AgCountry Farm Credit Services, ACA

Quarterly Report
June 30, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of AgCountry Farm Credit Services, ACA and its subsidiaries AgCountry Farm Credit Services, FLCA and AgCountry Farm Credit Services, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2016 (2016 Annual Report).

Due to the nature of our financial relationship with AgriBank, FCB (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 or additional copies of our report, contact us at:

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MERGER ACTIVITY

The merger between AgCountry Farm Credit Services, ACA and United Farm Credit Services, ACA was effective July 1, 2017. The merged entity, AgCountry Farm Credit Services, ACA, is headquartered in Fargo, ND. The merged entity now serves nearly 18,000 customers in 65 counties in Minnesota, North Dakota, and Wisconsin, and has assets over $7 billion.

FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2016 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

World Gross Domestic Product (GDP) is projected to grow 2.9% in 2017 compared to 2.7% in 2016. Global economic growth in 2016 was relatively static due to lower commodity prices, weakening currency valuations for emerging market economies, slower growth in China, and uneven rates of growth in developed economies around the world. Emerging Asia's economy is projected to expand 6.4% in 2017 compared to 6.6% in 2016. Growth is expected to remain relatively flat for 2017 due to softer global demand for many export dependent economies. Although still experiencing high levels of growth, the Chinese economy is expected to grow at a slower rate than in the past. Latin America's economy is projected to rebound in 2017 with growth of 0.9% compared to a contraction of 0.9% in 2016. Latin America's economy remained in a recession in 2016 primarily due to recessions in Brazil and Venezuela. Although concerns exist regarding Brazil, some improvement is expected in 2017. The United Kingdom's (UK) vote to leave the European Union (EU) is expected to slow growth for other EU countries, particularly those that have close trading relationships with the UK. The European Union's GDP is projected to grow 1.6% in 2017 compared to 2.1% in 2016.

U.S. GDP is projected to grow 2.3% in 2017 compared to 1.6% in 2016. Growth in 2016 was impacted by weak foreign demand and a strong dollar putting pressure on exports. The strength of the U.S. dollar is expected to continue to affect competitiveness of U.S. exports in 2017. Inflation is expected to increase with a rate of 2.4% in 2017 compared to 1.3% in 2016. Household spending has continued to rise moderately and business fixed investment has continued to expand.

The Federal Reserve decided to raise the target range for the federal funds rate a quarter of a percent to 1.00% to 1.25% during its June meeting. The labor market has continued to strengthen and economic activity has been rising moderately for the first half of the year. The Federal Reserve expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate. The federal funds rate is likely to remain below levels that are expected to prevail in the longer run for some time. In determining the timing and size of future adjustments to the target range for the federal funds rate, the Federal Reserve will assess realized and expected economic conditions relative to its objectives of maximum employment and 2.00% inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. The Federal Reserve expects to begin implementing a balance sheet normalization program in 2017 to gradually reduce the Federal Reserve's securities holdings by decreasing reinvestment of principal payments from those securities. The unemployment rate has decreased throughout the first two quarters in 2017, with an estimated unemployment rate (seasonally adjusted) of 4.3% in May 2017. Inflation has decreased recently and is still below the Federal Reserve's 2.00% objective. The Federal Reserve's economic projections released during the December meeting projected three 0.25% rate increases in 2017 and three rate increases in 2018 with year-end target average rates of 1.38% and 2.13%, respectively.

Net farm income for 2017 is projected to decrease 8.7% from 2016 to $62.3 billion. If realized, 2017 net farm income would mark the fourth consecutive year of decline since 2013. The decrease in net farm income is primarily due to lower crop and livestock receipts. Production expenses are projected to remain unchanged from 2016 to 2017. Decreases in livestock/poultry purchases, feed, seed, and fertilizer are offset by increases in fuel, oil, labor, and interest expense. Farm asset values are projected to decline 1.1% in 2017 due to the value of farm real estate, animal/animal-product inventories, financial assets, and machinery.

Specific Production Conditions

Corn, soybeans, sugar beets, and wheat are the primary cash crops produced in our territory. A summary of each crop is presented below, along with a summary of the cattle, hog, dairy, and ethanol industries.

Corn: According to the June 2017 United States Department of Agriculture (USDA) Acreage Report, U.S. planted corn acres for 2017 are expected to be 90.9 million acres representing a 3% decrease from the prior year. Compared with 2016, planted acres are down or unchanged in 38 of the 48 estimating states. Corn acres for 2017 are projected to increase 2% in Minnesota and decrease 1% in North Dakota. Corn stocks in all positions on June 1, 2017, increased 11% from the prior year to 5.2 billion bushels. According to the June 25, 2017, USDA Crop Progress Report, 66% of the crop was rated good to excellent compared to 72% the prior year. The June 2017 USDA World Agricultural Supply and Demand Estimates (WASDE) report projected the average U.S. farm price for corn at $3.25 to $3.45 per bushel for the 2016/17 crop and $3.20 to $3.80 per bushel for the 2017/18 crop.

Soybeans: According to the June 2017 USDA Acreage Report, U.S. planted soybean acres for 2017 are projected to increase 17% percent from the prior year to 89.5 million acres. Compared with last year, planted acreage intentions increased or remained unchanged in 24 of the 31 estimating states. Soybean acres for 2017 are projected to increase 9% percent in Minnesota and 19% percent in North Dakota. Soybeans stored in all positions on June 1, 2017, increased 11% from the prior year to 963 million bushels. According to the June 25, 2017, USDA Crop Progress Report, 67% of the crop was rated good to excellent compared to 75% the prior year. The June 2017 USDA WASDE report projected the average U.S. farm price for soybeans at $9.55 per bushel for the 2016/17 crop and $8.30 to $10.30 per bushel for the 2017/18 crop.

Sugar Beets: Total sugar beet acres planted for 2017 are projected to decrease 3% from the prior year to 1,134,800 acres. Sugar beet acres planted in Minnesota and North Dakota are projected to decrease 2% from the prior year to 636,000 acres. Planted acres are projected to decrease in 8 of the 11 U.S. beet sugar producing states. Minnesota and North Dakota is estimated to provide approximately 56% of the total U.S. beet sugar production. Local sugar beet cooperatives indicate the 2017 planted crop has high yield potential assuming normal growing conditions.

In early June 2017, Mexico and the U.S. reached a deal regarding the Suspension Agreement that addressed the issue of Mexico dumping subsidized sugar into the U.S. Under this deal, Mexico has agreed to ship a higher ratio of raw sugar versus refined sugar into the U.S. and will be responsible for enforcing and accepting penalties for violations of the agreement. The U.S. must give Mexico first right of refusal for sugar needs identified by the USDA.

World raw sugar prices have decreased in the second quarter of 2017 with prices falling from 17.1 cents per pound to below 13.0 cents per pound by late June 2017. The June 2017 USDA WASDE report indicates an ending stocks-to-use ratio of 12.3% for fiscal 2016/17. Depending on the level of imports from Mexico, the 2017/18 stocks-to-use ratio is projected to decrease to 8.8%.

Wheat: The June 2017 Acreage Report estimated all wheat acres for 2017 to decrease 9% from the prior year to 45.7 million acres. Projected all wheat acres represents the lowest planted area on record since records began in 1919. Winter wheat planted acres are projected to decrease 9% from 2016 to 32.8 million acres. The 2017 spring wheat planted acres are projected to decrease 6% from 2016 to 10.9 million acres. Minnesota all wheat acres for 2017 are projected to increase 1% from the prior year, and North Dakota all wheat acres for 2017 are projected to decrease 15% from the prior year. According to the June 25, 2017, USDA Crop Progress Report, 49% of the winter wheat crop was rated good to excellent compared to 62% the prior year. The USDA Crop Progress Report stated 40% of the spring wheat crop was rated good to excellent compared to 72% the prior year. The June 2017 USDA WASDE report projected the average U.S. farm price for wheat at $3.90 per bushel for the 2016/17 crop and $3.90 to $4.70 per bushel for the 2017/18 crop.

Cattle: According to the June 2017 Livestock Outlook, 2018 U.S. beef production is projected at 27.1 billion pounds compared to 26.2 billion pounds in 2017. Production is projected to increase on the expectation that more steers and heifers will be available for slaughter next year with a higher 2017 calf crop. Third quarter prices are expected to increase from the prior year with an average price of $118-$124 per cwt compared to $113 in 2016. Returns to feedlot operators improved during 2017 as bids for fed cattle moved higher through much of the year and feedlots were marketing calves bought at relatively low prices during the second half of 2016. With expectations of moderate feed prices, feedlots have shown a willingness to bid higher for feeder calves. U.S. beef exports for April 2017 increased by 15% to 218 million pounds over the same month a year ago. Increases in exports are likely fueled by higher domestic production and lower beef prices. The U.S. dollar has weakened slightly over the past two months relative to most of its trading partners, making it less expensive to buy U.S beef.

Hogs: According to the June 2017 USDA Livestock Outlook, U.S. inventory of all hogs and pigs on June 1, 2017, was 71.7 million head. The inventory was 3% higher than the prior year and 1% higher from March 1, 2017. The inventory on June 1, 2017, is the highest June 1 inventory of all hogs and pigs since estimates began in 1964. Breeding inventory increased 2% from the prior year and was 6.1 million head on June 1, 2017. Market hog inventory increased 4% from the prior year to 65.6 million head and is also the highest on record since 1964. Third quarter U.S. commercial pork production is projected to increase 4% from 2016 to approximatively 6.4 billion pounds. Robust domestic pork demand, supported by seasonal demand and high beef prices, is expected to keep third quarter hog prices in a range of $47 to $49 per cwt.

Dairy: According to the June 2017 USDA Dairy Outlook, U.S. milk production for 2017 is projected at 216.7 billion pounds and 221.7 billion pounds for 2018. The milk cow forecast is projected to average 9.395 million head for all remaining quarters in 2017. Milk cow numbers are projected to increase in 2018 to 9.435 million head. The yield forecast is projected to average 23,065 pounds per head in 2017 and is projected to increase in 2018 to 23,500 pounds per head. The all-milk price forecast for 2017 is projected to be $17.80 to $18.20 per cwt. Class III milk price is forecast at $16.35 to $16.75 per cwt, and the Class IV milk price is forecast at $15.25 to $15.75 per cwt. The all-milk price forecast for 2018 is projected to be $18.10 to $19.10 per cwt. Class III milk price is forecast at $16.75 to $17.75 per cwt, and the Class IV milk price is forecast at $15.25 to $16.35 per cwt.

Ethanol: Ethanol stocks in the U.S. are high and have resulted in low ethanol prices. Even though ethanol prices are low, producers continue to report acceptable margins as a result of low priced corn. Ethanol demand is expected to improve as the summer driving season gets into full swing. In June 2017, Mexico announced an increase to the maximum amount of ethanol that can be blended in gas from 5.8% to 10%, except in the cities of Monterrey, Guadalajara, and Mexico City. The announcement will result in a potential ethanol market of 720 million gallons in the future once infrastructure can be built.

U.S. ethanol industry has averaged 1.03 million barrels per day in the first quarter of 2017 compared to average production in 2016 of 1.00 million barrels per day. In its June 2017 report, the U.S. Energy Information Administration (EIA) projected ethanol production to average 1.03 million barrels per day in 2017 and 1.02 million barrels per day in 2018. EIA also stated that ethanol consumption was about 940,000 barrels per day in 2016 and is expected to remain at these levels for 2017 and 2018. Under the Clean Air Act, the Environmental Protection Agency (EPA) is required to set the annual standards for the Renewable Fuel Standard (RFS) program each year. On November 23, 2016, the EPA announced the final Renewable Volume Obligations (RVOs) for 2017. The final RVO for conventional ethanol (corn based) was set at 15.0 billion gallons for 2017. According to the EIA, the largest effect of the finalized 2017 RFS targets will be on biomass-based diesel consumption, which includes both biodiesel and renewable diesel and helps to meet the RFS targets for use of biomass-based diesel, advanced biofuel, and total renewable fuel.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $5.3 billion at June 30, 2017, an increase of $238.2 million from December 31, 2016. The increase was primarily due to growth in our agribusiness portfolio as a result of originations and increased volume in our Commercial Finance Group alliance.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2016. Adversely classified loans increased to 3.6% of the portfolio at June 30, 2017, from 3.0% of the portfolio at December 31, 2016. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At June 30, 2017, $188.1 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	June 30 2017	December 31 2016
Loans:		
Nonaccrual	**$ 15,573**	$ 12,246
Accruing restructured	**13**	1,765
Accruing loans 90 days or more past due	**1,142**	59
Total risk loans	**16,728**	14,070
Other property owned	**--**	--
Total risk assets	**$ 16,728**	$ 14,070
Total risk loans as a percentage of total loans	**0.3%**	0.3%
Nonaccrual loans as a percentage of total loans	**0.3%**	0.2%
Current nonaccrual loans as a percentage of total nonaccrual loans	**65.0%**	64.9%
Total delinquencies as a percentage of total loans	**0.2%**	0.2%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2016, but remained at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans were well within our established risk management guidelines.

Nonaccrual loans remained at an acceptable level at June 30, 2017, and December 31, 2016.

The decrease in accruing restructured loans was primarily due to communication loans, which are included in the other loan category, being refinanced at market terms during the first quarter of 2017.

The increase in accruing loans 90 days or more past due was primarily due to several loans in our production and intermediate term loan category becoming more than 90 days past due during the six months ended June 30, 2017. Our accounting policy requires accruing loans past due 90 days or more to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, all accruing loans 90 days or more past due were eligible to remain in accruing status.

Allowance for Loan Losses

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

Allowance Coverage Ratios

As of:	**June 30 2017**	December 31 2016
Allowance as a percentage of:		
Loans	**0.3%**	0.3%
Nonaccrual loans	**105.7%**	116.6%
Total risk loans	**98.4%**	101.5%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2017.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the six months ended June 30	**2017**	2016
Net income	**$ 37,924**	$ 39,181
Return on average assets	**1.4%**	1.5%
Return on average members' equity	**6.4%**	7.1%

Changes in the chart above relate directly to:

- Changes in income discussed below,
- Changes in assets discussed in the Loan Portfolio section, and
- Changes in capital discussed in the Funding, Liquidity, and Capital section.

Changes in Significant Components of Net Income

(in thousands) For the six months ended June 30	**2017**	2016	**Increase (decrease) in net income**
Net interest income	**$ 66,626**	$ 64,947	**$ 1,679**
Provision for credit losses	**2,421**	5,312	**2,891**
Patronage income	**9,228**	8,215	**1,013**
Other income, net	**8,164**	10,966	**(2,802)**
Operating expenses	**42,060**	38,971	**(3,089)**
Provision for income taxes	**1,613**	664	**(949)**
Net income	**$ 37,924**	$ 39,181	**$ (1,257)**

Changes in Net Interest Income

(in thousands) For the six months ended June 30	**2017 vs 2016**
Changes in volume	**$ 3,595**
Changes in interest rates	**(1,801)**
Changes in nonaccrual income and other	**(115)**
Net change	**$ 1,679**

The provision for credit losses for the six months ended June 30, 2017, was primarily related to the downgrade of one large Commercial Finance Group agribusiness account and one retail finance and leasing account.

The change in patronage income was primarily related to an increase in the wholesale spread on our note payable and patronage income received from AgriBank due to a higher patronage rate compared to the prior year.

The change in other income was primarily related to a decline in operating lease income as we sold a significant portion of our leasing portfolio effective January 1, 2017, to Farm Credit Leasing (FCL). See further discussion in the Relationship With Other Farm Credit Institutions section. In addition, we had increased merger related expenses which are included in miscellaneous (loss) income, net on the Consolidated Statements of Income.

The change in operating expenses was primarily related to an increase in purchased services and salaries and employee benefit expenses.

The change in provision for income taxes was primarily related to a decrease in the estimated tax savings related to the patronage program.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Pursuant to our merger with United FCS, ACA, as described in Note 9 of the accompanying Consolidated Financial Statements, our note payable with AgriBank was terminated effective July 1, 2017. AgCountry Farm Credit Services, ACA, the merged entity, entered into a new note payable with AgriBank on July 1, 2017, for $7.0 billion with a maturity date of June 30, 2019. The note payable will be renegotiated no later than the maturity date. 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 funds is from unallocated surplus.

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

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

We were not subject to a risk premium at June 30, 2017, or December 31, 2016.

Total members' equity increased $29.3 million from December 31, 2016, primarily due to net income for the period partially offset by patronage distribution accruals.

Farm Credit Administration (FCA) regulations require us to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations.

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section. Refer to Note 6 of the accompanying Consolidated Financial Statements for additional detail regarding the capital ratios effective as of June 30, 2017. Refer to Note 10 in our 2016 Annual Report for a more complete description of the ratios effective as of December 31, 2016.

RELATIONSHIP WITH AGRIBANK

Patronage

AgriBank has amended its capital plan effective July 1, 2017, to provide for adequate capital at AgriBank under the new capital regulations as well as to create a path to long-term capital optimization within the AgriBank District. The plan optimizes capital at AgriBank; distributing available AgriBank earnings in the form of patronage, either cash or stock. A key part of these changes involves maintaining capital adequacy such that sufficient earnings will be retained in the form of unallocated retained earnings and allocated stock to meet the leverage ratio target and other regulatory or policy constraints prior to any cash patronage distributions.

Purchased Services

During 2016, District Associations and AgriBank conducted research related to the creation of a separate service entity to provide many of the business services offered by AgriBank. A separate service entity allows District Associations and AgriBank to develop and maintain long-term, cost effective technology and business services. The service entity would be owned by certain District Associations and AgriBank. An application to form the service entity was submitted to the FCA for approval in May 2017.

RELATIONSHIP WITH OTHER FARM CREDIT INSTITUTIONS

Effective January 1, 2017, we sold $69.7 million of our finance lease volume and $79.0 million of our equipment/operating lease volume to FCL. We simultaneously purchased approximately 66% interest in the cash flows of the leases sold. This transaction resulted in a gain of $1.2 million during 2016 as a result of writing up the leases to fair value. On the basis of the sale agreement, the fair value of assets relating to the sale was classified as held for sale on the Consolidated Statements of Condition at December 31, 2016. This arrangement provides our members with a broad selection of product offerings and enhanced lease expertise

CERTIFICATION

The undersigned have reviewed the June 30, 2017, Quarterly Report of AgCountry Farm Credit Services, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

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

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

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

August 7, 2017

CONSOLIDATED STATEMENTS OF CONDITION

AgCountry Farm Credit Services, ACA
(in thousands)
(Unaudited)

As of:		June 30 2017		December 31 2016
ASSETS				
Loans	**$**	**5,287,712**	$	5,049,534
Allowance for loan losses		**16,466**		14,284
Net loans held to maturity		**5,271,246**		5,035,250
Finance leases held for sale		**--**		70,356
Net loans		**5,271,246**		5,105,606
Investment in AgriBank, FCB		**111,196**		111,196
Investment securities		**7,059**		7,059
Accrued interest receivable		**53,021**		62,041
Premises and equipment, net		**35,956**		36,109
Assets held for lease, net		**14,562**		19,646
Leased assets held for sale		**--**		79,623
Other assets		**40,923**		41,190
Total assets	**$**	**5,533,963**	$	5,462,470
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**4,268,322**	$	4,201,744
Accrued interest payable		**18,418**		15,398
Deferred tax liabilities, net		**2,437**		26,211
Patronage distribution payable		**8,500**		21,000
Other liabilities		**38,267**		29,401
Total liabilities		**4,335,944**		4,293,754
Contingencies and commitments (Note 7)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**7,250**		7,370
Unallocated surplus		**1,190,769**		1,161,346
Total members' equity		**1,198,019**		1,168,716
Total liabilities and members' equity	**$**	**5,533,963**	$	5,462,470

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

CONSOLIDATED STATEMENTS OF INCOME

AgCountry Farm Credit Services, ACA
(in thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
For the period ended June 30	**2017**	2016	**2017**	2016
Interest income	**$ 52,098**	$ 48,282	**$ 101,457**	$ 93,772
Interest expense	**18,417**	14,793	**34,831**	28,825
Net interest income	**33,681**	33,489	**66,626**	64,947
Provision for credit losses	**2,656**	5,199	**2,421**	5,312
Net interest income after provision for credit losses	**31,025**	28,290	**64,205**	59,635
Other income				
Patronage income	**4,397**	4,066	**9,228**	8,215
Financially related services income	**2,371**	2,163	**5,639**	5,311
Fee income	**1,879**	1,725	**3,471**	3,376
Miscellaneous (loss) income, net	**(723)**	1,060	**(946)**	2,279
Total other income	**7,924**	9,014	**17,392**	19,181
Operating expenses				
Salaries and employee benefits	**11,776**	11,648	**24,301**	23,390
Other operating expenses	**8,717**	7,479	**17,759**	15,581
Total operating expenses	**20,493**	19,127	**42,060**	38,971
Income before income taxes	**18,456**	18,177	**39,537**	39,845
Provision for income taxes	**592**	131	**1,613**	664
Net income	**$ 17,864**	$ 18,046	**$ 37,924**	$ 39,181

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

AgCountry Farm Credit Services, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2015	$ 7,516	$ 1,076,726	$ 1,084,242
Net income	--	39,181	39,181
Unallocated surplus designated for patronage distributions	--	(8,000)	(8,000)
Capital stock and participation certificates issued	186	--	186
Capital stock and participation certificates retired	(282)	--	(282)
Balance at June 30, 2016	$ 7,420	$ 1,107,907	$ 1,115,327
Balance at December 31, 2016	$ 7,370	$ 1,161,346	$ 1,168,716
Net income	**--**	**37,924**	**37,924**
Unallocated surplus designated for patronage distributions	**--**	**(8,501)**	**(8,501)**
Capital stock and participation certificates issued	**168**	**--**	**168**
Capital stock and participation certificates retired	**(288)**	**--**	**(288)**
Balance at June 30, 2017	**$ 7,250**	**$ 1,190,769**	**$ 1,198,019**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. Our accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. This interim Quarterly Report is prepared based upon statutory and regulatory requirements and in accordance with GAAP. However, certain disclosures required by GAAP are omitted. The results of the six months ended June 30, 2017, are not necessarily indicative of the results to be expected for the year ending December 31, 2017. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2016 (2016 Annual Report).

The merger between AgCountry Farm Credit Services, ACA and United Farm Credit Services, ACA was effective July 1, 2017. The merged entity, AgCountry Farm Credit Services, ACA, is headquartered in Fargo, ND. The merged entity now serves nearly 18,000 customers in 65 counties in Minnesota, North Dakota, and Wisconsin, and has assets over $7 billion.

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

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business:

Standard	Description	Effective date and financial statement impact
In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13 "Financial Instruments – Credit Losses."	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021. Early adoption is permitted as of annual reporting periods beginning after December 15, 2018, including interim periods within those annual periods. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.
In February 2016, the FASB issued ASU 2016-02 "Leases."	The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2019, and interim periods the subsequent year. Early adoption is permitted and modified retrospective adoption is required. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.

Standard	Description	Effective date and financial statement impact
In January 2016, the FASB issued ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities."	The guidance is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments address certain aspects of recognition, measurement, presentation, and disclosure of financial statements.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2018, and interim periods with annual periods beginning after December 15, 2019. Certain disclosure changes are permitted to be immediately adopted for annual reporting periods that have not yet been made available for issuance. Nonpublic entities are no longer required to include certain fair value of financial instruments disclosures as part of these disclosure changes. We have immediately adopted this guidance and have excluded such disclosures from our Notes to Consolidated Financial Statements. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2017, for other applicable sections of the guidance. We are currently evaluating the impact of the remaining guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.
In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers."	The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. In March 2016, the FASB issued ASUs 2016-08 and 2016-10, which provided further clarifying guidance on the previously issued standard. We are in the process of reviewing contracts to determine the effect, if any, on our financial condition and results of operations.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	**June 30, 2017**		December 31, 2016	
	Amount	%	Amount	%
Real estate mortgage	**$ 2,044,593**	**38.6%**	$ 1,959,692	38.8%
Production and intermediate term	**1,711,531**	**32.4%**	1,671,230	33.1%
Agribusiness	**1,213,953**	**23.0%**	1,119,744	22.2%
Other	**317,635**	**6.0%**	298,868	5.9%
Total	**$ 5,287,712**	**100.0%**	$ 5,049,534	100.0%

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

Delinquency

Aging Analysis of Loans

(in thousands) **As of June 30, 2017**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	90 Days or More Past Due and Accruing
Real estate mortgage	**$ 494**	**$ 534**	**$ 1,028**	**$ 2,071,932**	**$ 2,072,960**	**$ --**
Production and intermediate term	**5,552**	**5,676**	**11,228**	**1,720,332**	**1,731,560**	**1,142**
Agribusiness	**--**	**--**	**--**	**1,218,173**	**1,218,173**	**--**
Other	**--**	**16**	**16**	**318,010**	**318,026**	**--**
Total	**$ 6,046**	**$ 6,226**	**$ 12,272**	**$ 5,328,447**	**$ 5,340,719**	**$ 1,142**

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 or More Past Due and Accruing
Real estate mortgage	$ 513	$ 1,315	$ 1,828	$ 1,987,776	$ 1,989,604	$ --
Production and intermediate term	5,624	1,934	7,558	1,690,657	1,698,215	59
Agribusiness	--	--	--	1,124,149	1,124,149	--
Other	482	216	698	298,897	299,595	--
Total	$ 6,619	$ 3,465	$ 10,084	$ 5,101,479	$ 5,111,563	$ 59

Note: Accruing loans include accrued interest receivable.

Risk Loans

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

Risk Loan Information

(in thousands) As of:	**June 30 2017**	December 31 2016
Volume with specific allowance	**$ 7,993**	$ 6,180
Volume without specific allowance	**8,735**	7,890
Total risk loans	**$ 16,728**	$ 14,070
Total specific allowance	**$ 2,379**	$ 1,586
For the six months ended June 30	**2017**	2016
Income on accrual risk loans	**$ 48**	$ 96
Income on nonaccrual loans	**587**	703
Total income on risk loans	**$ 635**	$ 799
Average risk loans	**$ 22,911**	$ 16,201

Note: Accruing loans include accrued interest receivable.

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at June 30, 2017.

Troubled Debt Restructurings (TDRs)

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

We completed TDRs of certain production and intermediate term loans during the six months ended June 30, 2017. Our recorded investment in these loans just prior to restructuring was $173 thousand during the six months ended June 30, 2017. Our recorded investment in these loans immediately following the restructuring was $172 thousand during the six months ended June 30, 2017. 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. There were no TDRs completed during the six months ended June 30, 2016.

The primary type of modification was extension of maturity.

We had TDRs in the production and intermediate term loan category of $8 thousand and $25 thousand that defaulted during the six months ended June 30, 2017, and 2016, respectively in which the modifications were within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:		June 30 2017		December 31 2016
Accrual status:				
Real estate mortgage	$	--	$	--
Production and intermediate term		13		9
Agribusiness		--		--
Other		--		1,756
Total TDRs in accrual status	$	13	$	1,765
Nonaccrual status:				
Real estate mortgage	$	3,807	$	3,996
Production and intermediate term		361		252
Agribusiness		--		540
Other		--		--
Total TDRs in nonaccrual status	$	4,168	$	4,788
Total TDRs:				
Real estate mortgage	$	3,807	$	3,996
Production and intermediate term		374		261
Agribusiness		--		540
Other		--		1,756
Total TDRs	$	4,181	$	6,553

The decrease in TDRs outstanding from December 31, 2016, was primarily due to communication loans, which are included in the other loan category, being refinanced at market terms during the first quarter of 2017.

There were no commitments to lend to borrowers whose loans have been modified in a TDR at June 30, 2017.

Allowance for Loan Losses

Changes for Allowance for Loan Losses

(in thousands) Six months ended June 30		2017		2016
Balance at beginning of period	$	14,284	$	13,394
Provision for loan losses		2,126		5,215
Loan recoveries		283		252
Loan charge-offs		(227)		(2,333)
Balance at end of period	$	16,466	$	16,528

The "Provision for credit losses" in the Consolidated Statements of Income includes a provision for loan losses as presented in the previous chart, as well as a provision for 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 six months ended June 30		2017		2016
Provision for credit losses	$	295	$	97
		June 30		December 31
As of:		2017		2016
Accrued credit losses	$	1,888	$	1,593

NOTE 3: INVESTMENT IN AGRIBANK, FCB

Effective July 1, 2017, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable, with an additional amount required on Association growth in excess of a targeted growth rate, if the District is also growing above a targeted growth rate. From January 1 to June 30, 2017, we were required by AgriBank to maintain an investment equal to 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. Previously, the required investment was 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.

Investment in AgriBank

(in thousands) As of:		**June 30** **2017**		December 31 2016
Required stock investment	**$**	**109,382**	$	111,196
Purchased excess stock investment		**1,814**		--
Total investment	**$**	**111,196**	$	111,196

NOTE 4: INVESTMENT SECURITIES

We held investment securities of 7.1 million at June 30, 2017, and December 31, 2016. Our investment securities consisted of Agricultural and Rural Community bonds.

The investment securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. To date, we have not recognized any impairment on our investment portfolio outstanding at June 30, 2017.

The amortized cost and fair value of the investment securities was $7.1 million at June 30, 2017, and December 31, 2016. The weighted average yield of the investment securities was 2.3% and 2.0% at June 30, 2017, and December 31, 2016, respectively.

Investment income is recorded in “Interest income” in the Consolidated Statements of Income and totaled $81 thousand and $68 thousand for the six months ended June 30, 2017 and 2016, respectively.

NOTE 5: OTHER INVESTMENT

We and other Farm Credit Institutions are among the limited partners for a $154.5 million Rural Business Investment Company (RBIC) established on October 3, 2014. The RBIC facilitates equity and debt investments in agriculture-related businesses that create growth and job opportunities in rural America. Our total commitment is $7.0 million through October 2019. Our investment in the RBIC is recorded in “Other assets” in the Consolidated Statements of Condition, and totaled $3.7 million at June 30, 2017, and $2.6 million at December 31, 2016.

The investment was evaluated for impairment. To date, we have not recognized any impairment on this investment.

NOTE 6: MEMBERS' EQUITY

Regulatory Capitalization Requirements

Select Capital Ratios

	As of June 30, 2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:				
Common equity tier 1 ratio	**17.7%**	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**17.7%**	6.0%	2.5%*	8.5%
Total capital ratio	**18.0%**	8.0%	2.5%*	10.5%
Permanent capital ratio	**17.7%**	7.0%	0.0%	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	**20.5%**	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**21.2%**	1.5%	0.0%	1.5%

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums will be phased in over three years under the FCA capital requirements.

Effective January 1, 2017, the regulatory capital requirements for Farm Credit System Banks and associations were modified. The new regulations replaced existing core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations 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 some modifications, to align with the new regulations.

Risk-adjusted assets have been defined by Farm Credit Administration (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. The primary changes, which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments with terms at origination of less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the inclusion of the allowance for loan losses as a deduction to risk-adjusted assets for the permanent capital ratio.

These ratios are based on a three-month average daily balance in accordance with FCA Regulations and are calculated as follows (not all items below may be applicable to our Association):

- Common equity tier 1 ratio is statutory minimum purchased member stock, other required member stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to retirement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required member stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt, and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for credit losses subject to certain limitations, less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt, and preferred stock subject to certain limitations, less certain allocated and purchased investments in other System institutions divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to retirement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

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.

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 was not included in the common equity tier 1, tier 1 capital, total capital, or leverage ratios. We had no allocated excess stock at June 30, 2017, or December 31, 2016.

Refer to Note 10 in our 2016 Annual Report for a more complete description of the ratios effective as of December 31, 2016.

NOTE 7: CONTINGENCIES AND COMMITMENTS

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

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

NOTE 8: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Note 2 in our 2016 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at June 30, 2017, or December 31, 2016.

Non-Recurring

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

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)	**As of June 30, 2017**				**Six months ended June 30, 2017**
	Fair Value Measurement Using			Total Fair	Total
	Level 1	Level 2	Level 3	Value	Losses
Impaired loans	**$ --**	**$ 1,917**	**$ 3,978**	**$ 5,895**	**$ (1,020)**

	As of December 31, 2016				Six months ended June 30, 2016
	Fair Value Measurement Using			Total Fair	Total
	Level 1	Level 2	Level 3	Value	Losses
Impaired loans	$ --	$ 1,117	$ 3,707	$ 4,824	$ (1,959)

Valuation Techniques

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

NOTE 9: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 7, 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 Quarterly Report or disclosure in the Notes to Consolidated Financial Statements, except as noted below.

On July 1, 2017, United Farm Credit Services, ACA merged its operations with and into AgCountry Farm Credit Services, ACA. All shareholders of United Farm Credit Services, ACA received capital stock in AgCountry Farm Credit Services, ACA in exchange for their stock, which was then canceled. This exchange was made at the stock's par value. The FCA issued amended charters for the merged association encompassing the territories previously served by the separate associations.

The merger was accounted for under the acquisition method of accounting in accordance with the FASB Accounting Standards Codification 805 Business Combinations. As the accounting acquirer, AgCountry Farm Credit Services, ACA recognized the identifiable assets acquired and liabilities assumed in the merger as of July 1, 2017, at their respective fair values. The fair values are based on various assumptions that management believes are reasonable utilizing information currently available.