers Association
Peter C. Maxwell (Age 32) Finance Committee Service Began: 2016	2016-2020	**Principal Occupation:** Self-employed farmer raising sugar beets, corn, edible beans and soybeans Independent Sales Agent: ACH Seeds Employee: Maxwell Seed Farms, raising cash crops **Other Affiliations:** Chair: Gladwin County Farm Bureau Young Farmer
Dennis C. Muchmore (Age 70) Appointed Director Legislative/Public Policy Committee Service Began: 2002	2013-2017	**Principal Occupation:** GA and Regulatory Advisor: Honigman Miller Schwartz and Cohn LLP **Other Affiliations:** Former Chief of Staff to Governor of the State of Michigan Partner: TOMDEN Enterprises, LLC (privately held investment firm with limited business interests in aeronautic composites)
Scott A. Roggenbuck (Age 54) Audit Committee Service Began: 2007	2016-2020	**Principal Occupation:** Self-employed cash crop farmer, prior sales representative for Pioneer HiBred International President: Cedar Pond Farms, Inc. (grain and sugar beet operation) President: Cedar Pond Holdings, LLC (family partnership owning farmland) President: Cedar Pond Ag Services Inc. (custom farming and consulting) **Other Affiliations:** Chair: Sugar Beet Advancement Committee and the REACh Committee (both committees provide research and education in the advancement of the production of sugar beets in Michigan and Ontario) Chair: Michigan Sugar Industry Education Institute (a 501c set up to create and promote educational opportunities about the sugar industry in Michigan)
Aaron "Andy" Snider (Age 54) Executive Committee Compensation Committee Service Began: 2012	2015-2018	**Principal Occupation:** Self-employed turkey, hog, and cash grain farmer Partner: Snider Farms, LLC Partner: Snider RE, LLC **Other Affiliations:** Board Member: Michigan Turkey Producers Co-op Executive Council: Land-O-Lakes Co-op Region IV and Policy and Resolutions Committee
Dale L. Wagner (Age 57) Audit Committee, Vice Chair Service Began: 2012	2015-2019	**Principal Occupation:** Self-employed dairy, cash grain farmer, and custom harvester Partner: Twin Elm Family Farm, LLC Partner: Union 151, LLC **Other Affiliations:** Vice Chair: Wisconsin Farm Credit Legislative Committee (GreenStone representative) Director: Eastern Wisconsin Dairy Herd Improvement Coop

In 2016, the Board Chair and Chair of the Audit Committee received annual retainer fees of $27,000 each and the Board Vice Chair received $25,000. The remaining Board members received an annual retainer fee of $23,000. All board members also received a $600 computer allowance prorated based on the number of months served during the current year. The retainer fees are paid quarterly. In 2016, the Board members did not receive compensation for individual Board or regular committee meetings attended. Beginning January 1, 2017, the above annual retainer fees will increase by $1,000 each.

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

	Number of Days Served		
	Board Meetings	Other Official Activities	Total Compensation Paid in 2016
Matthew L. Berge	4	12	$23,600
Laura A. Braun	4	24	23,600
Wm. “Hank” Choate	4	16	23,600
Eugene B. College	4	18	27,600
Christine M. Crumbaugh	4	21	23,600
Thomas R. Durand	4	17	23,600
Darl E. Evers	4	15	23,600
Terri J. Hawbaker	3	11	23,300
Bruce E. Lewis	4	14	24,317
Ronald W. Lucas	4	32	23,600
Peter C. Maxwell*	2	10	12,748
Dennis C. Muchmore	4	19	23,600
Edward L. Reed	4	13	26,317
Gilbert E. Ritter**	2	8	10,852
Scott A. Roggenbuck	4	19	26,167
Aaron “Andy” Snider	4	19	23,600
Dale L. Wagner	4	25	23,600
			$387,301

* Newly elected director
**Not re-elected

SENIOR OFFICERS
The senior officers include:

David B. Armstrong
Chief Executive Officer

Paul E. Anderson
Executive Vice President – Chief Credit Officer

Travis D. Jones, CPA
Executive Vice President – Chief Financial Officer

Stephen A. Junglas
Executive Vice President – Chief Information Officer and Chief Information Security Officer

Peter L. Lemmer
Executive Vice President – Chief Legal Counsel

Bethany L. Barker, SPHR
Executive Vice President – Chief Human Resources Officer

Melissa A. Stolicker, CPA
Executive Vice President – Chief Internal Auditor

David B. Armstrong was promoted to Chief Executive Officer (CEO) in 2009. Paul E. Anderson was promoted to Chief Credit Officer in 2009. Travis D. Jones was hired as Chief Financial Officer in 2007. Stephen A. Junglas was promoted to Chief Information Officer in 2012, prior to that he served as the Information Services Director since 2006. Peter L. Lemmer was hired as Chief Legal Counsel in 2008. Bethany L. Barker has been in her position since 1998. Melissa A. Stolicker has been in her position since 2004.

OTHER BUSINESS INTERESTS WHERE A SENIOR OFFICER SERVED AS A BOARD OF DIRECTOR OR SENIOR OFFICER INCLUDE:
David B. Armstrong serves as a director on the executive committee of the Michigan Economic Development Corporation (promotes economic development within the state of Michigan). He serves as a board member and Treasurer for the Michigan Livestock Exhibition (non-profit to generate funding for youth scholarships through annual livestock shows and auctions). He also serves as a board member of the Farm Credit System Association Captive Insurance Company (privately-held insurance association that is owned by the System) and as a board member for Crystal Flash Energy Company (provides fuels and lubes to residential and commercial customers throughout primarily the state of Michigan).

Paul E. Anderson serves as a director on the Michigan Strategic Fund board (promotes economic development and job creation in Michigan).

Travis D. Jones serves as a board member for Michigan Finance Authority (offers effective low-cost financing to public and private agencies providing essential services to the citizens of Michigan).

Peter L. Lemmer is the Commissioner for Michigan Community Service Commission (Michigan state agency that leads the state in volunteer activities to strengthen Michigan communities).

Bethany L. Barker serves as a board member for Great Lakes Leadership Academy (non-profit that promotes positive change, economic vitality, and resource conservation).

Melissa A. Stolicker serves as a member of the Board of Trustees and a member of the Audit Committee for Oakland University (major public university in Michigan offering bachelor’s and graduate degrees).

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 11 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:

3515 West Road
East Lansing, MI 48823
(800) 968-0061
www.greenstonefcs.com
Travis.Jones@greenstonefcs.com

The total directors’ travel, subsistence, and other related expenses were $145 thousand, $215 thousand, and $139 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 $127 thousand. The fees paid were for audit services.

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

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

YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

GREENSTONE FARM CREDIT SERVICES, ACA
(Unaudited)

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

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

YOUNG, BEGINNING, AND SMALL FARMER DEMOGRAPHICS
The local service area of the Association includes the entire state of Michigan and 11 counties in the northeastern part of the state of Wisconsin. Results from the United States Department of Agriculture's (USDA) 2012 Census of Agriculture became available in May 2014 and were studied to try to determine the numbers of YBS farmers within our territory.

This most recent agricultural census represents the best demographic information available in our territory. Results of this study show the following:

Category	Number	Percent
Number of Farmers 34 and Younger	6,650	10.9%
Number of Farmers on Current Farm Less Than 10 Years	14,291	23.3%
Number of Farmers with Less Than $250,000 Farm Sales	53,987	88.2%
Total Number of YBS Farmers	61,218	

There are several differences in the methods by which the demographic and FCA YBS farmer data is presented:

Young farmers are defined by the FCA as 35 years old or less. The USDA demographic stratification breaks at 34 years. Beginning farmers are defined by the FCA as having 10 years or less farming experience. There is no measurement matching this definition in the USDA census; however, the census does identify farmers on their current farm less than 10 years. That statistic may include beginning farmers, but may also include experienced farmers who have recently changed farmsteads. The FCA small farmer definition matches closely with the USDA delineation. Even though the statistical results of the census do not match the FCA definitions exactly, they do provide a consistent source of measurement with which to assess Association targets and goals.

DESCRIPTION AND STATUS REPORT ON THE YOUNG, BEGINNING, AND SMALL FARMER PROGRAM

The mission statement of the program is as follows:

"GreenStone Farm Credit Services recognizes the importance of young, beginning, and small farmers to the future of agriculture. The Association shall serve the unique needs of this market segment through special lending programs that extend credit in a safe and sound manner for both the individual member and the Association. GreenStone also believes in the value of education to prepare these producers to successfully compete in a highly competitive global marketplace and shall support educational opportunities for them that balance the cost of delivery with overall stockholder value."

The Association implemented a board approved YBS lending program comprised of separate components for YBS farmers. Relaxed underwriting standards and loan terms have been approved for farm operating loans, farm equipment and intermediate-term loans, and for real estate loans. These standards and terms are customized for young farmers and beginning farmers.

Quantitative targets based upon reasonably reliable demographic data have been established by board policy for YBS farmers. Targets have also been established for the YBS program in an aggregate. The targets are as follows:

Quantitative Targets	Measure	At 12/31/2016
1. Young farmers in portfolio equal to or greater than percentage of young farmers in the census	10.9%	20.2%
2. Young farmer loans at least 50% of the young farmers in census	50.0%	89.5%
3. Young farmers at least 10% total outstanding loan volume	10.0%	14.5%
4. Young farmers at least 10% of all new loans (number)	10.0%	16.2%
5. Beginning farmers at least 10% total number of loans outstanding	10.0%	29.1%
6. Beginning farmers at least 10% of total outstanding loan volume	10.0%	18.6%
7. Beginning farmers at least 10% of all new loans (number)	10.0%	19.4%
8. Small farmers at least 40% of total number of loans outstanding	40.0%	49.4%
9. Small farmers at least 20% of total outstanding loan volume	20.0%	20.6%
10. Small farmers at least 40% of all new loans (number)	40.0%	40.5%
11. Maintain at least 50% of total loan numbers to YBS farmers	50.0%	59.7%
12. Maintain at least 30% of the total outstanding loan volume to YBS farmers	30.0%	32.3%

The association has also established certain qualitative goals addressing its efforts and to implement effective outreach programs to attract YBS farmers. These goals are as follows:

Qualitative Goals	Measure	At 12/31/2016
1. Related services will be offered to YBS farmers in the territory.		
Goals: Book sales of at least one association offered related service to at least 5% of YBS farmers in the association portfolio.	5% Young 5% Beginning 5% Small	6.3% 6.2% 12.9%
2. Credit services and financially related services to YBS farmers will be coordinated with governmental and private sources of credit.		
Goals: Coordinate with the USDA Farm Service Agency (FSA) to enhance credit services to young and beginning farmers by obtaining guarantees on at least 7.5% loans (by number) and to take advantage of the FSA young farmer financing program utilizing private second mortgage financing or other alternative financing options whenever possible.	7.5% Young 7.5% Beg.	6.6% 3.7%
3. We will implement effective outreach programs to attract YBS farmers.		
Goals: (a) Participate in or sponsor annually at least 10 YBS farmer leadership and educational programs offered in either Michigan or Wisconsin.	10 Programs	31 Programs sponsored
(b) Offer at least five individual scholarships to deserving YBS farmers (or potential YBS farmers) to Michigan and/or Wisconsin Universities or Colleges.	5 Scholarships	20 Scholarships offered

All of the Association's quantitative and qualitative goals were met in 2016 with the following exception: the use of FSA guarantees on young and beginning farmer loans. The strength of the financial position of our YBS borrowers has negated the need for FSA guarantees. We anticipate that the utilization of FSA guarantees will increase over the next several years due to the decline in commodity prices for many agricultural industries.

The Association employs the following methods and strategies to ensure that credit and services offered to YBS farmers are provided in a safe and sound manner and within risk-bearing capacity:

- Board policy includes a specific section discussing program safety and soundness under its operating parameters
- Board policy includes a maximum level of risk for YBS adverse volume originated under the program
- The association internal audit plan requires periodic auditing of the YBS program, which is done annually in conjunction with the internal credit review. In addition, comprehensive reports are written periodically, the most recent report was as of December 31, 2015
- The association internal audit and loan review plan will annually include a selection of YBS loans within its normal selection criteria and assess individual loan credit administration, coding, and loan quality

FUNDS HELD PROGRAM

GREENSTONE FARM CREDIT SERVICES, ACA
(Unaudited)

The Association offers a Funds Held Program ("Funds Held") that provides funds for customers to make advance payments on designated real estate, operating, and intermediate-term loans, pay insurance premiums, taxes, or any other eligible purpose.

PAYMENT APPLICATION: Loan payments received by the Association before the loan has been billed will normally be placed into Funds Held and applied against the next installment due.

ACCOUNT MAXIMUM: The amount in Funds Held may not exceed the unpaid principal balance of the loan.

INTEREST RATE: Interest will accrue on Funds Held at a simple rate of interest that may be changed by the Association from time to time. The interest rate may never exceed the interest rate charged on the related loan.

Funds Held on real estate loans, operating loans, and intermediate-term loans are paid at a rate of interest equal to 3% (300 basis points) less than the loan rate.

WITHDRAWALS: Money in Funds Held may be withdrawn for the following items: customers with real estate loans, operating loans, and intermediate-term loans may use funds for future installments, insurance premiums, or real estate taxes on collateral for the respective loan. Customers may make withdrawals for other approved purposes in lieu of increasing the loan amount for any eligible loan purpose.

ASSOCIATION OPTIONS: In the event of default on any loan, if Funds Held exceeds the maximum limit as established above or if the Association discontinues their 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 the Association's liquidation, customers having balances in Funds Held shall be notified according to the FCA Regulations.

Serving you *from 36 locations*

Corporate Office
East Lansing / 517-318-4100
3515 West Rd., E. Lansing, MI 48823

Michigan
Adrian / 517-263-9798
5285 W. US 223, Adrian, MI 49221

Allegan / 269-673-5541
1517 M-40 North, Allegan, MI 49010

Alma / 989-463-3146
2942 West Monroe Rd., Alma, MI 48801

Alpena / 989-354-4343
2200 M-32 West, Alpena, MI 49707

Ann Arbor / 734-769-2411
7530 Jackson Rd., Ann Arbor, MI 48103

Bad Axe / 989-269-6532
749 S. Van Dyke St., Bad Axe, MI 48413

Bay City / 989-686-5100
3949 S. Three Mile Rd., Bay City, MI 48706

Berrien Springs / 269-471-9329
8302 Edgewood Rd.,
Berrien Springs, MI 49103

Cadillac / 231-775-1361
7597 S. Mackinaw Trail, Cadillac, MI 49601

Caro / 989-673-6128
1570 Cleaver Rd., Caro, MI 48723

Charlotte / 517-543-1360
722 W. Lawrence Ave., Charlotte, MI 48813

Concord / 517-524-6670
100 Spring St., Concord, MI 49237

Corunna / 989-743-5606
704 W. Corunna Ave., Corunna, MI 48817

Escanaba / 906-786-4487
1801 North Lincoln Rd., Suite A,
Escanaba, MI 49829

Grand Rapids / 616-647-0030
3225 Walker Ave. NW,
Grand Rapids, MI 49544

Hart / 231-873-7102
3486 W. Polk Rd., Hart, MI 49420

Hastings / 269-945-9415
333 W. State Street, Hastings MI, 49058

Hillsdale / 517-437-3336
3200 Carleton Rd., Hillsdale, MI 49242

Howell / 517-546-2840
1040 W. Highland, Howell, MI 48843

Ionia / 616-527-1930
1962 S. State Rd., Ionia, MI 48846

Lakeview / 989-352-7203
8897 W. Tamarack Rd., Lakeview, MI 48850

Lapeer / 810-664-5951
455 Lake Nepessing Rd., Lapeer, MI 48446

Mason / 517-676-1086
525 N. Okemos St., Mason, MI 48854

Monroe / 734-243-6711
15615 S. Telegraph Rd.,
Monroe, MI 48161

Mt. Pleasant / 989-773-5175
1075 N. Mission St., Mt. Pleasant, MI 48858

Saginaw / 989-781-4251
11020 Gratiot Rd., Saginaw, MI 48609

Sandusky / 810-648-2600
100 S. Elk St., Sandusky, MI 48471

Schoolcraft / 269-679-5296
225 W. Lyon St., Schoolcraft, MI 49087

St. Johns / 989-224-9321
1104 S. US 27, St. Johns, MI 48879

Traverse City / 231-946-5710
3491 Hartman Rd. Suite A,
Traverse City, MI 49685

Wisconsin
Clintonville / 715-823-2128
300 South Main St., Clintonville, WI 54929

Coleman / 920-897-4046
202 Sado Ln., Coleman, WI 54112

Little Chute / 920-687-4450
340 Patriot Dr., Little Chute, WI 54140

Manitowoc / 920-682-5792
4400 Calumet Ave., Suite 102,
Manitowoc, WI 54220

Sturgeon Bay / 920-743-8150
3030 Park Dr., Suite B,
Sturgeon Bay, WI 54235

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GREENSTONE FARM CREDIT SERVICES
3515 West Road, East Lansing, MI 48823

800-444-3276
www.greenstonefcs.com

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