2016 ANNUAL REPORT

FARM CREDIT
OF SOUTHWEST KANSAS

Five-Year Summary of Selected Consolidated Financial Data

(Dollars in Thousands)

	December 31				
	2016	2015	2014	2013	2012
Statement of Condition Data					
Loans	**$ 684,637**	$ 728,437	$ 699,522	$ 654,710	$ 607,222
Less allowance for loan losses	**3,254**	3,110	3,054	3,060	3,199
Net loans	**681,383**	725,327	696,468	651,650	604,023
Investment in CoBank, ACB	**25,162**	24,952	24,772	24,647	24,607
Other assets	**38,439**	29,930	27,567	25,790	21,861
Total assets	**$ 744,984**	$ 780,209	$ 748,807	$ 702,087	$ 650,491
Obligations with maturities of one year or less	**$ 25,581**	$ 16,594	$ 17,534	$ 19,463	$ 18,672
Obligations with maturities longer than one year	**546,414**	593,365	569,954	530,118	487,668
Reserve for unfunded commitments	**299**	296	-	-	-
Total liabilities	**572,294**	610,255	587,488	549,581	506,340
Protected borrower stock	**-**	38	38	38	43
Capital stock	**962**	989	1,010	1,030	1,047
Unallocated retained earnings	**171,723**	168,923	160,245	151,438	143,053
Accumulated other comprehensive income/(loss)	**5**	4	26	-	8
Total shareholders' equity	**172,690**	169,954	161,319	152,506	144,151
Total liabilities and shareholders' equity	**$ 744,984**	$ 780,209	$ 748,807	$ 702,087	$ 650,491

	For the Year Ended December 31				
	2016	2015	2014	2013	2012
Statement of Income Data					
Net interest income	**$ 18,472**	$ 17,634	$ 16,552	$ 16,223	$ 14,374
Patronage distribution from Farm Credit institutions	**3,867**	3,431	3,188	2,838	2,240
Provision for credit losses/(Credit loss reversal)	**189**	180	(138)	(142)	439
Noninterest expense, net	**14,468**	8,051	6,683	6,753	6,123
Net income	**$ 7,682**	$ 12,834	$ 13,195	$ 12,450	$ 10,052
Comprehensive income	**$ 7,683**	$ 12,812	$ 13,221	$ 12,442	$ 10,012

Key Financial Ratios					
For the Year					
Return on average assets	**1.01%**	1.71%	1.90%	1.90%	1.71%
Return on average shareholders' equity	**4.39%**	7.65%	8.30%	8.29%	7.01%
Net interest income as a percentage of average earning assets	**2.58%**	2.49%	2.53%	2.63%	2.62%
Net charge-offs/(recoveries) as a percentage of average net loans	**0.01%**	(0.02%)	(0.02%)	<(0.01%)	<(0.01%)
At Year End					
Shareholders' equity as a percentage of total assets	**23.18%**	21.78%	21.54%	21.72%	22.16%
Debt as a ratio to shareholders' equity	**3.31:1**	3.59:1	3.64:1	3.60:1	3.51:1
Allowance for loan losses as a percentage of loans	**0.48%**	0.43%	0.44%	0.47%	0.53%
Permanent capital ratio	**20.53%**	19.20%	19.31%	19.16%	20.31%
Total surplus ratio	**20.40%**	19.07%	19.18%	19.01%	20.15%
Core surplus ratio	**20.16%**	18.59%	18.51%	18.01%	18.81%
Net Income Distribution					
Cash patronage distributions paid	**$ 4,232**	$ 4,311	$ 4,069	$ 3,865	$ 4,706
Cash patronage declared	**$ 4,650**	$ 4,156	$ 4,388	$ 4,065	$ 3,800

Management's Discussion and Analysis

INTRODUCTION

The following discussion summarizes the financial position and results of operations of Farm Credit of Southwest Kansas, ACA for the year ended December 31, 2016. Comparisons with prior years are included. We have emphasized material known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact our financial condition and results of operations. You should read these comments along with the accompanying consolidated financial statements, footnotes and other sections of this report. The accompanying consolidated financial statements were prepared under the oversight of our Audit Committee. The Management's Discussion and Analysis includes the following sections:

- Merger
- Business Overview
- Economic Overview
- Loan Portfolio
- Credit Risk Management
- Results of Operations
- Liquidity
- Capital Resources
- Regulatory Matters
- Governance
- Forward-Looking Information
- Critical Accounting Policies and Estimates
- Customer Privacy

Our quarterly reports to shareholders are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. The reports may be obtained free of charge on our website, www.agloan.com, or upon request. We are located at 1606 East Kansas Avenue, Garden City, Kansas 67846, or may be contacted by calling (620) 275-4281.

MERGER

On February 29, 2016, the boards of directors of American AgCredit, ACA and Farm Credit of Southwest Kansas, ACA approved a letter of intent to pursue a merger. Both boards also approved a transition management agreement where American AgCredit's President and CEO, Byron Enix, was appointed chief executive officer for both Associations. The transition management agreement was effective April 1, 2016. On October 27, 2016, the voting stockholders for each association approved the proposed merger. The FCA granted final approval for the merger on December 27, 2016 and the merger was effective January 1, 2017. The merged Association operates under the name of American AgCredit, ACA with the headquarters located in Santa Rosa, California. The merger successfully united two associations into a financial institution of greater capital, capacity, and human resources to better serve agriculture within the Associations' territories.

BUSINESS OVERVIEW

Farm Credit System Structure and Mission

We are one of 73 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 100 years. The System mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The Farm Credit Administration (FCA) is the System's independent safety and soundness federal regulator and was established to supervise, examine and regulate System institutions.

Our Structure and Focus

As a cooperative, we are owned by the members we serve. Our territory served extends across a diverse agricultural region of southwestern Kansas. The counties in our territory are listed in Note 1 of the accompanying consolidated financial statements. We make long-term real estate mortgage loans to farmers, ranchers, rural residents and agribusinesses and production and intermediate-term loans for agricultural production or operating purposes.

Additionally, we provide other related services to our borrowers, such as credit life insurance, multi-peril crop and crop hail insurance, fee appraisals and advance conditional payment accounts. Our success begins with our extensive agricultural experience and knowledge of the market and is dependent on the level of satisfaction we provide to our borrowers.

As part of the System, we obtain the funding for our lending and operations from a Farm Credit Bank. Our funding bank, CoBank, ACB (CoBank), is a cooperative of which we are a member. CoBank, its related associations, and AgVantis, Inc. (AgVantis) are referred to as the District.

We, along with the borrower's investment in our Association, are materially affected by CoBank's financial condition and results of operations. The CoBank quarterly and annual reports are available free of charge by accessing CoBank's website, www.cobank.com, or may be obtained at no charge by contacting us at 1606 East Kansas Avenue, Garden City, Kansas 67846, or by calling (620) 275-4281. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

We purchase technology and other operational services from AgVantis, which is a technology service corporation. Our current service agreement expires on December 31, 2018. We are a shareholder in AgVantis, along with all other AgVantis customers. Farm Credit Foundations, a human resource service provider for a number of Farm Credit institutions, provides our payroll and human resource services.

ECONOMIC OVERVIEW

The Association is mainly invested in local agriculture, which consists primarily of grain farming, grazing and fat cattle, and dairy. In addition, we make investments in other agriculture segments as a means of increasing stockholder returns while managing risk through commodity and geographic diversification. For many years, local agriculture has experienced favorable economic conditions related to strong commodity prices, rising land values, and to a lesser extent, government support and multi-peril insurance programs. These conditions have generally had a positive impact on our financial results. However, production agriculture is heavily influenced by commodity prices, weather patterns, and global supply and demand.

The agriculture sector faced a variety of challenges in 2016. Dairy markets suffered from low milk prices early in the year before seeing a modest recovery in the latter half of the year. Increased global supplies drove corn and wheat prices down to break-even levels. Alternatively, 2016 produced higher than average crop yields providing some relief to producers even if only temporarily. While our credit quality remains good, we expect lower profitability for producers in the near term. Nevertheless, the Association has the strong capital base necessary to manage through tough times. We are well positioned to work together with our borrowers through these potentially challenging conditions.

The Agricultural Act of 2014 (Farm Bill) was signed into law on February 7, 2014. This Farm Bill governs an array of federal farm and food programs, including commodity price and support payments, farm credit, agricultural conservation, research, rural development, and foreign and domestic food programs for five years. The Farm Bill eliminated $23 billion in mandatory federal spending over a 10-year period, representing a reduction in the U.S. government farm policy support. The Farm Bill repeals direct payments and limits producers to risk management tools that offer protection when they suffer significant losses. The Farm Bill provides continued support for crop insurance programs, strengthens livestock disaster assistance and provides dairy producers with a voluntary margin protection program without imposing government-mandated supply controls.

LOAN PORTFOLIO

Total loans outstanding were $684.6 million at December 31, 2016, a decrease of $43.8 million, or 6.0%, from loans at December 31, 2015 of $728.4 million, and a decrease of $14.9 million or 2.1%, from loans at December 31, 2014 of $699.5 million. The decrease in loans was due to normal repayment activity, increased sales of participation interests to other Farm Credit Institutions, and an industry wide slowdown on operating loans due to weak commodity prices and increased global supplies. The types of loans outstanding at December 31 are reflected in the following table.

(dollars in thousands)	**2016** Volume	**2016** Percent	2015 Volume	2015 Percent	2014 Volume	2014 Percent
Real estate mortgage loans	**$ 435,968**	**63.7%**	$ 459,277	63.1%	$ 416,943	59.6%
Production and intermediate-term loans	**171,344**	**25.0%**	189,045	26.0%	200,817	28.7%
Agribusiness loans to:						
Cooperatives	**6,902**	**1.0%**	7,486	1.0%	4,678	0.7%
Process and marketing	**42,675**	**6.2%**	38,068	5.3%	38,721	5.5%
Farm related business	**7,326**	**1.1%**	7,355	0.9%	14,815	2.1%
Rural infrastructure:						
Communication loans	**6,280**	**0.9%**	11,158	1.5%	7,597	1.1%
Energy loans	**7,578**	**1.1%**	8,912	1.2%	10,534	1.5%
Water/Waste water	**2,312**	**0.3%**	2,312	0.3%	–	–
Agricultural export finance loans	**4,091**	**0.6%**	4,663	0.6%	5,197	0.7%
Rural residential real estate loans	**161**	**0.1%**	161	0.1%	220	0.1%
Total	**$ 684,637**	**100.0%**	$ 728,437	100.0%	$ 699,522	100.0%

Real estate mortgage loans outstanding decreased to $436.0 million, compared with $459.3 million at year-end 2015, primarily due to repayment activity and the sale of participation interests to other Farm Credit Institutions. Long-term mortgage loans are primarily used to purchase, refinance or improve real estate. These loans have maturities ranging from 5 to 40 years. Real estate mortgage loans are also made to rural homeowners. By federal regulation, a real estate mortgage loan must be secured by a first lien and may only be made in an amount up to 85% of the original appraised value of the property, or up to 97% of the appraised value, if the loan is guaranteed by certain state, federal, or other governmental agencies. Under our current underwriting standards, we loan less than the regulatory limit of 85% of the appraised value of the property.

The production and intermediate-term loans decreased 9.4% to $171.3 million compared with 2015 loans of $189.0 million, primarily due to payoffs in our Capital Markets portfolio and decreased demand for machinery and equipment financing as a result of weaker commodity prices and narrowing profitability margins. Production loans are used to finance the ongoing operating needs of agricultural producers. Production loans generally match the borrower's normal production and marketing cycle, which is typically 12 months. Intermediate-term loans are generally used to finance depreciable capital assets of a farm or ranch. Intermediate-term loans are written for a specific term, 1 to 15 years, with most loans being less than 10 years.

The agribusiness portfolio increased 7.5% to $56.9 million compared with 2015 loans of $52.9 million. These loans are made to benefit the throughput of agricultural goods to the marketplace. The majority of this loan volume and 100% of rural infrastructure and agricultural export loan volume results from loan participations with other Farm Credit institutions.

Portfolio Diversification

While we make loans and provide financially related services to qualified borrowers in agricultural and rural sectors and to certain related entities, our loan portfolio is diversified by loan participations purchased and sold, geographic locations served, commodities financed and loan size as illustrated in the following four tables.

We purchase loan participations from other System entities to generate additional earnings and diversify risk related to existing commodities financed and our geographic area served. In addition, we sell a portion of certain large loans to other System entities to reduce risk and comply with lending limits we have established.

To increase lending opportunities in the marketplace, we are a party to a shared lending agreement known as AgCap which includes our Association together with Farm Credit of New Mexico, ACA. Along with this association, we pool our resources to enhance our status with loan sellers as well as diversify risk.

Our volume of participations purchased and sold as of December 31 follows.

(dollars in thousands)	**2016**	2015	2014
Participations purchased	**$ 134,316**	$ 166,860	$ 158,111
Participations sold	**$ 191,890**	$ 174,699	$ 150,451

We have no loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests that are held in lieu of retaining a subordinated participation interest in the loans sold.

The geographic distribution of loans by county at December 31 follows. As previously mentioned, we purchase loan participations outside our territory, which are included in Other in the following table.

	2016	2015	2014
Finney	**10.85%**	10.09%	10.62%
Stevens	**6.51%**	4.92%	4.58%
Hamilton	**6.34%**	7.28%	7.65%
Ford	**6.33%**	7.56%	7.75%
Stanton	**5.01%**	5.60%	4.60%
Gray	**5.00%**	6.99%	6.94%
Seward	**4.55%**	5.25%	5.43%
Haskell	**4.41%**	3.10%	3.18%
Kearny	**4.30%**	5.35%	5.19%
Morton	**3.90%**	1.92%	1.85%
Meade	**3.66%**	2.34%	1.58%
Greeley	**3.32%**	3.76%	3.56%
Grant	**3.10%**	2.89%	3.12%
Wichita	**2.57%**	2.79%	2.78%
Scott	**1.72%**	2.43%	2.21%
Clark	**1.32%**	1.23%	1.32%
Lane	**0.53%**	0.21%	0.21%
Other	**26.58%**	26.29%	27.43%
Total	**100.00%**	100.00%	100.00%

The following table shows the primary agricultural commodities produced by our borrowers based on the Standard Industrial Classification System (SIC) published by the federal government. This system is used to assign commodity or industry categories based on the primary business of the customer. A primary business category is assigned when the commodity or industry accounts for 50% or more of the total value of sales for a business; however, a large percentage of agricultural operations typically includes more than one commodity.

	December 31		
SIC Category	**2016**	2015	2014
Cash grains	**58.13%**	55.64%	54.10%
Cattle	**15.85%**	18.05%	20.21%
Dairy	**11.84%**	13.35%	13.86%
Hay crops	**2.22%**	1.86%	1.78%
Ethanol	**1.34%**	1.50%	1.78%
Other	**10.62%**	9.60%	8.27%
Total	**100.00%**	100.00%	100.00%

Our loan portfolio contains a concentration of cash grains, cattle and dairy producers. Repayment ability of our borrowers is closely related to the production and profitability of the commodities they raise. If a loan fails to perform, restructuring and/or other servicing alternatives are influenced by the underlying value of the collateral which is impacted by industry economics. Our future performance would be negatively impacted by adverse agricultural conditions. The degree of the adverse impact would be correlated to the commodities negatively affected and the magnitude and duration of the adverse agricultural conditions to our borrowers.

Cash Grains: Cash grains consist primarily of wheat, corn, soybeans, alfalfa, sorghum, and other grains. Prices continue to be negatively impacted by the growth in domestic and world stocks. Current crop prices are resulting in the majority of producers operating at or below break-even. Favorable weather conditions in our territory led to above average yields, resulting in additional domestic stocks. With the reduction in government support, crop insurance continues to be an important risk management strategy for many producers.

Cattle: Our cattle portfolio consists of cow/calf and feedlot operations. Cattle markets experienced price volatility across all weight classes during 2016, with calf and live cattle dropping, in most cases, more than 30% off the highs experienced in 2015. Feedlot operations marketed high cost inventory into a depressed price environment for much of 2016 causing industry wide losses. Live cattle prices rallied in the fourth quarter to finish at $115/cwt. after falling below $100/cwt. at the end of October. Although cow/calf operations were significantly impacted by the reduction in calf prices, most operations were still able to generate a profit in 2016. Low feed, grain and roughage costs remained a bright spot in an otherwise difficult market environment. Favorable weather conditions in the Midwest provided for improved pasture conditions compared with 2015.

Dairy: The dairy market was plagued with low milk prices through the first half of 2016, with a modest recovery in prices in the second half of the year. The low milk prices resulted in a difficult operating environment for most dairy operations. Typical operating results for 2016 were at or below breakeven for most producers. Milk futures prices have increased over the past few months, signaling that a rebound in the dairy market is likely to occur in 2017. The higher milk prices, in conjunction with significantly lower feed costs, which typically account for 55% - 65% of total production costs, should result in a positive operating environment for dairy producers in 2017.

In addition to commodity diversification noted in the previous table, further diversification is also achieved from loans to rural residents and part-time farmers which typically derive most of their earnings from non-agricultural sources. These borrowers are less subject to agricultural cycles and would likely be more affected by weaknesses in the general economy.

The principal balance outstanding at December 31, 2016 for loans $250 thousand or less accounted for 15.4% of loan volume and 67.3% of the number of loans. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. The following table details loan principal by dollar size at December 31.

	2016		2015		2014	
(dollars in thousands)	**Amount outstanding**	**Number of loans**	Amount outstanding	Number of loans	Amount outstanding	Number of loans
$1 - $250	**$ 105,242**	**1,254**	$ 112,060	1,336	$ 114,976	1,391
$251 - $500	**100,371**	**278**	109,061	301	94,175	265
$501 - $1,000	**116,193**	**166**	140,906	196	129,388	183
$1,001 - $5,000	**313,450**	**157**	311,653	149	289,803	148
$5,001 - $25,000	**49,381**	**8**	54,757	8	71,180	9
Total	**$ 684,637**	**1,863**	$ 728,437	1,990	$ 699,522	1,996

Approximately 18.3% of our loans outstanding is attributable to 10 of our borrowers. Due to their size, the loss of any of these loans or the failure of any of these loans to perform would adversely affect the portfolio and our future operating results.

Credit guarantees with government agencies of $3.0 million at year-end 2016, $4.1 million at year-end 2015 and $2.8 million at year-end 2014 were outstanding. The $1.1 million decrease in guaranteed loans in 2016 can be attributed to loan payoffs and normal loan amortization.

Credit Commitments

We may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of our borrowers. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in our consolidated 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 contract. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. We may also participate in standby letters of credit to satisfy the financing needs of our borrowers. These standby letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2016.

(dollars in thousands)	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**Over 5 years**	**Total**
Commitments to extend credit	$120,924	$ 63,375	$ 27,847	$ 2,441	$214,587
Standby letters of credit	3,956	196	12	–	4,164
Total commitments	$124,880	$ 63,571	$ 27,859	$ 2,441	$218,751

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Statement of Condition until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and we apply the same credit policies to these commitments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on our credit evaluation of the borrower. We consider potential losses related to unfunded commitments, and a reserve for unfunded commitments is included in the liabilities section of the Consolidated Statement of Condition if necessary. The related provision for the reserve for unfunded commitment is included as part of the provision for credit losses on the Consolidated Statement of Comprehensive Income.

High Risk Assets

Nonperforming loan volume is comprised of nonaccrual loans, restructured loans, and loans 90 days past due still accruing interest and are referred to as impaired loans. High risk assets consist of impaired loans and other property owned. Comparative information regarding high risk assets in the portfolio, including accrued interest, follows:

(dollars in thousands)	**2016**	2015	2014
Nonaccrual loans:			
Real estate mortgage	**$ 405**	$ 322	$ –
Production and intermediate-term	**266**	629	129
Total nonaccrual loans	**671**	951	129
Accruing restructured loans:			
Real estate mortgage	**–**	–	2,078
Production and intermediate-term	**–**	–	52
Total accruing restructured loans	–	–	2,130
Accruing loans 90 days past due:			
Real estate mortgage	**82**	–	–
Total accruing loans 90 days past due	**82**	–	–
Total high risk assets	**$ 753**	$ 951	$ 2,259
Nonaccrual loans to total loans	**0.10%**	0.13%	0.02%
High risk assets to total loans	**0.11%**	0.13%	0.32%
High risk assets to total shareholders' equity	**0.44%**	0.56%	1.40%

We had no other property owned for the years presented.

Total high risk assets decreased $198 thousand, or 20.8%, to $753 thousand at December 31, 2016 compared with year-end 2015. The reduction in high risk assets was largely due to repayments on nonaccrual loans slightly offset by the addition of a single loan in accrual status that was 90 days past due. The past due accrual loan was not placed in nonaccrual status due to the borrower's plan to sell the property having a collateral value that exceeds the outstanding principal and interest on the loan.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. Nonaccrual volume decreased $280 thousand compared with December 31, 2015 due to repayments on existing loans, offset somewhat by the transfer of two new loans to nonaccrual. At December 31, 2016, seven loans were nonaccrual with two of the loans making up 71.8% of the total nonaccrual volume. Included in nonaccrual loans are a variety of commodities including cash grains, cattle and dairy. Lower commodity prices and increased global supplies contributed to these loans being nonaccrual.

(dollars in thousands)	**2016**	2015	2014
Nonaccrual loans current as to principal and interest	**$ 209**	$ 237	$ –
Restructured loans in nonaccrual status	**$ 4**	$ 46	$ –

For the years presented, we had no cash basis nonaccrual loans.

Accruing restructured loans include only the year-end balances of loans and related accrued interest on which monetary concessions have been granted to borrowers and that are in accrual status. Accruing restructured loans do not include loans on which monetary concessions have been granted but which remain in nonaccrual status.

High risk asset volume could increase in the future. Given the cyclical nature of agriculture, management anticipates that factors such as product oversupply, declining commodity prices, water issues, regulatory demands, increasing interest rates, and public demand for commodities may adversely impact high-risk volume over time. While the U.S. economy is exhibiting signs of growth, the global economy continues to struggle and is having a negative impact on the demand for U.S agricultural products. We maintain a Risk Management Department to proactively monitor and address portfolio risk.

Credit Quality

We review the credit quality of the loan portfolio on an on-going basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System (UCS), which is used by all System institutions. Following are the classification definitions.

- Acceptable – Assets are expected to be fully collectible and represent the highest quality.

- Other Assets Especially Mentioned (OAEM) – Assets are currently collectible but exhibit some potential weakness.
- Substandard – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – Assets exhibit similar weaknesses as substandard assets. However, doubtful assets have additional weaknesses in existing facts that make collection in full highly questionable.
- Loss – Assets are not considered collectible.

The following table presents statistics based on UCS related to the credit quality of the loan portfolio, including accrued interest at December 31.

	2016	2015	2014
Acceptable	**88.51%**	95.66%	97.59%
OAEM	**8.46%**	2.35%	0.92%
Substandard	**3.03%**	1.99%	1.49%
Total	**100.00%**	100.00%	100.00%

Recent economic conditions have created challenges for some borrowers and our credit quality has declined. Loans classified as Acceptable and OAEM were 96.97% at December 31, 2016, 98.01% at December 31, 2015 and 98.51% at December 31, 2014. We had no loans classified as Doubtful or Loss for any of the three years presented. The financial position of most agricultural producers strengthened during the past decade, and most of our borrowers have maintained generally strong financial positions. As such, our credit quality is anticipated to remain sound in the near term. However, agriculture remains a cyclical business that is heavily influenced by production, operating costs and commodity prices. Each of these can be significantly impacted by uncontrollable events. If less favorable economic conditions continue, it will likely lead to weakening in the loan portfolio. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans increased, however, remained at a low level of 0.04% at December 31, 2016, compared with 0.02% at December 31, 2015 and 0.07% at December 31, 2014.

Allowance for Loan Losses

We maintain an allowance for loan losses at a level consistent with the probable and estimable losses inherent in the loan portfolio identified by management. The allowance for loan losses at each period end was considered to be adequate to absorb probable losses existing in the loan portfolio. Because the allowance for loan losses considers factors such as current agricultural and economic conditions, loan loss experience, portfolio quality and loan portfolio composition, there will be a direct impact to the allowance for loan losses and our income statement when there is a change in any of those factors. The following table provides relevant information regarding the allowance for loan losses as of December 31.

(dollars in thousands)	**2016**	2015	2014
Balance at beginning of year	**$ 3,110**	$ 3,054	$ 3,060
Charge-offs:			
Production and intermediate-term	**79**	–	–
Total charge-offs	**79**	–	–
Recoveries:			
Real estate mortgage	**37**	22	132
Production and intermediate-term	**–**	150	–
Total recoveries	**37**	172	132
Net charge-offs/(recoveries)	**42**	(172)	(132)
Provision for loan losses/(Loan loss reversal)	**186**	(116)	(138)
Balance at December 31	**$ 3,254**	$ 3,110	$ 3,054
Net charge-offs/(recoveries) to average net loans	**0.01%**	(0.02%)	(0.02%)

The following table presents the allowance for loan losses by loan type as of December 31.

(dollars in thousands)	**2016**	2015	2014
Real estate mortgage	**$ 1,156**	$ 783	$ 267
Production and intermediate-term	**1,731**	1,583	1,412
Agribusiness	**243**	355	834
Communication	**25**	97	72
Energy	**85**	275	460
Water/Waste water	**4**	4	–
Rural residential real estate	**2**	2	–
Agricultural export finance	**8**	11	9
Total	**$ 3,254**	$ 3,110	$ 3,054

The allowance for loan losses increased $144 thousand from December 31, 2015, to $3.3 million at December 31, 2016. The increase in allowance for loan losses was primarily due to the provision for loan losses totaling $186 thousand that was recorded due to increased stress within the cash grains, dairy, and cattle segments of the portfolio. With lower commodity prices, profitability is expected to be more challenging for these borrowers. While current credit quality remains good, we have a degree of risk associated with loan concentrations in these commodities and the risk associated with large loan complexes.

Net charge-offs of $42 thousand were recorded during 2016. Total charge-offs were $79 thousand resulting from decreased collateral values on two nonaccrual loans in the cash grains commodity. The charge-offs were partially offset by a $37 thousand recovery in the real estate segment of the portfolio. Overall, charge-off activity remains low relative to the size of our loan portfolio.

During 2015, our allowance for loan losses increased $56 thousand from 2014 primarily due to recoveries offset by loan loss reversals totaling $116 thousand. Recoveries of $172 thousand were recorded due to payments received on a purchased participation interest in a dairy loan and on a feed yard loan. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 are presented in the following table.

	2016	2015	2014
Allowance as a percentage of:			
Loans	**0.48%**	0.43%	0.44%
Impaired loans	**432.14%**	327.02%	135.19%
Nonaccrual loans	**484.95%**	327.02%	2,367.44%

Further discussion of the allowance for loan losses can be found in Note 3 to the consolidated financial statements.

We have established a separate reserve for unfunded commitments, which is included in Liabilities on our Consolidated Statement of Condition. The related provision for the reserve for unfunded commitments is included as part of the provision for credit losses on the Consolidated Statement of Comprehensive Income, along with the provision for loan losses.

A summary of changes in the reserve for unfunded commitment follows:

	2016	2015
Balance at beginning of year	**$ 296**	$ –
Provision for unfunded commitments	**3**	296
Balance at December 31	**$ 299**	$ 296

Young, Beginning and Small Farmers and Ranchers Program

As part of the Farm Credit System, we are committed to providing sound and dependable credit and related services to young, beginning and small (YBS) farmers and ranchers. As a part of our Mission Statement, we are "helping to develop agriculture and the rural economy further through Young, Beginning and Small Farmer Lending." Following are FCA regulatory definitions for YBS farmers and ranchers.

- Young Farmer: A farmer, rancher, or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.
- Beginning Farmer: A farmer, rancher, or producer or harvester of aquatic products who had 10 years or less farming or ranching experience as of the date the loan was originally made.

- Small Farmer: A farmer, rancher, or producer or harvester of aquatic products who normally generated less than $250 thousand in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

The following table outlines our percentage of YBS loans as a percentage of the number of loans in our loan portfolio while the USDA column represents the percent of farmers and ranchers classified as YBS within our territory per the 2012 USDA Agricultural Census, which is the most current data available. Due to FCA regulatory definitions, a farmer/rancher may be included in multiple categories as they would be included in each category in which the definition was met.

	USDA	**2016**	2015	2014
Young	6.84%	**10.83%**	11.30%	14.80%
Beginning	22.64%	**15.60%**	15.28%	19.03%
Small	73.48%	**24.27%**	31.94%	31.26%

Note that several differences exist in definitions between USDA statistics and our data due to our use of FCA definitions. Young farmers are defined as 34 years old and younger by the USDA, while FCA definitions include farmers 35 years old and younger. Beginning farmers are defined by FCA as those with 10 years or less farming experience; however, the USDA identifies beginning farmers as on their current farm less than 10 years. This may include both beginning farmers and experienced farmers who have recently changed farmsteads. Our percentages are based on the number of loans in our portfolio, while the USDA percentages are based on the number of farmers and ranchers. While these definition differences do exist, the information will be utilized as it is the best comparative information available.

We establish annual marketing goals to increase market share of loans to YBS farmers and ranchers. Our goals are as follows:

- Offer related services either directly or in coordination with others that are responsive to the needs of YBS farmers and ranchers in our territory;
- Take full advantage of opportunities for coordinating credit and services offered with other System institutions in the territory and other governmental and private sources of credit who offer credit and services to those who qualify as YBS farmers and ranchers in our territory; and,
- Implement effective outreach programs to attract YBS farmers and ranchers.

Quarterly reports are provided to our Board of Directors detailing the number, volume and credit quality of our YBS customers. We have developed quantitative targets to monitor our progress.

- Loan volume and loan number goals for YBS farmers and ranchers in our territory;
- Percentage goals representative of the demographics of YBS farmers and ranchers in our territory;
- Percentage goals for loans made to new borrowers qualifying as YBS farmers and ranchers in our territory;
- Action Plan activity;
- Marketing efforts; and,
- Reviews of loan denials to YBS applicants (to ensure denials were based on failure to meet underwriting standards)

New Loans	**Projected Number**	**Actual Number**	**Projected Volume**	**Actual Volume**
Young	22	13	$ 5,050,000	$ 3,481,650
Beginning	24	19	$ 4,050,000	$ 6,524,150
Small	32	19	$ 5,450,000	$ 3,170,650
Total	78	51	$ 14,550,000	$ 13,176,450

To ensure that credit and services offered to our YBS farmers and ranchers are provided in a safe and sound manner and within our risk-bearing capacity, we utilize loan underwriting standards, loan guarantee programs, and breaks on fees/loan charges, etc. to accomplish this goal. Additionally, we are actively involved in developing and sponsoring educational opportunities, leadership training, business financial training and insurance services for YBS farmers and ranchers.

We extensively market our lending territory for YBS borrowers through radio advertising, 4-H and FFA sponsorships, scholarships and loans for project animals, contacts with the Ag-Departments in the three area community colleges and area county fairs, premium sales, high school activities, personal loan officer contacts, etc. Brochures regarding our YBS Program are located in each Branch office and distributed throughout the lending territory at local dealerships, Farm Service Agency (FSA) offices, extension offices, realtor offices, etc.

We also participate in sponsoring statewide activities in conjunction with other Farm Credit offices such as Women Managing the Farm Seminars, 4-H Key Awards, Kansas Livestock Association (KLA) Field Days, KLA Breakfast and Cowboy College at their annual meeting and Fort Hays State University Scholarships. We are also "major" supporters of 4-H, FFA, Kansas Ag and Rural Leadership (KARL) training; as well as Kansas State University (K-State) athletics, Ag in the Classroom, and K-State Management, Analysis and Strategic Thinking (MAST-K-State) training. We support the Kansas Young Farmers and Leaders Conference, Public Square Communities, Kansas High School Rodeo, Sarah Fogelman Farm Transition Seminars and Kansas Society of Farm Managers and Rural Appraisers.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential failure of a borrower to meet repayment obligations that result in a financial loss to the lender. Credit risk exists in our loan portfolio and also in our unfunded loan commitments and standby letters of credit. Credit risk is actively managed on an individual and portfolio basis through application of sound lending and underwriting standards, policies and procedures.

Underwriting standards are utilized to determine an applicant's operational, financial, and managerial resources available for repaying debt within the terms of the note and loan agreement. Underwriting standards include among other things, an evaluation of:

- character – borrower integrity and credit history;
- capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income;
- collateral – to protect the lender in the event of default and also serve as a secondary source of loan repayment;
- capital – ability of the operation to survive unanticipated risks; and,
- conditions – intended use of the loan funds, terms, restrictions, etc.

Processes for information gathering, balance sheet and income statement verification, loan analysis, credit approvals, disbursements of proceeds and subsequent loan servicing actions are established and followed. Underwriting standards vary by industry and are updated periodically to reflect market and industry conditions.

By regulation, we cannot have loan commitments to one borrower for more than 15% of our permanent capital. Additionally, we set our own lending limits to manage loan concentration risk. Lending limits have been established for individual loan size, commodity type, and special lending programs.

We have established internal lending delegations to properly control the loan approval process. Delegations to staff are based on our risk-bearing ability, loan size, complexity, type and risk, as well as the expertise and position of the credit staff member. Larger and more complex loans or loans perceived to have higher risk are typically approved by our loan committee with the most experienced and knowledgeable credit staff serving as members.

The majority of our lending is first mortgage real estate loans which must be secured by a first lien on real estate. Production and intermediate-term lending accounts for most of the remaining volume and is typically secured by livestock, crops and equipment. Collateral evaluations are completed in compliance with FCA and Uniform Standards of Professional Appraisal Practices requirements. All property is appraised at market value. All collateral evaluations must be performed by a qualified appraiser. Certain appraisals must be performed by individuals with a state certification or license.

We use a two-dimensional risk rating model (Model) based on the Farm Credit System's Combined System Risk Rating Guidance. The Model estimates each loan's probability of default (PD) and loss given default (LGD). PD estimates the probability that a borrower will experience a default within twelve months from the date of determination. LGD provides an estimation of the anticipated loss with respect to a specific financial obligation of a borrower assuming a default has occurred or will occur within the next twelve months. The Model uses objective and subjective criteria to identify inherent strengths, weaknesses, and risks in each loan. PDs and LGDs are utilized in loan and portfolio management processes and are utilized for the allowance for loan losses estimate.

The Model's 14-point probability of default scale provides for nine acceptable categories, one OAEM category, two substandard categories, one doubtful category and one loss category; each carrying a distinct percentage of default probability. The Model's LGD scale provides 6 categories, A through F, that have the following anticipated principal loss and range of economic loss expectations:

- A 0% anticipated principal loss; 0% to 5% range of economic loss
- B 0% to 3% anticipated principal loss; >5% to 15% range of economic loss
- C > 3% to 7% anticipated principal loss; >15% to 20% range of economic loss

- D > 7% to 15% anticipated principal loss; >20% to 25% range of economic loss
- E > 15% to 40% anticipated principal loss; >25% to 50% range of economic loss
- F above 40% anticipated loss; above 50% range of economic loss

RESULTS OF OPERATIONS

Earnings Summary

In 2016, we recorded net income of $7.7 million, compared with $12.8 million in 2015, and $13.2 million in 2014. The decrease in 2016 was primarily due to an increase in operating expenses, $3.9 million of which were merger related costs. The decrease in 2015 was primarily due to an increase in operating expenses and in the provision for credit losses. Increased expenses in 2015 were partially offset by increases in net interest income and non-interest income. The following table presents the changes in the significant components of net income from the previous year.

(dollars in thousands)	**2016 vs. 2015**	2015 vs. 2014
Net income, prior year	**$ 12,834**	$ 13,195
Increase/(Decrease) from changes in:		
Interest income	**886**	1,513
Interest expense	**(48)**	(431)
Net interest income	**838**	1,082
Provision for credit losses	**(9)**	(318)
Noninterest income	**(23)**	124
Noninterest expense	**(5,958)**	(1,249)
Total decrease in net income	**(5,152)**	(361)
Net income, current year	**$ 7,682**	$ 12,834

Return on average assets decreased to 1.01% from 1.71% in 2015, and return on average shareholders' equity decreased to 4.39% from 7.65% in 2015, primarily as a result of decreased net income.

Net Interest Income

Net interest income for 2016 was $18.5 million compared with $17.6 million for 2015 and $16.6 million for 2014. Net interest income is our principal source of earnings and is impacted by interest earning asset volume, yields on assets and cost of debt. The increase in net interest income was largely due to steady average earning assets that earned more interest income in 2016 than in 2015 coupled with a slight decrease in interest expense. The following table provides an analysis of the individual components of the change in net interest income during 2016 and 2015.

(dollars in thousands)	**2016 vs. 2015**	2015 vs. 2014
Net interest income, prior year	**$ 17,634**	$ 16,552
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned	**585**	(457)
Interest rates paid	**(21)**	409
Volume of interest-bearing assets and liabilities	**274**	1,196
Interest income on nonaccrual loans	**–**	(66)
Increase in net interest income	**838**	1,082
Net interest income, current year	**$ 18,472**	$ 17,634

The following table illustrates net interest margin and the average interest rates on loans and debt cost and interest rate spread.

	For the Year Ended December 31		
	2016	2015	2014
Net interest margin	**2.58%**	2.49%	2.53%
Interest rate on:			
Average loan volume	**4.01%**	3.93%	4.01%
Average debt	**1.75%**	1.75%	1.83%
Interest rate spread	**2.26%**	2.18%	2.18%

The increase in interest rate spread resulted from an 8 basis point increase in interest rates on average loan volume with no corresponding increase in the average cost of debt. The increase in the net interest margin, in addition to the change in spread, was due to higher earnings on our own capital.

Provision for Credit Losses/(Credit Loss Reversals)

We monitor our loan portfolio and unfunded commitments on a regular basis to determine if any increase through provision for credit losses or decrease through a credit loss reversal in our allowance for loan losses or reserve for unfunded commitment is warranted based on our assessment of the probable and estimable losses inherent in our loan portfolio and unfunded commitments. We recorded a net provision for credit losses of $189 thousand in 2016, compared with $180 thousand in 2015 and net credit loss reversal of $138 thousand in 2014. The provision for loan losses of $186 thousand recorded during 2016 was primarily due to increased stress in the portfolio in commodities with the highest concentration of loans; cash grains, dairy, and cattle. While credit quality currently remains good, lower commodity prices are expected to make profitability more challenging in the future. A minimal provision for the reserve for unfunded commitments of $3 thousand was recorded during 2016. The $180 thousand credit loss provision recorded in 2015 resulted from a decline in credit quality. The $138 thousand credit loss reversal recorded in 2014 was primarily due to improvements in credit quality. In 2015, we reclassified some of our allowance for credit losses which resulted in the establishment of a reserve for unfunded commitments of $296 thousand. The reserve for unfunded commitments reflects our best estimates of losses inherent in lending commitments that have not yet been disbursed to customers.

Noninterest Income

During 2016, we recorded noninterest income of $5.8 million, compared with $5.9 million in 2015 and $5.7 million in 2014. Patronage distributions from CoBank are our primary source of noninterest income. Patronage is accrued in the year earned and then received from CoBank in the following year. CoBank patronage is distributed in cash and stock. Patronage earned from CoBank was $3.7 million in 2016, $3.4 million in 2015 and $3.0 million in 2014.

We received a patronage distribution from AgVantis, based on our services purchased from AgVantis during 2016. We received a Notice of Allocation with our total patronage of $194 thousand, which includes cash patronage of $39 thousand compared with cash patronage of $7 thousand for 2015 and $29 thousand for 2014. The balance of the allocation is recorded in other assets. Additionally, we received a cash patronage of $13 thousand from Farm Credit Foundations, the organization that provides our payroll and human resource services. This compares with $4 thousand recorded in 2015 and $3 thousand in 2014. Patronage from these two entities and CoBank is included in patronage distribution from Farm Credit institutions on the Consolidated Statement of Comprehensive Income.

We received mineral income of $556 thousand during 2016, which is distributed to us quarterly by CoBank. Mineral income along with loan fees, financially related services income, and other noninterest income are included in noninterest income on the Consolidated Statement of Comprehensive Income. Mineral income decreased $478 thousand from 2015 and $711 thousand from 2014. The reduction is primarily attributable to lower mineral prices resulting in reduced production and lease related income. Loan fees in 2016 were $366 thousand, down $14 thousand from $380 thousand in 2015. Financially related services income was $798 thousand in 2016, up $11 thousand over 2015. Other noninterest income was also up by $22 thousand in 2016.

Noninterest Expense

Noninterest expense for 2016 increased $6.0 million, or 56.9%, to $16.4 million compared with 2015 and $7.2 million, or 78.1% compared with 2014. Noninterest expense for each of the three years ended December 31 is summarized as follows:

				Percent of Change	
(dollars in thousands)	**2016**	2015	2014	**2016/2015**	2015/2014
Salaries & employee benefits	**$ 6,667**	$ 5,873	$ 5,473	**13.52%**	7.31%
Occupancy & equipment	**1,021**	533	638	**91.56%**	(16.46%)
Purchased services from AgVantis	**1,175**	918	740	**28.00%**	24.05%
Merger implementation costs	**3,896**	–	–	**100.00%**	–
Supervisory & examination costs	**215**	234	227	**(8.12%)**	3.08%
Other	**2,543**	2,224	1,570	**14.34%**	41.66%
Total operating expense	**15,517**	9,782	8,648	**58.63%**	13.11%
Losses on other property owned, net	**–**	–	1	–	(100.00%)
Farm Credit Insurance Fund premium	**919**	696	580	**32.04%**	20.00%
Total noninterest expense	**$ 16,436**	$ 10,478	$ 9,229	**56.86%**	13.53%

For the year ended December 31, 2016, total operating expense increased $5.7 million, or 58.7%, compared with the year ended December 31, 2015, primarily due to the accrual of merger related expenses for our upcoming merger with American AgCredit, ACA. The increase in salaries and employee benefits is related to increased accruals for employee incentive and retention bonuses. Merger implementation costs are comprised of attorney fees, contract breakage fees, and other professional services. Occupancy and equipment expenses increased due to our move into our newly constructed office building in Dodge City, Kansas. Real estate taxes and the cost of furnishings for the new building were responsible for the increase. Purchased services from AgVantis increased due to an increase in core service charges. Other expenses are up in part due to fees paid to CoBank for an interim CEO. Insurance Fund premiums increased $223 thousand to $919 thousand due to an increase in the premium rate offset slightly by a decrease in volume. Premium rates were 16 basis points for the first six months of 2016 and 18 basis points for the second six months of 2016 compared with 13 basis points in 2015 and 12 basis points in 2014.

LIQUIDITY

Liquidity is necessary to meet our financial obligations. Liquidity is needed to pay our note with CoBank, fund loans and other commitments, and fund business operations in a cost-effective manner. Our liquidity policy is intended to manage short-term cash flow, maximize debt reduction, and liquidate nonearning assets**.** Our direct loan with CoBank, cash on hand and borrower loan repayments provide adequate liquidity to fund our on-going operations and other commitments. Even with the volatility in the financial markets, we anticipate liquidity levels will be adequate to meet our obligations.

Funding Sources

Our primary source of liquidity is the ability to obtain funds for our operations through a borrowing relationship with CoBank. Our note payable to CoBank is collateralized by a pledge to CoBank of substantially all of our assets. Substantially all cash received is applied to the note payable and all cash disbursements are drawn on the note payable. The indebtedness is governed by a General Financing Agreement (GFA) with CoBank. The annual average principal balance of the note payable to CoBank was $573.1 million in 2016, $567.1 million in 2015 and $516.5 million in 2014.

We plan to continue to fund lending operations through the utilization of our funding arrangement with CoBank, retained earnings from current and prior years and from borrower stock investments. CoBank's primary source of funds is the ability to issue Systemwide Debt Securities to investors through the Federal Farm Credit Bank Funding Corporation. This access has traditionally provided a dependable source of competitively priced debt that is critical for supporting our mission of providing credit to agriculture and rural America. Although financial markets experienced significant volatility in the last few years, we were able to obtain sufficient funding to meet the needs of our customers.

We are required to meet defined underwriting standards in credit and financial performance as part of the GFA with CoBank. In 2015, we did not meet certain defined covenants of the GFA in the area(s) of Standards of Conduct and internal controls and reporting processes. During the fourth quarter of 2015, we took steps to cure the Standards of Conduct as well as certain controls and reporting issues. In 2016, we continued operations pursuant to Waivers of Default for the GFA with CoBank. In September 2016, CoBank relaxed all additional reporting requirements required by the Waivers and required no additional reporting absent a material negative change. On December 31, 2016, we continued to operate under the Waivers of Default with no additional reporting requirements from CoBank.

Interest Rate Risk

The interest rate risk inherent in our loan portfolio is substantially mitigated through our funding relationship with CoBank which allows for loans to be match-funded. Borrowings from CoBank match the pricing, maturity, and option characteristics of our loans to borrowers. CoBank manages interest rate risk through the direct loan pricing and its asset/liability management processes. Although CoBank incurs and manages the primary sources of interest rate risk, we may still be exposed to interest rate risk through the impact of interest rate changes on earnings generated from our loanable funds.

To stabilize earnings from loans financed by equity, we have committed excess loanable funds with CoBank at a fixed rate for a specified term as part of CoBank's Fixed Term Investment Program. This program enables us to stabilize the earnings on its loans financed by equity without significantly increasing our overall interest rate risk position. The balance of the Fixed Term Investments totaled $82.5 million at December 31, 2016, with monthly investments maturing from January 4, 2017, through July 4, 2021. The average interest rate on this balance as of December 31, 2016 was 0.842%.

Funds Management

We offer variable, fixed, adjustable prime-based and LIBOR-based rate loans to borrowers. Our Board of Directors determines the interest rate charged based on the following factors: 1) the interest rate charged by CoBank; 2) our existing rates and spreads; 3) the competitive rate environment; and 4) our profitability objectives.

CAPITAL RESOURCES

Capital supports asset growth and provides protection for unexpected credit and operating losses. Capital is also needed for investments in new products and services. We believe a sound capital position is critical to our long-term financial success due to the volatility and cycles in agriculture. Over the past several years, we have been able to build capital primarily through net income retained after patronage. Shareholders' equity at December 31, 2016 totaled $172.7 million, compared with $170.0 million at December 31, 2015 and $161.3 million at December 31, 2014. The increase of $2.7 million in shareholders' equity reflects net income and an increase in accumulated other comprehensive income, partially offset by patronage refunds and net stock retirements. Our capital position is reflected in the following ratio comparisons.

	2016	2015	2014
Debt to shareholders' equity	**3.31:1**	3.59:1	3.64:1
Shareholders' equity as a percent of net loans	**25.34%**	23.43%	23.16%
Shareholders' equity as a percent of total assets	**23.18%**	21.78%	21.54%

Debt to shareholders' equity decreased and shareholders' equity as a percent of net loans and of total assets increased from 2015 primarily due to a decrease in net loans and total assets and an increase in retained earnings.

Retained Earnings

Our retained earnings increased $2.8 million to $171.7 million at December 31, 2016 from $168.9 million at December 31, 2015 and increased $11.5 million from $160.2 million at December 31, 2014. The increase was a result of net income of $7.7 million, partially offset by $4.9 million of patronage distributions.

Patronage Program

We have a Patronage Program that allows us to distribute our available net earnings to our shareholders. This program provides for the application of net earnings in the manner described in our Bylaws. In addition to determining the amount and method of patronage to be distributed, the Bylaws address increasing surplus to meet capital adequacy standards established by Regulations; increasing surplus to a level necessary to support competitive pricing at targeted earnings levels; and increasing surplus for reasonable reserves. Patronage distributions are based on business done with us during the year. We paid cash patronage of $4.2 million in 2016, $4.3 million in 2015 and $4.1 million in 2014. During 2016, we declared patronage distributions of $4.7 million to be paid in March 2017.

Stock

Our total stock decreased $65 thousand to $962 thousand at December 31, 2016, from $1.0 million at December 31, 2015 and from $1.0 million at December 31, 2014. The decrease was due to $119 thousand of stock retirements, partially offset by $54 thousand of stock issuances. We require a stock investment for each borrower. We have a Borrower Level Stock Program which allows stock to be assigned to each borrower instead of each loan. This reduces the stock requirements for borrowers with multiple loans. The current stock requirement for each borrower is the lesser of one thousand dollars or 2.00% of the collective total balance of each borrower's loan(s).

Accumulated Other Comprehensive Income or Loss

Accumulated other comprehensive income totaled $5 thousand at December 31, 2016, an increase of $1 thousand compared with year-end 2015 and a decrease of $21 thousand compared with year-end 2014. Certain employees participate in a non-qualified Defined Benefit Pension Restoration Plan (Plan). Accounting guidance requires recognition of the Plan's underfunded status and unamortized actuarial gains and losses and prior service costs or credits as a liability with an offsetting adjustment to accumulated other comprehensive income.

Capital Plan and Regulatory Requirements

Our Board of Directors establishes a formal capital adequacy plan that addresses capital goals in relation to risks. The capital adequacy plan assesses the capital level necessary for financial viability and to provide for growth. Our plan is updated annually and approved by our Board of Directors. FCA regulations require the plan consider the following factors in determining optimal capital levels, including:

- Regulatory capital requirements;

- Asset quality;
- Needs of our customer base; and,
- Other risk-oriented activities, such as funding and interest rate risks, contingent and off-balance sheet liabilities and other conditions warranting additional capital.

FCA regulations establish minimum capital standards expressed as a ratio of capital to assets, taking into account relative risk factors for all System institutions. In general, the regulations provide for a relative risk weighting of assets and establish a minimum ratio of permanent capital, total surplus and core surplus to risk-weighted assets. Our capital ratios as of December 31 and the FCA minimum requirements follow.

	Regulatory Minimum	**2016**	2015	2014
Permanent capital ratio	7.00%	**20.53%**	19.20%	19.31%
Total surplus ratio	7.00%	**20.40%**	19.07%	19.18%
Core surplus ratio	3.50%	**20.16%**	18.59%	18.51%

As of December 31, 2016, we exceeded the regulatory minimum capital ratios and are expected to do so throughout 2017. However, the minimum ratios established were not meant to be adopted as the optimum capital level, so we have established goals in excess of the regulatory minimum. As of December 31, 2016, we have exceeded our goals. Due to our strong capital position, we will continue to be able to retire at-risk stock.

Building Projects

We completed the construction of a 13,650 square-foot office building in Dodge City, Kansas. This facility replaces our existing Dodge City facility. The new facility's cost including land, building, furniture and equipment was $3.9 million. Construction expenses were funded from capital.

REGULATORY MATTERS

As of December 31, 2016, there were no regulatory enforcement actions in effect for the Association. The FCA voided Supervisory letters dated October 5, October 12, and December 17, 2015 as a result of progress made by the Association, the April 1, 2016 implementation of joint management with American AgCredit, ACA, and the Association's expectation of merger as demonstrated by the Letter of Intent to merge with American AgCredit, ACA.

In 2016, the Association continued operating pursuant to Waivers of Default under its General Financing Agreement with CoBank. On September 9, 2016, CoBank relaxed all additional reporting requirements required by the Waivers of Default and no additional reporting was required thereafter.

On March 10, 2016, the FCA adopted final rules (the New Capital Regulations) relating to regulatory capital requirements for System banks, including CoBank, and Associations. The New Capital Regulations take effect January 1, 2017. The stated objectives of the New Capital Regulations are as follows:

- To modernize capital requirements while ensuring that System institutions continue to hold sufficient regulatory capital to fulfill the System's mission as a government-sponsored enterprise;
- To ensure that the System's capital requirements are comparable to the Basel III framework and that 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;
- To make System regulatory capital requirements more transparent; and
- To meet certain requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act).

The New Capital Regulations, among other things, replace existing core surplus and total surplus requirements with common equity tier 1 (CET1), tier 1 and total capital (tier 1 plus tier 2) risk-based capital ratio requirements. The New Capital Regulations also add a tier 1 leverage ratio for all System institutions, which replaces the existing net collateral ratio for System banks. In addition, the New Capital Regulations establish a capital conservation buffer and a leverage buffer; enhance the sensitivity of risk weighting; and, for System banks only, require additional public disclosures. The revisions to the risk weighting include alternatives to the use of credit ratings, as required by the Dodd-Frank Act.

The New Capital Regulations set the following minimum risk-based requirements:

- A CET1 capital ratio of 4.5 percent;
- A tier 1 capital ratio (CET1 capital plus additional tier 1 capital) of 6 percent; and
- A total capital ratio (tier 1 plus tier 2) of 8 percent.

The New Capital Regulations also set a minimum tier 1 leverage ratio (tier 1 capital divided by total assets) of 4 percent, of which at least 1.5 percent must consist of unallocated retained earnings (URE) and URE equivalents, which are nonqualified allocated equities with certain characteristics of URE. The New Capital Regulations establish a capital cushion (capital conservation buffer) of 2.5 percent above the risk-based CET1, tier 1 and total capital requirements. In addition, the New Capital Regulations establish a leveraged capital cushion (leverage buffer) of 1 percent above the tier 1 leverage ratio requirement. If capital ratios fall below the regulatory minimum plus buffer amounts, capital distributions (equity redemptions, cash dividend payments, and cash patronage payments) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. The New Capital Regulations establish a three-year phase-in of the capital conservation buffer beginning January 1, 2017. There will be no phase-in of the leverage buffer.

We were in compliance with the New Capital Regulations on January 1, 2017.

GOVERNANCE

Board of Directors

We are governed by a ten member board that provides direction and oversees our management. Of these directors, eight are elected by the shareholders and two are appointed by the elected directors. Our Board of Directors represents the interests of our shareholders. The Board of Directors meets regularly to perform the following functions, among others:

- selects, evaluates and compensates the chief executive officer;
- approves the strategic plan, capital plan, financial plan and the annual operating budget;
- oversees the lending operations;
- directs management on significant issues; and,
- oversees the financial reporting process, communications with shareholders and our legal and regulatory compliance.

Director Independence

All directors must exercise sound judgment in deciding matters in our interest. All our directors are independent from the perspective that no management or staff serves as Board members. However, we are a financial services cooperative, and the Farm Credit Act and FCA Regulations require our elected directors to have a loan relationship with us.

The elected directors, as borrowers, have a vested interest in ensuring our Association remains strong and successful. However, our borrowing relationship could be viewed as having the potential to compromise the independence of an elected director. For this reason, the Board has established independence criteria to ensure that a loan relationship does not compromise the independence of our Board. Annually, in conjunction with our independence analysis and reporting on our loans to directors, each director provides financial information and any other documentation and/or assertions needed for the Board to determine the independence of each Board member.

Audit Committee

The Audit Committee reports to the Board of Directors. The Audit Committee is composed of five members of the Board of Directors. During 2016, 11 meetings were held. The Audit Committee responsibilities generally include, but are not limited to:

- the oversight of the financial reporting risk and the accuracy of the quarterly and annual shareholder reports;
- the oversight of the system of internal controls related to the preparation of quarterly and annual shareholder reports;
- the review and assessment of the impact of accounting and auditing developments on the consolidated financial statements; and,
- the establishment and maintenance of procedures for the receipt, retention and treatment of confidential and anonymous submission of concerns, regarding accounting, internal accounting controls or auditing matters.

Compensation Committee

The Compensation Committee is responsible for the oversight of employee and director compensation. The Compensation Committee is composed of the full Board of Directors. The Committee annually reviews, evaluates and approves the compensation policies, programs and plans for senior officers and employees including benefits programs.

Executive Committee

The Executive Committee is comprised of at least two directors and the CEO. This committee is typically convened when conditions are such that it is impracticable to convene the entire Board to make a specific decision.

Credit Review Committee

The Credit Review Committee is established to review adverse credit decisions made by the Association. The Committee has ultimate decision making authority on the loan. Membership consists of one board member and two staff members not involved in the adverse credit decision on the loan being reviewed.

Special Committee

Due to the FCA's Standards of Conduct violation findings and the subsequent issuance of supervisory letters in 2015, a Special Committee comprised of three Board members was formed to facilitate corrective actions by the Association. This Committee works closely with the CEO and legal counsel to ensure proper steps are taken for on-going compliance.

Other Governance

The Board has monitored the requirements of public companies under the Sarbanes-Oxley Act. While we are not subject to the requirements of this law, we are striving to implement steps to strengthen governance and financial reporting. We strive to maintain strong governance and financial reporting through the following actions:

- a system for the receipt and treatment of whistleblower complaints;
- a code of ethics for our President/CEO, Chief Financial Officer and Chief Credit Officer;
- open lines of communication between the independent auditors, management, and the Audit Committee;
- "plain English" disclosures;
- officer certification of accuracy and completeness of the consolidated financial statements; and,
- information disclosure through our website.

Personnel

With Mark Anderson's retirement in October, 2015, Lynn Scherler was named Interim CEO/President. Byron Enix became the CEO/President effective April 1, 2016. Stephen Stephens was named Chief Operating Officer, effective January 1, 2016. Ken Furgason, former SVP Finance and HR served in that capacity through December 31, 2015. He officially departed the Association effective March 15, 2016. Tony English was named Interim Chief Financial Officer effective January 1, 2016. Vern Zander became Chief Financial Officer effective April 1, 2016.

FORWARD-LOOKING INFORMATION

Our discussion contains 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 "anticipates," "believes," "could," "estimates," "may," "should," and "will," or other variations of these terms are intended to identify forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and/or the Farm Credit System; and,
- actions taken by the Federal Reserve System in implementing monetary policy.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements are based on accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because we have to make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2 of the accompanying consolidated financial statements. The development and selection of critical accounting policies, and the related disclosures, have been reviewed by our Audit Committee. A summary of critical policies relating to the determination of the allowance for loan losses follows.

Allowance for Loan Losses/Reserve for Unfunded Commitment

The allowance for loan losses is our best estimate of the amount of probable loan losses existing in and inherent in our loan portfolio as of the balance sheet date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. Additionally, we provide line of credit financing to our customers. We have established a reserve for unfunded commitment to cover probable losses. This reserve is reported as a liability in our consolidated balance sheet. The reserve for unfunded commitment is increased through provisions for the reserve for unfunded commitments and is decreased through reversals of the reserve for unfunded commitments. Provision for loan losses and provision for reserve for unfunded commitments are referred to as provision for credit losses on the Consolidated Statement of Comprehensive Income. We determine the allowance for loan losses and the reserve for unfunded commitment based on a regular evaluation of the loan and commitment portfolios, which generally considers recent historical charge-off experience adjusted for relevant factors.

Loans are evaluated based on the borrower's overall financial condition, resources, and payment record; the prospects for support from any financially responsible guarantor; and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses attributable to these loans is established by a process that estimates the probable loss inherent in the loans, taking into account various historical factors, internal risk ratings, regulatory oversight, and geographic, industry and other factors.

Changes in the factors we consider in the evaluation of losses in the loan portfolio could occur for various credit related reasons and could result in a change in the allowance for loan losses, which would have a direct impact on the provision for loan losses and results of operations. See Notes 2 and 3 to the accompanying consolidated financial statements for detailed information regarding the allowance for loan losses.

CUSTOMER PRIVACY

FCA regulations require that borrower information be held in confidence by Farm Credit institutions, their directors, officers and employees. FCA regulations and our Standards of Conduct Policies specifically restrict Farm Credit institution directors and employees from disclosing information not normally contained in published reports or press releases about the institution or its borrowers or members. These regulations also provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic information.

Farm Credit of Southwest Kansas, ACA
1606 East Kansas Avenue, P.O. Box 2509
Garden City, Kansas 67846
Voice: (620) 275-4281
Fax: (620) 275-0432

REPORT OF MANAGEMENT

The consolidated financial statements of Farm Credit of Southwest Kansas, ACA (Association) are prepared by management, who is 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 generally accepted accounting principles appropriate in the circumstances, and in the opinion of management, fairly present the financial condition of the Association. Other financial information included in the 2016 annual report is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. To monitor compliance, management engaged American AgCredit's Internal Audit staff to perform audits of the accounting records, review accounting systems and internal controls, and recommend improvements as appropriate. The Association is also examined by the Farm Credit Administration.

The Audit Committee of the Board of Directors has overall responsibility for the Association's system of internal control and financial reporting. The Audit Committee consults regularly with management and reviews the results of the examinations by the various entities named above. The independent auditors have direct access to the Audit Committee.

The undersigned certify the Farm Credit of Southwest Kansas, ACA Annual Report has been reviewed and prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Jason Ochs
Chairman of the Board

Byron Enix
President and Chief Executive Officer

Vern Zander
Chief Financial Officer

March 16, 2017

Farm Credit of Southwest Kansas, ACA
1606 East Kansas Avenue, P.O. Box 2509
Garden City, Kansas 67846
Voice: (620) 275-4281
Fax: (620) 275-0432

AUDIT COMMITTEE REPORT

The Audit Committee (Committee) includes five members from the Board of Directors of Farm Credit of Southwest Kansas, ACA (Association). In 2016, eleven Committee meetings were held. The Committee oversees the scope of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter. The Committee approved the appointment of PricewaterhouseCoopers, LLP (PwC) as the Association's independent auditors for 2016.

The fees paid for professional services rendered for the Association by its independent auditor, PwC, during 2016 were $109,625 for audit services, $7,500 for tax services.

The Committee reviewed the non-audit services provided by PwC and concluded these services were not incompatible with maintaining the independent auditor's independence.

Management is responsible for the Association's 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 Association's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and the Association's audited financial statements for the year ended December 31, 2016 (the "Financial Statements") with management. The Committee also receives from PwC the matters required to be discussed by Statements on Auditing Standards. Both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Financial Statements in the Association's Annual Report to Shareholders for the year ended December 31, 2016 and for filing with the Farm Credit Administration.

Tom Teixeira

Tom Teixeira, Chairman of the Audit Committee

Audit Committee Members
Patrick Friess, Outgoing Chair
Doug Stucky, Outgoing Vice Chair
Richard Miller
Jason Ochs
Chandler Cupp

March 16, 2017

pwc

Report of Independent Auditors

To the Board of Directors of
Farm Credit of Southwest Kansas, ACA

We have audited the accompanying consolidated financial statements of Farm Credit of Southwest Kansas, ACA, and its subsidiaries (the Association), which comprise the consolidated statement of condition as of December 31, 2016, 2015, and 2014, and the related consolidated statements of comprehensive income, of changes in shareholders' equity, and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

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

Emphasis of Matter

As more fully described in the Note 17 of the consolidated financial statements, the Association merged with and into American AgCredit, ACA on January 1, 2017.

PricewaterhouseCoopers LLP

March 16, 2017

PricewaterhouseCoopers LLP, 1100 Walnut, Suite 1300, Kansas City, MO 64106
T: (816) 472 7921, F: (816) 218 1890, *www.pwc.com/us*

Consolidated Statement of Condition

(Dollars in Thousands)

	December 31		
	2016	2015	2014
ASSETS			
Loans	**$ 684,637**	$ 728,437	$ 699,522
Less allowance for loan losses	**3,254**	3,110	3,054
Net loans	**681,383**	725,327	696,468
Cash	**18,339**	10,604	11,795
Accrued interest receivable	**7,858**	8,284	6,726
Investment in CoBank, ACB	**25,162**	24,952	24,772
Premises and equipment, net	**6,581**	6,833	4,302
Prepaid benefit expense	**1,004**	426	576
Other assets	**4,657**	3,783	4,168
Total assets	**$ 744,984**	$ 780,209	$ 748,807
LIABILITIES			
Note payable to CoBank, ACB	**$ 545,592**	$ 592,470	$ 566,922
Advance conditional payments	**13,995**	9,638	10,825
Accrued interest payable	**822**	895	3,032
Patronage distributions payable	**4,650**	4,000	4,250
Accrued benefits liability	**207**	227	210
Accounts payable	**6,156**	1,978	1,499
Reserve for unfunded commitments	**299**	296	-
Other liabilities	**573**	751	750
Total liabilities	**572,294**	610,255	587,488
Commitments and Contingencies (See Note 14)			
SHAREHOLDERS' EQUITY			
Protected borrower stock	**-**	38	38
Capital stock	**962**	989	1,010
Unallocated retained earnings	**171,723**	168,923	160,245
Accumulated other comprehensive income/(loss)	**5**	4	26
Total shareholders' equity	**172,690**	169,954	161,319
Total liabilities and shareholders' equity	**$ 744,984**	$ 780,209	$ 748,807

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

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

	For the Year Ended December 31		
	2016	2015	2014
INTEREST INCOME			
Loans	**$ 28,653**	$ 27,767	$ 26,254
Total interest income	**28,653**	27,767	26,254
INTEREST EXPENSE			
Note payable to CoBank, ACB	**10,151**	10,084	9,639
Other	**30**	49	63
Total interest expense	**10,181**	10,133	9,702
Net interest income	**18,472**	17,634	16,552
Provision for credit losses/(Credit loss reversal)	**189**	180	(138)
Net interest income after provision for credit losses/(credit loss reversal)	**18,283**	17,454	16,690
NONINTEREST INCOME			
Financially related services income	**798**	787	701
Loan fees	**366**	380	396
Patronage distribution from Farm Credit institutions	**3,867**	3,431	3,188
Mineral income	**556**	1,034	1,267
Other noninterest income	**248**	226	182
Total noninterest income	**5,835**	5,858	5,734
NONINTEREST EXPENSE			
Salaries and employee benefits	**6,667**	5,873	5,473
Occupancy and equipment	**1,021**	533	638
Purchased services from AgVantis, Inc.	**1,175**	918	740
Losses on other property owned, net	**-**	-	1
Farm Credit Insurance Fund premium	**919**	696	580
Merger-implementation costs	**3,896**	-	-
Supervisory and examination costs	**215**	234	227
Other noninterest expense	**2,543**	2,224	1,570
Total noninterest expense	**16,436**	10,478	9,229
Net income	**7,682**	12,834	13,195
COMPREHENSIVE INCOME			
Amortization of retirement credits	**-**	(6)	-
Actuarial gain/(loss) in retirement obligation	**1**	(16)	26
Total comprehensive income	**$ 7,683**	$ 12,812	$ 13,221

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

	Protected Borrower Stock	Capital Stock	Unallocated Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2013	$ 38	$ 1,030	$ 151,438	$ -	$ 152,506
Comprehensive income			13,195	26	13,221
Stock issued	-	70			70
Stock retired	-	(90)			(90)
Patronage distributions: Cash			(4,388)		(4,388)
Balance at December 31, 2014	38	1,010	160,245	26	161,319
Comprehensive income			12,834	(22)	12,812
Stock issued	-	61			61
Stock retired	-	(82)			(82)
Patronage Distributions: Cash			(4,156)		(4,156)
Balance at December 31, 2015	38	989	168,923	4	169,954
Comprehensive income			7,682	1	7,683
Stock issued	-	54			54
Stock retired	(38)	(81)			(119)
Patronage distributions: Cash			(4,882)		(4,882)
Balance at December 31, 2016	**$ -**	**$ 962**	**$ 171,723**	**$ 5**	**$ 172,690**

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

Consolidated Statement of Cash Flows

(Dollars in Thousands)

	For the Year Ended December 31		
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 7,682**	$ 12,834	$ 13,195
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation	**341**	328	328
Provision for credit losses/(Credit loss reversal)	**189**	180	(138)
Patronage stock from CoBank	**(270)**	(210)	(179)
Allocated patronage from AgVantis	**(156)**	(27)	(115)
Gains on sales of premises and equipment	**(190)**	(88)	(32)
Gain on patronage reversal	**-**	(95)	(69)
Change in assets and liabilities:			
Decrease/(Increase) in accrued interest receivable	**426**	(1,558)	(506)
(Increase)/Decrease in prepaid benefit expense	**(578)**	150	33
(Increase)/Decrease in other assets	**(448)**	622	(240)
Decrease in accrued interest payable	**(73)**	(2,137)	(1,292)
(Decrease)/Increase in accrued benefits liability	**(19)**	(5)	1
Increase/(Decrease) in accounts payable	**4,178**	479	(51)
(Decrease)/Increase in other liabilities	**(178)**	1	74
Total adjustments	**3,222**	(2,360)	(2,186)
Net cash provided by operating activities	**10,904**	10,474	11,009
CASH FLOWS FROM INVESTING ACTIVITIES:			
Decrease/(Increase) in loans, net	**43,758**	(28,743)	(44,680)
Increase in investment in CoBank	**(210)**	(180)	(125)
Sales of/(Expenditures for) premises and equipment, net	**101**	(2,771)	(986)
Net cash provided by/(used in) investing activities	**43,649**	(31,694)	(45,791)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net (repayment of)/draw on note payable to CoBank	**(46,878)**	25,548	41,128
Increase/(Decrease) in advance conditional payments	**4,357**	(1,187)	(2,177)
Protected borrower stock retired	**(38)**	-	-
Capital stock retired	**(81)**	(82)	(90)
Capital stock issued	**54**	61	70
Cash patronage distributions paid	**(4,232)**	(4,311)	(4,069)
Net cash (used in)/provided by financing activities	**(46,818)**	20,029	34,862
Net increase/(decrease) in cash	**7,735**	(1,191)	80
Cash at beginning of year	**10,604**	11,795	11,715
Cash at end of year	**$ 18,339**	$ 10,604	$ 11,795
SUPPLEMENTAL CASH INFORMATION:			
Cash paid/(received) during the year for:			
Interest	**$ 10,254**	$ 12,270	$ 10,994
Income taxes	**$ -**	$ -	$ (7)
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Patronage stock from CoBank	**$ 270**	$ 210	$ 179
Allocated patronage from AgVantis	**$ 156**	$ 27	$ 115
Net charge-offs/(recoveries)	**$ 42**	$ (172)	$ (132)
Patronage distributions payable	**$ 4,650**	$ 4,000	$ 4,250
Change in accumulated other comprehensive income	**$ 1**	$ (22)	$ 26

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands, Except as Noted)

NOTE 1 – ORGANIZATION AND OPERATIONS

A. Organization: Farm Credit of Southwest Kansas, ACA and its subsidiaries, Farm Credit of Southwest Kansas, FLCA and Farm Credit of Southwest Kansas, PCA (collectively called “the Association”) are member-owned cooperatives which provide credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified agricultural purposes in the counties of Clark, Finney, Ford, Grant, Gray, Greeley, Hamilton, Haskell, Kearny, Lane, Meade, Morton, Scott, Seward, Stanton, Stevens and Wichita in the state of Kansas.

   The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act). The System is comprised of three Farm Credit Banks, one Agricultural Credit Bank and 73 associations.

   CoBank, ACB (funding bank or the “Bank”) its related associations and AgVantis, Inc. (AgVantis) are collectively referred to as the District. CoBank provides the funding to associations within the District and is responsible for supervising certain activities of the District Associations. AgVantis, which is owned by the entities it serves, provides technology and other operational services to certain associations and to CoBank. The CoBank District consists of CoBank, 22 Agricultural Credit Associations (ACA), which each have two wholly owned subsidiaries, (a FLCA and a PCA), one FLCA and AgVantis.

   ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. Generally, the FLCA makes secured long-term agricultural real estate and rural home mortgage loans and the PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

   The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System Banks and Associations. The FCA examines the activities of System institutions to ensure their compliance with the Farm Credit Act, FCA regulations and safe and sound banking practices.

   The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). By law, the Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured Debt), (2) to ensure the retirement of protected stock at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary use by the Insurance Corporation in providing assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System Bank is required to pay premiums, which may be passed on to the Associations, into the Insurance Fund based on its annual average outstanding insured debt adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments until the assets in the Insurance Fund reach the “secure base amount,” which is defined in the Farm Credit Act as 2.0 percent of the aggregate Insured Debt or such other percentage of the Insured Debt as the Insurance Corporation, in its sole discretion, determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, as necessary to maintain the Insurance Fund at the 2.0 percent level. As required by the Farm Credit Act, as amended, the Insurance Corporation may return excess funds above the secure base amount to System institutions. The Bank passes this premium expense and the return of excess funds as applicable through to each Association based on the Association’s average adjusted note payable with the Bank.

B. Operations: The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be provided by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, rural residents and farm-related businesses.

   The Association also offers credit life insurance, multi-peril crop and crop hail insurance, advance conditional payment accounts and provides additional services to borrowers such as fee appraisals.

The Association's financial condition may be impacted by factors affecting CoBank. The CoBank Annual Report is available free of charge on CoBank's website, www.cobank.com; or may be obtained at no charge by contacting the Association at 1606 East Kansas Avenue, Garden City, Kansas 67846, or by calling (620) 275-4281. Upon request, Association shareholders will be provided with a copy of the CoBank Annual Report. The CoBank Annual Report discusses the material aspects of CoBank's and the District's financial condition, changes in financial condition, and results of operations.

C. Merger: On January 1, 2017 the Association merged with American AgCredit, ACA, an association headquartered in Santa Rosa, California. Further information on this merger is found in Note 17.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Association conform to accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires Association management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from these estimates. Significant estimates are discussed in these footnotes as applicable. Certain amounts in prior years' consolidated financial statements have been reclassified to conform to the current year's financial statement presentation.

The consolidated financial statements include the accounts of Farm Credit of Southwest Kansas, FLCA and Farm Credit of Southwest Kansas, PCA. All significant inter-company transactions have been eliminated in consolidation. Recently issued accounting pronouncements follow.

In August 2014, the Financial Accounting Standards Board (FASB) issued guidance entitled "Presentation of Financial Statements – Going Concern." The guidance governs management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This 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 exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for interim and annual periods ending after December 15, 2016 and early application is permitted. The Association adopted this guidance in the fourth quarter of 2016 and management made its initial assessment as of December 31, 2016.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association will evaluate the impact of adoption on its financial condition and its results of operations.

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." The guidance affects, among other things, the presentation and disclosure requirements for financial instruments. For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations.

In May 2014, the FASB issued guidance entitled, "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. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect if any, on our financial condition or results of operations.

Below is a summary of our significant accounting policies.

A. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 40 years. Substantially all short- and intermediate-term loans made for agricultural production or operating purposes have maturities of ten years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Loan origination fees and direct loan origination costs are capitalized and the net fee or cost is amortized over the life of the related loan as an adjustment to yield.

   Impaired loans are loans for which it is probable that principal and interest will not be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan contract is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred is collected in full or otherwise discharged.

   Impaired loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless adequately collateralized and in the process of collection) or when circumstances indicate that collection of principal and/or interest is in doubt. Additionally, all loans over 180 days past due are placed in nonaccrual status. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) and/or included in the recorded nonaccrual balance (if accrued in prior years). Loans are charged-off at the time they are determined to be uncollectible.

   A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider.

   When loans are in nonaccrual status, loan payments are generally applied against the recorded nonaccrual balance. A nonaccrual loan may, at times, be maintained on a cash basis. As a cash basis nonaccrual loan, the recognition of interest income from cash payments received is allowed when the collectability of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered charge-off associated with it. Nonaccrual loans may be returned to accrual status when all contractual principal and interest is current, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

   In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual term of the loan, the loan is classified as a restructured loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

   The Association purchases loan participations from other System entities to generate additional earnings and diversify risk. Additionally, the Association sells a portion of certain large loans to other System entities to reduce risk and comply with established lending limits. Loans are accounted for following the accounting requirements for sale treatment.

   The Association uses a two-dimensional loan rating model based on internally generated combined System risk rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

   Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a “9” to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

The credit risk rating methodology is a key component of the Association’s allowance for loan losses evaluation, and is generally incorporated into its loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is increased through provision for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, environmental conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and prior loan loss experience. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty, imprecision and variability. Changes in the agricultural economy and environment and their impact on borrower repayment capacity will cause various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the Association’s expectations and predictions of those circumstances. Management considers the following macro-economic factors in determining and supporting the level of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.

The allowance for loan losses includes components for loans individually evaluated for impairment and loans collectively evaluated for impairment. Generally, for loans individually evaluated, the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan’s effective interest rate, or at the fair value of the collateral, if the loan is collateral dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model as previously discussed.

B. Cash: Cash, as included in the consolidated financial statements, represents cash on hand and on deposit at financial institutions. At times, cash deposits may be in excess of federally insured limits.

C. Investment in CoBank: The Association’s required investment in CoBank is in the form of Class A Stock. The minimum required investment is 4.00 percent of the prior year’s average direct loan volume. The investment in CoBank is comprised of patronage based stock and purchased stock. The requirement for capitalizing patronage-based participation loans sold to CoBank is 8.00 percent of the prior ten-year average of such participations sold to CoBank.

D. Premises and Equipment: Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Estimated useful life for the building is 39 years and ranges from 3 to 5 years for furniture and equipment and 5 years for automobiles. Gains and losses on dispositions are reflected in current operating results. Maintenance and repairs are expensed and improvements above certain thresholds are capitalized.

E. Other Assets and Other Liabilities: Other assets are comprised primarily of accounts receivable, prepaid expenses, and investment in Farm Credit institutions. Significant components of other liabilities primarily include accounts payable and employee benefits.

F. Advance Conditional Payments: The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower’s access to such advance payments is restricted, the advance conditional payments are netted against the borrower’s related loan balance. Unrestricted advance conditional payments are included in liabilities. Restricted advance conditional payments are primarily associated with mortgage loans, while non-restricted are primarily related to production and intermediate-term loans and insurance proceeds on mortgage loans. Advance conditional payments are not insured. Interest is generally paid by the Association on advance conditional payments.

G. Employee Benefit Plans: Substantially all employees of the Association participate in the Ninth Farm Credit District Pension Plan (Pension Plan) and/or the Farm Credit Foundations Defined Contribution/401(k) Plan (401(k) Plan). The Pension Plan is a non-contributory defined benefit plan. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. The Pension Plan was closed to employees beginning January 1, 2007.

The 401(k) Plan has two components. Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Defined Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue code. The Association matches a certain percentage of employee contributions. All defined contribution costs are expensed in the same period that participants earn employer contributions.

The Association also participates in the Farm Credit Foundations Retiree Medical Plan. These postretirement benefits (other than pensions) are provided to eligible retired employees of the Association. The anticipated costs of these benefits were accrued during the period of the employee's active service. The authoritative accounting guidance requires the accrual of the expected cost of providing postretirement benefits during the years that the employee renders service necessary to become eligible for these benefits.

The Association also participates in the Ninth District nonqualified defined benefit Pension Restoration Plan. This plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under this plan are offset by the benefits payable from the pension plan.

H. Patronage Distribution from CoBank: Patronage distributions from CoBank are accrued by the Association in the year earned.

I. Income Taxes: As previously described, the ACA holding company conducts its business activities through two wholly owned subsidiaries. Long-term mortgage lending activities are operated through a wholly owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through a wholly owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation. The ACA, along with the PCA subsidiary, is subject to income taxes. The Association accounts for income taxes under the liability method. Accordingly, deferred taxes are recognized for estimated taxes ultimately payable or recoverable based on federal, state or local laws.

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage distributions. Deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the Association and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, the deferred tax assets will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the Association's expected patronage program, which reduces taxable earnings.

Deferred income taxes have not been recorded by the Association on stock patronage distributions received from the Bank prior to January 1, 1993, the adoption date of accounting guidance on income taxes. Association management's intent is to permanently invest these and other undistributed earnings in CoBank, or if converted to cash, to pass through any such earnings to Association borrowers through qualified patronage allocations.

The Association has not provided deferred income taxes on amounts allocated to the Association which relate to the Bank's post-1992 earnings to the extent that such earnings will be passed through to Association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on the Bank's post-1992 unallocated earnings.

J. Other Comprehensive Income/Loss: Other comprehensive income refers to revenue, expenses, gains and losses that under GAAP are recorded as an element of shareholders' equity and comprehensive income but are excluded from net income. Accumulated other comprehensive income/loss refers to the balance of these transactions. The Association records other comprehensive income/loss associated with the liability under the Pension Restoration Plan.

K. Fair Value Measurement: Accounting guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets include assets held in trust funds which relate to the Association's deferred compensation plan and supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

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 the following: (a) quoted prices for similar assets or liabilities in active markets; (b) 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, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and, (d) inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Unobservable inputs are those that are supported by little or no market activity and that are significant to the determination of the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions about factors that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose values are 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. Level 3 assets include other property owned.

The fair value disclosures are presented in Note 15.

L. Off-balance-sheet credit exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

	December 31		
	2016	2015	2014
Real estate mortgage	**$ 435,968**	$ 459,277	$ 416,943
Production and intermediate-term	**171,344**	189,045	200,817
Agribusiness:			
Loans to cooperatives	**6,902**	7,486	4,678
Process and marketing	**42,675**	38,068	38,721
Farm related business	**7,326**	7,355	14,815
Rural infrastructure:			
Communication	**6,280**	11,158	7,597
Energy	**7,578**	8,912	10,534
Water/waste water	**2,312**	2,312	–
Agricultural export finance	**4,091**	4,663	5,197
Rural residential real estate	**161**	161	220
Total loans	**$ 684,637**	$ 728,437	$ 699,522

The Association purchases or sells loan participations with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. The following table presents information regarding participations purchased and sold as of December 31, 2016:

	Total	
	Purchased	Sold
Real estate mortgage	$ 30,989	$ 47,650
Production and intermediate-term	29,235	144,240
Agribusiness	53,831	–
Rural infrastructure	16,170	–
Agricultural export finance	4,091	–
Total	$134,316	$191,890

A substantial portion of the Association's loans are collateralized. 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, as well as receivables. Long-term real estate loans are secured by first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed or enhanced by a government agency) of the property's appraised value. 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 Association in the collateral, may result in loan to value ratios in excess of the regulatory maximum.

Credit enhancements with federal government agencies of $3,044 at year-end 2016, $4,088 at year-end 2015 and $2,759 at year-end 2014 were outstanding. Farm Service Agency (FSA) loan guarantees are utilized when appropriate to manage credit risk. Typically, the Association has a 90% guarantee from the FSA which would insure that our loss on a guaranteed loan would not exceed 10% of the original loan balance in the event that we instituted foreclosure and collected the loan after liquidation of all loan collateral secured.

One credit quality indicator utilized by the Association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality,
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness,
- Substandard – assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan,
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable; and,
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest classified under the FCA Uniform Loan Classification system as a percentage of total loans and related accrued interest receivable by loan type as of December 31.

	2016	2015	2014
Real estate mortgage			
Acceptable	**91.50%**	98.12%	98.20%
OAEM	**6.38%**	0.90%	1.35%
Substandard	**2.12%**	0.98%	0.45%
Total	**100.00%**	100.00%	100.00%
Production and intermediate-term			
Acceptable	**77.15%**	90.64%	95.94%
OAEM	**16.28%**	4.16%	0.37%
Substandard	**6.57%**	5.20%	3.69%
Total	**100.00%**	100.00%	100.00%
Agribusiness			
Acceptable	**96.11%**	94.57%	97.94%
OAEM	**3.89%**	5.43%	–
Substandard	**–**	–	2.06%
Total	**100.00%**	100.00%	100.00%

(Continued)	**2016**	2015	2014
Rural infrastructure			
Acceptable	**100.00%**	89.88%	100.00%
OAEM	**–**	10.12%	–
Total	**100.00%**	100.00%	100.00%
Rural residential real estate			
Acceptable	**0.25%**	–	100.00%
Substandard	**99.75%**	100.00%	–
Total	**100.00%**	100.00%	100.00%
Agricultural export finance			
Acceptable	**100.00%**	100.00%	100.00%
Total	**100.00%**	100.00%	100.00%
Total Loans			
Acceptable	**88.51%**	95.66%	97.59%
OAEM	**8.46%**	2.35%	0.92%
Substandard	**3.03%**	1.99%	1.49%
Total	**100.00%**	100.00%	100.00%

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. The following presents information relating to impaired loans including accrued interest.

	December 31		
	2016	2015	2014
Nonaccrual loans:			
Current as to principal and interest	**$ 209**	$ 237	$ –
Past due	**462**	714	129
Impaired accrual loans:			
Restructured	**–**	–	2,130
Accrual loans 90 days or more past due	**82**	–	–
Total impaired loans	**$ 753**	$ 951	$ 2,259

There were no material commitments to lend additional funds to debtors whose loans were classified impaired for the years presented.

High risk assets consist of impaired loans and other property owned. The following table presents these in a more detailed manner than the previous table. These nonperforming assets (including related accrued interest) are as follows:

	December 31		
(dollars in thousands)	**2016**	2015	2014
Nonaccrual loans			
Real estate mortgage	**$ 405**	$ 322	$ –
Production and intermediate-term	**266**	629	129
Total nonaccrual loans	**671**	951	129
Accruing restructured loans			
Real estate mortgage	**–**	–	2,078
Production and intermediate-term	**–**	–	52
Total accruing restructured loans	**–**	–	2,130
Accruing loans 90 days past due			
Real estate mortgage	**82**	–	–
Total accruing loans 90 days past due	**82**	–	–
Total high risk assets	**$ 753**	$ 951	$ 2,259

There was no other property owned for the years presented.

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/16	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Production and intermediate-term	$ 163	$ 230	$ 16	$ 352	$ –
Total	$ 163	$ 230	$ 16	$ 352	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 487	$ 847		$ 677	$ 1
Production and intermediate-term	103	1,875		124	–
Agribusiness	–	1,961			
Total	$ 590	$ 4,683		$ 801	$ 1
Total impaired loans:					
Real estate mortgage	$ 487	$ 847	$ –	$ 677	$ 1
Production and intermediate-term	266	2,105	16	476	–
Agribusiness	–	1,961	–	–	–
Total	$ 753	$ 4,913	$ 16	$ 1,153	$ 1

	Recorded Investment at 12/31/15	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Production and intermediate term	$ 500	$ 512	$ 94	$ 56	$ –
Total	$ 500	$ 512	$ 94	$ 56	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 322	$ 678		$ 991	$ 30
Production and intermediate-term	129	1,860		130	1
Agribusiness	–	2,681		–	–
Total	$ 451	$ 5,219		$ 1,121	$ 31
Total impaired loans:					
Real estate mortgage	$ 322	$ 678	$ –	$ 991	$ 30
Production and intermediate-term	629	2,372	94	186	1
Agribusiness	–	2,681	–	–	–
Total	$ 951	$ 5,731	$ 94	$ 1,177	$ 31

	Recorded Investment at 12/31/14	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 2,078	$ 2,435		$ 201	$ 94
Production and intermediate-term	181	1,910		135	1
Agribusiness	–	2,682		–	–
Total	$ 2,259	$ 7,027		$ 336	$ 95

* Unpaid principal balance represents the recorded principal balance of the loan

No impaired loans had a related allowance for credit loss as of December 31, 2014.

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2. The following table presents interest income recognized on impaired loans.

	Year Ended December 31		
	2016	2015	2014
Interest income recognized on:			
Nonaccrual loans	**$ –**	$ –	$ 67
Restructured accrual loans	**–**	28	28
Accrual loans 90 days or more past due	**1**	3	–
Interest income recognized on impaired loans	**$ 1**	$ 31	$ 95

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans follows.

	Year Ended December 31		
	2016	2015	2014
Interest income which would have been recognized under the original loan terms	**$ 461**	$ 376	$ 413
Less: interest income recognized	**–**	28	95
Foregone interest income	**$ 461**	$ 348	$ 318

The following table provides an age analysis of past due loans (including accrued interest).

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	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ –	$ 393	$ 393	$ 441,072	$ 441,465	$ 82
Production and intermediate-term	23	150	173	173,149	173,322	–
Agribusiness	–	–	–	57,256	57,256	–
Rural infrastructure	–	–	–	16,187	16,187	–
Rural residential real estate	170	–	170	–	170	–
Agricultural export finance	–	–	–	4,095	4,095	–
Total	$ 193	$ 543	$ 736	$ 691,759	$ 692,495	$ 82

December 31, 2015	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 410	$ –	$ 410	$ 464,455	$ 464,865	$ –
Production and intermediate-term	314	130	444	190,934	191,378	–
Agribusiness	–	–	–	53,247	53,247	–
Rural infrastructure	–	–	–	22,400	22,400	–
Rural residential real estate	–	–	–	163	163	–
Agricultural export finance	–	–	–	4,668	4,668	–
Total	$ 724	$ 130	$ 854	$ 735,867	$ 736,721	$ –

December 31, 2014	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 107	$ –	$ 107	$ 421,526	$ 421,633	$ –
Production and intermediate-term	185	129	314	202,187	202,501	–
Agribusiness	–	–	–	58,537	58,537	–
Rural infrastructure	–	–	–	18,145	18,145	–
Rural residential real estate	192	–	192	39	231	–
Agricultural export finance	–	–	–	5,201	5,201	–
Total	$ 484	$ 129	$ 613	$ 705,635	$ 706,248	$ –

Note: The recorded investment in the loan receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the loan receivable.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider.

The following table presents additional information regarding troubled debt restructurings (whether accrual or nonaccrual) that occurred during the year.

	Year Ended December 31					
	2016		2015		2014	
	Outstanding Recorded Investment					
	Pre-modification	**Post-modification**	Pre-modification	Post-modification	Pre-modification	Post-modification
Troubled debt restructurings:						
Production and intermediate-term	**$ –**	**$ –**	$ –	$ –	$ 50	$ 50
Total	**$ –**	**$ –**	$ –	$ –	$ 50	$ 50

Note: Pre-modification represents the recorded investment in the loan receivable just prior to restructuring and post-modification represents the recorded investment in the loan receivable immediately following the restructuring. The recorded investment is the face amount of the loan receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the loan receivable.

There were no TDRs that occurred within the previous 12 months of that year and for which there was a payment default during the period. There were no additional commitments to lend to borrowers whose loans have been modified in TDRs at December 31, 2016, 2015 and 2014.

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table at December 31.

	Loans modified as TDRs			TDRs in Nonaccrual Status*		
	2016	2015	2014	**2016**	2015	2014
Production and intermediate-term	**$ 4**	$ 46	$ 51	**$ 4**	$ 46	$ –
Processing and marketing	**–**	–	2,078	**–**	–	–
Total	**$ 4**	$ 46	$ 2,129	**$ 4**	$ 46	$ –

*Represents the portion of loans modified as TDRs that are in nonaccrual status.

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

	Balance at December 31, 2015	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2016
Real estate mortgage	$ 783	$ –	$ 37	$ 336	$ 1,156
Production and intermediate-term	1,583	79	–	227	1,731
Agribusiness	355	–	–	(112)	243
Rural infrastructure	376	–	–	(262)	114
Rural residential real estate	2	–	–	–	2
Agricultural export finance	11	–	–	(3)	8
Total	$ 3,110	$ 79	$ 37	$ 186	$ 3,254

	Balance at December 31, 2014	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2015
Real estate mortgage	$ 267	$ –	$ 22	$ 494	$ 783
Production and intermediate-term	1,412	–	150	21	1,583
Agribusiness	834	–	–	(479)	355
Rural infrastructure	532	–	–	(156)	376
Rural residential real estate	–	–	–	2	2
Agricultural export finance	9	–	–	2	11
Total	$ 3,054	$ –	$ 172	$ (116)	$ 3,110

	Balance at December 31, 2013	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2014
Real estate mortgage	$ 393	$ –	$ 132	$ (258)	$ 267
Production and intermediate-term	1,102	–	–	310	1,412
Agribusiness	851	–	–	(17)	834
Rural infrastructure	709	–	–	(177)	532
Agricultural export finance	5	–	–	4	9
Total	$ 3,060	$ –	$ 132	$ (138)	$ 3,054

The Association maintains a separate reserve for unfunded commitments, which is included in Liabilities on our Consolidated Statement of Condition. The related provision for the reserve for unfunded commitments is included as part of the provision for credit losses on the Consolidated Statement of Comprehensive Income, along with the provision for loan losses.

A summary of changes in the reserve for unfunded commitments follows:

	Year Ended December 31, 2016	Year Ended December 31, 2015
Balance at beginning of period	**$ 296**	$ –
Provision for unfunded commitments	**3**	296
Total	**$ 299**	$ 296

Additional information on the allowance for loan losses follows:

	Allowance for Credit Losses Ending Balance at December 31, 2016		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2016	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 1,156	$ 487	$ 440,978
Production and intermediate-term	16	1,715	266	173,056
Agribusiness	–	243	–	57,256
Rural infrastructure	–	114	–	16,187
Rural residential real estate	–	2	–	170
Agricultural export finance	–	8	–	4,095
Total	$ 16	$ 3,238	$ 753	$ 691,742

	Allowance for Credit Losses Ending Balance at December 31, 2015		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2015	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 783	$ 322	$ 464,543
Production and intermediate-term	94	1,489	629	190,749
Agribusiness	–	355	–	53,247
Rural infrastructure	–	376	–	22,400
Rural residential real estate	–	2	–	163
Agricultural export finance	–	11	–	4,668
Total	$ 94	$ 3,016	$ 951	$ 735,770

	Allowance for Credit Losses Ending Balance at December 31, 2014		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2014	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 267	$ 2,078	$ 419,555
Production and intermediate-term	–	1,412	181	202,320
Agribusiness	–	834	–	58,537
Rural infrastructure	–	532	–	18,145
Rural residential real estate	–	–	–	231
Agricultural export finance	–	9	–	5,201
Total	$ –	$ 3,054	$ 2,259	$ 703,989

NOTE 4 – INVESTMENT IN COBANK

At December 31, 2016, the Association's investment in CoBank is in the form of Class A stock with a par value of $100.00 per share. The Association is required to own stock in CoBank to capitalize its direct loan balance and participation loans sold to CoBank. The current requirement for capitalizing its direct loan from CoBank is 4.00 percent of the Association's prior year average direct loan balance. The 2016 requirement for capitalizing patronage-based participation loans sold to CoBank is 8.00 percent of the Association's prior ten-year average balance of such participations sold to CoBank. Under the current CoBank capital plan applicable to such participations sold, patronage from CoBank related to these participations sold is paid 75 percent cash and 25 percent Class A stock. The capital plan is evaluated annually by CoBank's board of directors and management and is subject to change.

CoBank may require the holders of its equities to subscribe for such additional capital as may be needed to meet its capital requirements for its joint and several liability under the Farm Credit Act and regulations. In making such a capital call, CoBank shall take into account the financial condition of each such holder and such other considerations, as it deems appropriate.

The Association owned approximately 0.83 percent of the outstanding common stock of CoBank at December 31, 2016.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following.

	December 31		
	2016	2015	2014
Land	**$ 1,100**	$ 1,175	$ 1,146
Buildings and leasehold improvements	**6,715**	4,060	4,107
Furniture, equipment and automobiles	**777**	1,485	1,535
Construction in progress	**–**	3,215	639
	8,592	9,935	7,427
Less: accumulated depreciation	**2,011**	3,102	3,125
Total	**$ 6,581**	$ 6,833	$ 4,302

NOTE 6 – OTHER PROPERTY OWNED

Losses on other property owned, net as reflected on the Consolidated Statement of Comprehensive Income consisted of $1 in net operating expenses for 2014. No losses on other property owned were recorded in 2016 and 2015.

NOTE 7 – NOTE PAYABLE TO COBANK

The Association's indebtedness to CoBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a General Financing Agreement (GFA). The GFA and promissory note are subject to periodic renewals in the normal course of business. Substantially all borrower loans are match-funded with CoBank. Payments and disbursements are made on the note payable to CoBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by CoBank based on the terms and conditions of the borrowing. The weighted average interest rate was 1.77 percent for the year ended December 31, 2016, compared with 1.78 percent at December 31, 2015, and 1.87 percent at December 31, 2014.

The Association is required to meet defined underwriting standards in credit and financial performance as part of the GFA with CoBank. In 2015, the Association did not meet certain defined covenants of the GFA in the area(s) of Standards of Conduct and internal controls and reporting processes. During the fourth quarter of 2015, the Association took steps to cure the Standards of Conduct as well as certain controls and reporting issues. In 2016, the Association continued operations pursuant to Waivers of Default for the GFA with CoBank. In September 2016, CoBank relaxed all additional reporting requirements required by the Waivers and required no additional reporting absent a material negative change. At December 31, 2016, the Association continued to operate under the Waivers of Default with no additional reporting requirements by CoBank.

The Association has the opportunity to commit loanable funds with CoBank under a variety of programs at either fixed or variable rates for specified timeframes. Participants in the program receive a credit on the committed loanable funds balance classified as a reduction of interest expense. These committed funds are netted against the note payable to the Bank. The average committed funds as of December 31 are as follows:

	2016	2015	2014
Average committed funds	**$ 152,555**	$ 153,270	$ 148,580
Average rates	**0.51%**	0.09%	0.06%

Under the Farm Credit Act, the Association is obligated to borrow only from CoBank, unless CoBank gives approval to borrow elsewhere. CoBank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2016, the Association's notes payable was within the specified limitations.

NOTE 8 – SHAREHOLDERS' EQUITY

Descriptions of the Association's capitalization, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

A. Protected Borrower Stock

Protection of certain stock is provided under the Farm Credit Act which requires the Association, when retiring protected stock, to retire it at par or stated value regardless of its book value. Protected stock includes stock and allocated equities which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If the Association is unable to retire protected stock at par value or stated value, amounts required to retire this stock would be obtained from the Insurance Fund.

B. Capital Stock

In accordance with the Farm Credit Act, each borrower is required to invest in the Association as a condition of borrowing. The borrower normally acquires ownership of the stock at the time the loan is made, but usually does not make a cash investment. Generally, the aggregate par value of the stock is added to the principal amount of the related loan obligation. The Association has a first lien on the stock owned by its borrowers. At the discretion of the Board of Directors, retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock.

Capitalization bylaws allow stock requirements to range from the lesser of one thousand dollars or 2.00 percent of the amount of the loan to 10.00 percent of the loan. The Board of Directors has the authority to change the minimum required stock level of a shareholder as long as the change is within this range. Currently, the Association has a stock requirement of the lesser of one thousand dollars or 2.00 percent of the amount of the borrower's combined loan volume.

C. Regulatory Capitalization Requirements and Restrictions

The FCA's capital adequacy regulations require the Association to maintain permanent capital of 7.00 percent of average risk-adjusted assets. Failure to meet the requirement can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Association's consolidated financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless the prescribed capital standard is met. The FCA regulations also require other additional minimum standards for capital be maintained. These standards require all System institutions to achieve and maintain ratios of total surplus as a percentage of average risk-adjusted assets of 7.00 percent and of core surplus (generally unallocated surplus) as a percentage of average risk-adjusted assets of 3.50 percent. At December 31, 2016, the Association's permanent capital ratio was 20.53 percent, total surplus ratio was 20.40 percent and core surplus ratio was 20.16 percent.

An existing regulation empowers FCA to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. This regulation has not been utilized to date. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

D. Description of Equities

The following paragraphs describe the attributes of each class of stock authorized by the Association bylaws and indicate the number of shares outstanding at December 31, 2016. Unless otherwise indicated all classes of stock have a par value of $5.00.

Class A Preferred Stock (Nonvoting, at-risk, no shares outstanding) - Represents Association retained earnings, dividends or patronage distributions allocated on or after October 6, 1988. This stock may also represent Class B or Class C Common Stock of a borrower which automatically converts to Class A two years after repayment of the loan in full. Retirement is at the sole discretion of the Board of Directors.

Class B Common Stock (Voting, at-risk, 191,032 shares outstanding) - Issued on or after October 6, 1988, for farm and ranch loans. Retirement is at the sole discretion of the Board of Directors. If the Association is unable to retire Class B Common Stock, or if the borrower elects to keep his/her investment in the Association after repayment of the loan in full, the stock must be converted to Class A Preferred Stock within two years.

Class C — Common Stock (Nonvoting, at-risk, 1,400 shares outstanding) - Issued on or after October 6, 1988, for farm-related and rural home loans and to other persons or organizations who are eligible to borrow but are not eligible to hold voting stock. Retirement is at the sole discretion of the Board of Directors. Class C Common Stock may be issued at the discretion of the Association's Board to persons who sell participation interests in loans or leases to the Association. If the Association is unable to retire Class C Common Stock, or if the borrower elects to keep his/her investment in the Association after repayment of the loan in full, the stock must be converted to Class A Preferred Stock within two years.

Class D — Investor Stock (Nonvoting, at-risk, no shares outstanding, par value of one thousand dollars) - Available to outside parties.

Class E — Preferred Stock (Nonvoting, at-risk, no shares outstanding) - Issued only to CoBank in consideration of financial assistance to the Association from CoBank. Retirement is at the sole discretion of the Board of Directors.

Class F — Common Stock (Voting, protected, no shares outstanding) - Issued prior to October 6, 1988, to borrowers entitled to vote. It must be retired at par value upon repayment of the loan unless the borrower elects to retain his/her investment in the Association. If so, the stock must be converted to Class G Common Stock within two years after loan repayment in full.

Class G — Common Stock (Nonvoting, protected, no shares outstanding) - Formerly participation certificates, this represents stock issued prior to October 6, 1988, to rural residence borrowers and others not eligible to vote. This stock may also represent Class F Common Stock of a borrower which automatically converts to Class G Common Stock two years after repayment of the loan in full. It must be retired at par value upon repayment of the loan unless the borrower elects to retain his/her investment in the Association.

Class H — Preferred Stock (Nonvoting, at-risk, no shares outstanding, par value of one dollar) - Issued to, and may be acquired only by owners of any class of Common Stock and holders of Class H Preferred Stock who are eligible to receive a dividend.

The changes in the number of shares of protected and capital stock outstanding during 2016 are summarized in the following table.

Shares in whole numbers	Protected	Capital
Balance outstanding at January 1, 2016	7,594	197,734
Issuances	–	10,829
Retirements	(7,594)	(16,131)
Balance outstanding at December 31, 2016	–	192,432

E. Patronage and/or Dividends

Dividends may be declared or patronage distributions allocated to holders of Class B, C, F and G Stock out of the whole or any part of net earnings which remain at the end of the fiscal year, as the Board of Directors may determine, in accordance with the regulations for banks and associations of the System. However, distributions and retirements are precluded by regulation until the minimum capital adequacy standards have been attained. Amounts not distributed are retained as unallocated retained earnings. The Association made a cash patronage distribution of $4,232 in 2016, $4,311 in 2015 and $4,069 in 2014. The Association declared a $4,650 patronage distribution in 2016, which will be paid in March 2017.

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities shall be distributed to retire stock in the following order of priority: first, to Class E Preferred Stock, then to Class H Preferred Stock, then Class A Preferred Stock; second, pro rata to all classes of common stock and investor stock. Any remaining assets of the Association after such distributions shall be distributed to holders of all classes of common stock, pro rata.

At each year end, the Board of Directors evaluates whether to retain the Association's net income to strengthen its capital position or to distribute a portion of the net income to customers by declaring a qualified/cash patronage refund. For 2016, the Association allocated 65.70 percent of its patronage-sourced net income to its patrons.

F. Accumulated Other Comprehensive Income/Loss

The Association reports accumulated other comprehensive income/loss in its Consolidated Statement of Changes in Shareholders' Equity. As more fully described in Note 2, accumulated other comprehensive income/loss results from the recognition of the Pension Restoration Plan's net unamortized gains and losses and prior service costs or credits. The Association has accumulated other comprehensive income of $5 in 2016, $4 in 2015 and $26 in 2014. There were no other items affecting comprehensive income or loss.

The following table presents activity in the accumulated other comprehensive loss, net of tax by component:

	2016	2015	2014
Pension benefit plan:			
Beginning balance	**$ 4**	$ 26	$ –
Other comprehensive (loss)/income before reclassifications	**1**	(16)	26
Amounts reclassified from accumulated other comprehensive income	**–**	(6)	–
Net current period other comprehensive (loss)/income	**1**	(22)	26
Year-end balance	**$ 5**	$ 4	$ 26

The following table represents reclassifications out of accumulated other comprehensive income.

	Amount Reclassified from Accumulated Other Comprehensive Income			Location of Gain/Loss Recognized in Statement of Income
	December 31			
	2016	2015	2014	
Pension benefit plan:				
Net actuarial gain	**$ –**	$ 6	$ –	Salaries and employee benefits
Total reclassifications	**$ –**	$ 6	$ –	

NOTE 9 – PATRONAGE DISTRIBUTION FROM FARM CREDIT INSTITUTIONS

Patronage income recognized from Farm Credit institutions to the Association follows.

	2016	2015	2014
CoBank	**$ 3,660**	$ 3,392	$ 3,040
AgVantis	**194**	35	145
Farm Credit Foundations	**13**	4	3
Total	**$ 3,867**	$ 3,431	$ 3,188

Patronage distributed from CoBank was in cash and stock. The amount earned in 2016 was accrued and will be paid by CoBank in March 2017. The amount earned and accrued in 2015 and 2014 was paid by CoBank in March of the following year.

Patronage distribution from AgVantis was in the form of a Notice of Allocation; 20 percent was distributed in cash with the balance of the allocation recorded as an investment in AgVantis which is recorded in other assets in the year received.

Patronage distributed by Farm Credit Foundations was in cash and was recorded in the year received. Farm Credit Foundations, a human resource service provider for a number of Farm Credit institutions, provides our payroll and human resource services.

NOTE 10 – INCOME TAXES

The provision for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows.

	Year Ended December 31		
	2016	2015	2014
Federal tax at statutory rate	**$ 2,612**	$ 4,363	$ 4,486
Effect of non-taxable FLCA subsidiary	**(2,188)**	(3,593)	(3,862)
Patronage distributions	**(575)**	(873)	(272)
Change in valuation allowance	**151**	103	(352)
Provision for income taxes	**$ –**	$ –	$ –

Deferred tax assets and liabilities are comprised of the following.

	December 31		
	2016	2015	2014
Deferred income tax assets:			
Allowance for loan losses	**$ 626**	$ 505	$ 424
Nonaccrual loan interest	**935**	852	797
Depreciation	**20**	65	48
Net gain on sale of fixed asset	**10**	10	10
Gross deferred tax assets	**1,591**	1,432	1,279
Deferred tax asset valuation allowance	**(1,388)**	(1,216)	(1,099)
Deferred income tax liabilities:			
Bank patronage allocation	**(203)**	(216)	(180)
Net deferred tax asset	**$ –**	$ –	$ –

The calculation of deferred tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings, including the amount of non-patronage income and patronage income retained. The expected future tax rates are based upon enacted tax laws.

The Association recorded a valuation allowance of $1,388 in 2016, $1,216 in 2015 and $1,099 in 2014. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

The Association has no uncertain tax positions as of December 31, 2016, 2015 or 2014. The Association recognizes interest and penalties related to unrecognized tax positions as an adjustment to income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2013 and forward.

NOTE 11 – EMPLOYEE BENEFIT PLANS

Certain employees participate in the Ninth Retirement Plan, a 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 eligible 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 the Association chooses to stop participating in the plan, the Association may be required to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Because of the multi-employer nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee moves 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.

The defined benefit pension plan reflects an unfunded liability totaling $95.0 million at December 31, 2016. The pension benefits funding status 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 projected benefit obligation of the plan was $270.6 million at December 31, 2016, $244.3 million at December 31, 2015 and $242.1 million at December 31, 2014. The fair value of the plan assets was $175.6 million at December 31, 2016, $155.1 million at December 31, 2015 and $152.3 million at December 31, 2014. The amount of the pension benefits 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 its current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. The Association recognizes its proportional share of expense and contributes a proportional share of funding. Total plan expense for participating employers was $11.3 million in 2016, $16.1 million in 2015 and $12.9 million in 2014. The Association's allocated share of plan expenses included in salaries and employee benefits was $715 in 2016, $977 in 2015, and $731 in 2014. Participating employers contributed $20.4 million in 2016, $13.6 million in 2015 and $11.1 million in 2014 to the plan. The Association's allocated share of these pension contributions was $1.3 million in 2016, $828 in 2015, and $697 in 2014. 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 employer contributions expected to be paid into the pension plans during 2017 is $20.0 million. The Association's allocated share of these pension contributions is expected to be $1.2 million. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than anticipated.

Postretirement benefits other than pensions are provided through the Farm Credit Foundations Retiree Medical Plan to retired employees of the Association. Benefits provided are determined on a graduated scale based on years of service. The anticipated costs of these benefits were accrued during the period of the employee's active service. Postretirement benefits expense (primarily health care benefits) included in salaries and employee benefits was income of $1 in 2016, and expense of $8 in 2015 and $6 in 2014. The Association had cash contributions of $8 in 2016, $8 in 2015 and $8 in 2014.

The Association participates in a non-qualified defined benefit Pension Restoration Plan that is unfunded. The plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under the Pension Restoration Plan are offset by the benefits payable from the Pension Plan. Pension Restoration Plan expenses included in salaries and employee benefits was nominal in 2016 and income of $5 in 2015 and expense of $3 in 2014.

The funding status and the amounts recognized in the Consolidated Statement of Condition for the Association's Pension Restoration Plan follows:

	2016	2015	2014
Change in projected benefit obligation:			
Benefit obligation at the beginning of the period	**$ 31**	$ 15	$ 38
Service cost	**–**	–	1
Interest cost	**1**	1	2
Actuarial loss/(gain)	**–**	15	(26)
Actual benefits paid	**(11)**	–	–
Benefit obligation at the end of the period	**$ 21**	$ 31	$ 15
Change in plan assets:			
Company contributions	**11**	–	–
Benefits paid	**(11)**	–	–
Fair value of plan assets at the end of the period	**–**	–	–
Funded status of the plan	**$ (21)**	$ (31)	$ (15)

	2016	2015	2014
Amounts recognized in the Consolidated Statement of Condition consist of:			
Liabilities	**$ 21**	$ 31	$ 15
Net amount recognized	**$ 21**	$ 31	$ 15

The following table represents the amounts included in accumulated other comprehensive income/loss for the Pension Restoration Plan at December 31:

	2016	2015	2014
Net actuarial gain	**$ 5**	$ 5	$ 27
Prior service costs	**–**	(1)	(1)
Total amount recognized in AOCI	**$ 5**	$ 4	$ 26

An estimated net actuarial gain of $1 for the Pension Restoration Plan will be amortized into income over the next year.

The projected and accumulated benefit obligation for the Pension Restoration Plan at December 31 was:

	2016	2015	2014
Projected benefit obligation	**$ 21**	$ 31	$ 15
Accumulated benefit obligation	**$ 21**	$ 31	$ 14

The net periodic pension expense for the Pension Restoration Plan included in the Consolidated Statement of Comprehensive Income is comprised of the following at December 31.

		Pension Benefits	
	2016	2015	2014
Components of net periodic benefit (income)/cost			
Service cost	**$ –**	$ –	$ 1
Interest cost	**1**	1	2
Net amortization and deferral	**(1)**	(6)	–
Net periodic benefit (income)/cost	**$ –**	$ (5)	$ 3

Changes in benefit obligation recognized in accumulated other comprehensive income are included in the following table.

	2016	2015	2014
Current year net actuarial (loss)/gain	**$ 1**	$ (16)	$ 27
Amortization of prior service credit	**–**	–	(1)
Amortization of net actuarial loss	**(1)**	(6)	–
Total recognized in other comprehensive income	**$ –**	$ (22)	$ 26

Weighted average assumptions used to determine benefit obligation at December 31:

		Nonqualified Pension Restoration Benefits	
	2016	2015	2014
Discount rate	**3.51%**	3.60%	4.10%
Rate of compensation increase	**5.00%**	5.00%	5.00%

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:

		Nonqualified Pension Restoration Benefits	
	2016	2015	2014
Discount rate		4.10%	4.90%
Projected benefit obligation	**3.60%**		
Service cost	**3.77%**		
Interest cost	**2.86%**		
Rate of compensation increase	**5.00%**	5.00%	5.00%

The Association expects to contribute $11 to the Pension Restoration Plan in 2017.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Restoration Benefits
2017	$ 11
2018	$ 11
2019	$ –
2020	$ –
2021	$ –
2022 – 2026	$ –

The Association also participates in the Farm Credit Foundations Defined Contribution/401(k) Plan. Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions to the plan. Employer contributions to the Contribution Plan were $295 in 2016, $297 in 2015 and $285 in 2014.

NOTE 12 – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are 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 unrelated borrowers.

The Association has a policy that loans to directors and senior officers must be maintained at an Acceptable or Other Assets Especially Mentioned (OAEM) credit classification. If the loan falls below the OAEM credit classification, corrective action must be taken and the loan brought back to either Acceptable or OAEM within a year. If not, the director or senior officer must resign from the Board of Directors or employment.

Loan information to related parties for the years ended December 31 is shown below.

	2016	2015	2014
New loans	**$ 188,878**	$ 27,061	$ 188,963
Repayments	**$ 163,994**	$ 6,936	$ 201,274
Ending balance	**$ 151,541**	$ 126,651	$ 104,446

In the opinion of management, none of the loans outstanding to officers and directors at December 31, 2016 involved more than a normal risk of collectibility.

The Association also has business relationships with certain other System entities. The Association paid $1,175 in 2016, $918 in 2015 and $740 in 2014 to AgVantis for technology services and $224 in 2016, $174 in 2015 and $7 in 2014 to CoBank for operational services. The Association paid $114 in 2016, $92 in 2015, and $84 in 2014 to Foundations for human resource services.

NOTE 13 – REGULATORY ENFORCEMENT MATTERS

As of December 31, 2016, there were no regulatory enforcement actions in effect for the Association.

As of December 31, 2015, the Association was operating under three Supervisory Letters issued by the Farm Credit Administration dated October 5, October 12, and December 17, 2015 which addressed issues related to Standards of Conduct, controls and reporting. The FCA voided these Supervisory letters as a result of progress made by the Association; the April 1, 2016 implementation of joint management with American AgCredit, ACA; and the Association's expectation of merger as demonstrated by the Letter of Intent to merge with American AgCredit, ACA.

In 2016, the Association continued operating pursuant to Waivers of Default under its General Financing Agreement with CoBank. On September 9, 2016, CoBank relaxed all additional reporting requirements required by the Waivers of Default and no additional reporting was required thereafter.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

The Association has various commitments outstanding and contingent liabilities. With regard to contingent liabilities, there are no actions pending against the Association in which claims for monetary damages are asserted.

The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated 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 contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2016, $214.6 million of commitments to extend credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Statement of Condition until funded or drawn upon. The credit risk associated with issuing commitments and is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management’s credit evaluation of the borrower.

The Association also participates in standby letters of credits to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2016, $4.2 million of standby letters of credit were outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2017 to 2020. The maximum potential amount of future payments the Association is required to make under the guarantees is $4.2 million.

NOTE 15 – FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. The fair value measurement is not an indication of liquidity. See Note 2 for additional information.

Assets measured at fair value on a recurring basis at December 31 for each of the fair value hierarchy values are summarized as follows:

	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets held in nonqualified benefits trusts				
2016	**$ 26**	**$ –**	**$ –**	**$ 26**
2015	$ 328	$ –	$ –	$ 328
2014	$ 326	$ –	$ –	$ 326

The Association has no liabilities measured at fair value on a recurring basis for the periods presented. During the three years presented, the Association recorded no transfers in or out of Levels 1, 2, or 3. Assets measured at fair value on a non-recurring basis at December 31 for each of the fair value hierarchy values are summarized as follows:

	Fair Value Measurement Using			Total Fair Value	Total (Losses)/Gains
	Level 1	Level 2	Level 3		
Assets:					
Loans					
2016	**$ –**	**$ –**	**$ 572**	**$ 572**	**$ (1)**
2015	$ –	$ –	$ 535	$ 535	$ (94)
2014	$ –	$ –	$ 129	$ 129	$ –

The Association has no liabilities measured at fair value on a non-recurring basis for any of the periods presented.

Valuation Techniques

As more fully discussed in Note 2, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair values of financial instruments represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability in active markets among willing participants at the reporting date. Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, certain of the estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction. The following presents a brief summary of the valuation techniques used by the Association for assets and liabilities subject to fair value measurement:

Assets Held in Non-Qualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Loans

For impaired loans measured on a non-recurring basis, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established and the net loan is reported at its fair value.

NOTE 16 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2016, 2015 and 2014, follow.

	2016				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 4,459**	**$ 4,522**	**$ 4,706**	**$ 4,785**	**$ 18,472**
Provision for credit loss	**63**	**7**	**61**	**58**	**189**
Noninterest expense, net	**1,866**	**1,834**	**1,856**	**5,045**	**10,601**
Net income/(loss)	**$ 2,530**	**$ 2,681**	**$ 2,789**	**$ (318)**	**$ 7,682**

	2015				
	First	Second	Third	Fourth	Total
Net interest income	$ 4,206	$ 4,354	$ 4,530	$ 4,544	$ 17,634
(Credit loss reversal)/Provision for credit loss	(22)	28	258	(84)	180
Noninterest expense, net	709	1,261	829	1,821	4,620
Net income	$ 3,519	$ 3,065	$ 3,443	$ 2,807	$ 12,834

	2014				
	First	Second	Third	Fourth	Total
Net interest income	$ 4,001	$ 3,969	$ 4,259	$ 4,323	$ 16,552
(Loan loss reversal)/Provision for loan loss	(100)	(47)	32	(23)	(138)
Noninterest expense, net	670	728	913	1,184	3,495
Net income	$ 3,431	$ 3,288	$ 3,314	$ 3,162	$ 13,195

NOTE 17 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 16, 2017 which is the date the consolidated financial statements were issued.

On January 1, 2017, the Association merged operations with American AgCredit, ACA (American AgCredit). All shareholders of the Association received capital stock in American AgCredit in exchange for their stock which was then canceled. This exchange was made at the stock's par value. The Association's regulator, the Farm Credit Administration, issued amended charters for the merged association encompassing the territories previously served by the separate associations.

DISCLOSURE INFORMATION REQUIRED BY FARM CREDIT ADMINISTRATION REGULATIONS

(Amounts in Whole Dollars)

DESCRIPTION OF BUSINESS

The description of the territory served, persons eligible to borrow, types of lending activities engaged in and financial services offered, and related Farm Credit organizations required to be disclosed in this section is incorporated herein by reference from Note 1 to the financial statements, "Organization and Operations," included in this annual report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, required to be disclosed in this section, is incorporated herein by reference from "Management's Discussion and Analysis" (MD&A) included in this annual report to shareholders.

DESCRIPTION OF PROPERTY

The following table sets forth certain information regarding the properties of the Association:

Location	Description	Form of Ownership
1606 East Kansas Ave. Garden City, Kansas	Office Building (Main Office)	Owned
1422 South Main Scott City, Kansas	Office Building (Branch Office)	Owned
2451 North Kansas Ave. Liberal, Kansas	Office Building (Branch Office)	Owned
1501 Soule St. Dodge City, Kansas	Office Building (Branch Office)	Owned

LEGAL PROCEEDINGS AND ENFORCEMENT ACTIONS

Information required to be disclosed in this section is incorporated herein by reference from Note 13 to the financial statements, "Regulatory Enforcement Matters," and Note 14 to the financial statements, "Commitments and Contingencies," included in this annual report to shareholders.

DESCRIPTION OF CAPITAL STRUCTURE

Information required to be disclosed in this section is incorporated herein by reference from Note 8 to the financial statements, "Shareholders' Equity," included in this annual report to shareholders.

DESCRIPTION OF LIABILITIES

The description of debt outstanding required to be disclosed in this section is incorporated herein by reference from Note 7 to the financial statements, "Note Payable to CoBank," included in this annual report to shareholders.

The description of advance conditional payments is incorporated herein by reference to Note 2 to the financial statements, "Summary of Significant Accounting Policies," included in this annual report to shareholders.

The description of contingent liabilities and Intra-System financial assistance rights and obligations, required to be disclosed in this section is incorporated herein by reference from Note 14 included in this annual report to shareholders.

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2016, required to be disclosed in this section is incorporated herein by reference from the "Five-Year Summary of Selected Consolidated Financial Data," included in this annual report to shareholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS

"Management's Discussion and Analysis," which appears within this annual report to shareholders and is required to be disclosed in this section, is incorporated herein by reference.

DIRECTORS AND SENIOR OFFICERS

The following represents certain information regarding the directors and senior officers of the Association, which includes their experience for a minimum of five years.

DIRECTORS

Jason Ochs	Chairman. Three-year term expires in 2017. Mr. Ochs was first elected to the Board in 2011 and is currently a member of the Executive Committee and the Audit Committee. He has been engaged in farming for five years or more and is a member of Plum Creek Farms, LLC, which is an agricultural entity that produces dryland wheat, milo, and corn. He serves on the Kansas Wheat Commission and is a local volunteer fire fighter. Jason received his Associate degree from Garden City Community College.
Chandler Cupp	Vice Chairman. Three-year term expires in 2019. Mr. Cupp was first elected to the Board in 2014 and is currently a member of the Audit Committee. He has been engaged in farming for five years or more and is a member/officer with controlling interest of Red Cedar Lands, LLC, Red Cedar Ranch, LLC, and Red Cedar Farms, Inc., which are all engaged in production agriculture. In addition, he is a partner in Cupp Farms GP, also a farming entity, and a member of Hill City Commission, LLC, a sale barn. Chandler received a Bachelor of Science from Washburn University.
Patrick Friess	Appointed Director. Three-year term expires in 2018. Mr. Friess was first appointed to the Board in 2009 and is currently Chairman of the Audit Committee. He has been a Certified Public Accountant since 2001 and is a partner at Kennedy McKee & Company, LLP, a public accounting firm located in Dodge City, Kansas. He received a Bachelor of Business Administration and a Master of Business Administration from Fort Hays State University. He is a member of the American Institute of Certified Public Accountants, the Kansas Society of Certified Public Accountants, and the Southwest Kansas Chapter of Certified Public Accountants. Pat specializes in governmental auditing and accounting, tax planning and preparation.
Gary Harshberger	Director. Three-year term expires in 2018. Mr. Harshberger was first elected to the Board in 1997 and is currently Chairman of the Compensation Committee. For five years or more, he has been a farmer with an operation consisting of dryland and irrigated wheat, corn, milo and soybeans with a summer grass stocker program. Gary is currently Chairman of the Kansas Water Authority. In addition, he operates Harshberger Enterprises and Harshberger Seeds, is President of Double H Farms, Inc., and a member of Harshberger Land, LLC and Hatcher Holdings, LLC which are all involved in farm commodity production. He is also involved in the ethanol industry as a director of Conestoga Energy. Gary has a Bachelor of Science in Electrical Engineering from Kansas State University.
Michael Hubbell	Director. Three-year term expires in 2019. Mr. Hubbell was first elected to the Board in 2007 and is currently Vice Chairman of the Compensation Committee. He has been a full time farmer for five years or more with an irrigated corn, soybean, dryland wheat and milo operation. In addition, he has a cow herd and runs stocker cattle. Mike is the Vice President of Hubbell and Hubbell, Inc. and a member of Hubbell Brothers, LLC and Hubbell Land, LLC, all of which are involved in farming and ranching. He currently serves as a board member for USD 381, Spearville Schools, and Tom Feist Foundation. Mike has a Bachelor of Science in Animal Science from Kansas State University.
Norman Johns	Director. Three-year term expires in 2017. Mr. Johns was first elected to the Board in 2014 and is currently a member of the Compensation Committee. He has been involved full time in production agriculture for five years or more raising mainly wheat, grain sorghum, and sunflowers. Norman was a past member of the Board of Education for USD 217 Rolla for 32 years. He has served on various committees of the Kansas Association of School Boards and is a past member of the Morton County Farm Bureau and Morton County Soil Conservation District. Norman received his Bachelor of Science in Agronomy from Kansas State University.
Larry Kepley	Director. Three-year term expires in 2018. Mr. Kepley was first elected to the Board in 1976 and is currently a member of the Compensation Committee. He has been a farmer/stockman for five years or more with an operation consisting of wheat seed production and sales, corn

	and milo production and a beef cow herd. Larry's operation includes both dryland and irrigated production and he operates Kepley Wheat Seed. He has numerous affiliations and board relationships including the following: Farmer Direct Foods member, Kansas Wheat Commission board member, U.S. Wheat Association board member, Grant County Farm Bureau board member and Southwest Kansas Irrigation Association board member. Larry is a former board member of the Pork Association, Kansas Association of Wheat Growers, Ground Water Management District, Cimarron Basin Advisory, Governors Agriculture Advisory Board and the National Farm Credit Council. He also serves as a board member for the Legacy and Parkview Care Homes in Ulysses, Kansas. Larry received his Bachelors and Master's degrees from Kansas State University and holds certifications in both Rural Land Appraisal and Farm Management.
John Lightner	Director. Three-year term expires in 2019. Mr. Lightner was first elected to the Board in 1995 and is currently a member of the Compensation Committee, the CoBank Association Leadership Committee, and the District Farm Credit Council Board. John has been a full time farmer for five years or more with an irrigated corn, soybean and alfalfa operation. He is President and owner of J&C Lightner, Inc., which is engaged in agricultural production. John has a Bachelor of Science in Business Agronomy from Oklahoma State University.
Richard Miller	Director. Three-year term expires in 2018. Mr. Miller was first elected to the Board in 1994 and is currently a member of the Executive Committee, the Audit Committee, and the Review Committee. He has been a full time farmer producing wheat, corn and milo for five years or more. He is President of Miller Ag, Inc. and Secretary of R&M Miller Farms, Inc., both engaged in the business of crop production, and is also a member of the Wichita County Farm Bureau. Richard has a Bachelor of Science in Business Administration from Kansas State University.
Doug Stucky	Appointed Director. Three-year term expires in 2017. Mr. Stucky was first appointed to the Board in 2003 and is currently Vice Chairman of the Audit Committee. For five years or more, he has been the Executive Manager with the Farm Management Association Southwest. Doug is involved with agricultural accounting and tax preparation. He is an Agricultural Economics faculty member with Kansas State University, a member of the Southwest Farm Management Association and an Executive Economist since 1992. Doug has a Bachelor of Science in Agricultural Education from Kansas State University and a Kansas Series 63 Security License.

SENIOR OFFICERS

Byron Enix, President and Chief Executive Officer, has served as the Chief Executive Officer of American AgCredit, ACA (American AgCredit) since January 1, 2014. As of April 1, 2016, Mr. Enix provides joint management for American AgCredit and Farm Credit of Southwest Kansas, ACA (Farm Credit of Southwest Kansas). He has served with the Farm Credit System since 1984 and has served in multiple capacities. Mr. Enix was raised in Wichita, Kansas and his family has been involved in agriculture for several generations. After graduating in 1984 from Oklahoma State University with a Bachelor of Science in Agricultural Economics, he began his career as a loan officer in the Vinita, Oklahoma, Federal Land Bank Association and later moved into branch manager positions in Oklahoma and Colorado. He held several management positions, including Senior Vice President-Lending and Chief Financial Officer at Farm Credit Services of The Mountain Plains, ACA in Greeley, Colorado, where he served on the Executive Committee and Executive Loan Committee. He became Senior Vice President of Credit at American AgCredit in 2010 and was instrumental in leading a large region through a successful merger integration

Vern Zander, Executive Vice President and Chief Financial Officer, has served as the Chief Financial Officer for American AgCredit since 2012. As of April 1, 2016, Mr. Zander provides joint management for American AgCredit and Farm Credit of Southwest Kansas. Prior to becoming Chief Financial Officer, he served as Vice President-Relationship Manager in American AgCredit's Capital Markets Group. Mr. Zander is a Certified Public Accountant and has been with American AgCredit for the last 14 years, with a total of 29 years of Farm Credit Service.

Stephen Stephens, Chief Operating Officer. Mr. Stephens has been a Farm Credit System employee since June 1980. He was promoted to Chief Operating Officer on January 1, 2016 from his former position as Senior Vice President – Appraisal and AICR. Mr. Stephens is a Certified General Real Property Appraiser in the State of Kansas and is designated an Accredited Rural Appraiser from the American Society of Farm Managers and Rural Appraisers. He earned a Bachelor of Science in Agricultural Economics and a Master of Agribusiness from Kansas State University.

David Knoll, Senior Vice President – Credit. Mr. Knoll has been a Farm Credit employee since June1983. He has served in his current position since his promotion in February 2009. Prior to that time, he was the Vice President –

Branch Manager for the Garden City lending branch. He received an Associate of Science in Agriculture from Garden City Community College.

Mick Gechter, Senior Vice President – Correspondent Lending, retired June 30, 2016. Mr. Gechter served in his position since March 2013 and previous to that, he was Vice President – Correspondent Lending. He was an employee of the Farm Credit System since 1980. Mr. Gechter earned his Bachelor of Business Administration from Wichita State University.

Les Isaac, Senior Vice President – Treasury and Review, retired June 30, 2016. Mr. Isaac served in his position since October 2013. Previous to that time, he was Senior Vice President – Finance and Operations. Mr. Isaac served in the Farm Credit System since January 1984. He earned a Bachelor of Science in Agricultural Economics from Kansas State University and a Master of Business Administration from Friends University.

Lynn Scherler, Interim President and CEO, ending March 31, 2016. The Board contracted with CoBank in October 2015 for Mr. Scherler to serve as interim President and CEO. He has been employed by CoBank since 2001. Since joining CoBank, Lynn has held various roles including Vice President in CoBank's Credit Approvals and Administration Group and Regional Vice President for CoBank's banking center in Lubbock, Texas. In his current role as Southern Region President, Mr. Scherler is responsible for managing the agribusiness and strategic relationship lending activities of the Southern Region of CoBank's Regional Agribusiness Banking Group. Mr. Sherler earned a Bachelor of Science in Agricultural and Applied Economics from Texas Tech University and is a graduate of the Graduate School of Banking at Louisiana State University.

Tony English, Interim Chief Financial Officer, ending March 31, 2016. Mr. English joined Farm Credit of Southwest Kansas as a leased employee effective January 1, 2016. Tony had been serving with Farm Credit Services of America/Frontier Farm Credit as Vice President of Financial Integration. Mr. English has been with the Farm Credit System since 1992 in a variety of roles to include that of Chief Financial Officer for Frontier Farm Credit from 2001 until its Strategic Alliance with Farm Credit Services of America on January 1, 2015. He has a Bachelor of Science in Agricultural Economics and a Masters of Business Administration in Finance from New Mexico State University.

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

Directors of the Association were compensated for services on a per diem basis at the rate of $600 per day for regular board and committee meetings. They were also compensated at a rate of $450 per day for other meetings, conferences, and activities that were authorized by the board. Honorarium for committee meetings, prior to or after regular board meetings, was $200. Conference calls were paid compensation at a rate of $100 per hour, with a minimum of $50. Mileage was reimbursed at the rate of $0.54 per mile while on official business.

Additional information for each director is provided below:

	Number of Days Served at		Compensation for			
Name	Board Meetings	Other Official Activities	Board Meetings And Official Duties	Audit Committee	Compensation Committee	Compensation Paid During 2016
Jason Ochs	13	87	$ 46,750	$ 200	$ –	$ 46,950
Chandler Cupp	11	47	27,575	200	–	27,775
Patrick Friess	10	31	20,150	200	–	20,350
Gary Harshberger	8	24	15,650	–	200	15,850
Mike Hubbell	10	17	13,550	–	250	13,800
Norman Johns	11	18	14,650	–	250	14,900
Larry Kepley	11	30	20,200	–	250	20,450
John Lightner	11	24	17,350	–	250	17,600
Richard Miller	11	33	21,400	200	–	21,600
Doug Stucky	10	19	14,400	200	–	14,600
Total Compensation			$ 211,675	$ 1,000	$ 1,200	$ 213,875

Directors and senior officers are reimbursed for travel, subsistence and other expenses related to Association business according to Association policy. A copy of this policy is available to shareholders upon request. Aggregate reimbursements to directors for travel, subsistence and other related expenses were $103,349 in 2016, $38,525 in 2015 and $45,571 in 2014. There was no non-cash compensation paid to directors as a group during 2016.

Information on the President's, senior officers and highly compensated individuals is provided below. Certain amounts in prior years have been restated to conform to the current year's presentation.

President	Year	Salary	Incentive	Pension Value Change	Deferred/ Perq	Other	Total
Byron Enix	2016	$ –	$ –	$ –	$ –	$ –	$ –
Lynn Scherler	2016	$ –	$ –	$ –	$ –	$ –	$ –
Lynn Scherler	2015	$ –	$ –	$ –	$ –	$ –	$ –
John M. Anderson	2015	$ 201,868	$ 42,645	$ 607,332	$ 16,335	$ 46,226	$ 914,406
John M. Anderson	2014	$ 250,008	$ 57,502	$ 316,929	$ 20,003	$ 4,808	$ 649,250

Aggregate Number of Officers/Highly Compensated Individuals (excluding CEO)	Year	Salary	Incentive	Pension Value Change	Deferred/ Perq	Other	Total
5	2016	$ 537,903	$ 221,851	$1,174,358	$ 22,975	$ 228,349	$ 2,185,436
5	2015	$ 752,496	$ 166,670	$ 703,462	$ 67,390	$ 14,944	$ 1,704,962
5	2014	$ 712,964	$ 201,142	$ 709,145	$ 63,498	$ 13,182	$ 1,699,931

Services in the role of President by Byron Enix and Lynn Scherler, were provided by American AgCredit and CoBank, respectively, in accordance with "Leased Employee Agreements" between the organizations. Enix and Scherler were not directly compensated; rather, the Association paid American AgCredit and CoBank directly for the services of these individuals.

The Salary, Annual Incentive Compensation, and Long-Term Incentive Compensation columns of the Summary Compensation Table include all amounts earned during 2016, 2015 and 2014 regardless of whether a portion of such compensation has been deferred by the CEO or other Senior Officer's elections pursuant to the Farm Credit Foundations Defined Contribution/401(k) Plan (401(k) Plan) and the Farm Credit Foundations Nonqualified Deferred Compensation Plan (NQDC Plan). Individual compensation for any Senior Officer included here in the aggregate is available to shareholders upon written request.

The change in value of the pension benefits is defined as the vested portion of the present value of the accumulated benefit obligation from December 31 of the prior year, disclosed in Note 11 of the Financial Statements. Deferred/Perq includes personal use of auto, spouse expense, long-term disability insurance premium, group term-life insurance premium, Healthy Returns awards and employer match on the defined contribution plan available to all employees. Other represents severance and annual leave payments.

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

Senior officers are compensated in cash as well as retirement plans generally available to all employees. Our Board of Directors determines the appropriate compensation while keeping in mind their responsibilities to our shareholders. Base salary and short-term incentive are intended to be competitive with annual compensation for comparable positions at peer organizations.

Senior officer base salaries reflect the officer's experience and level of responsibility. Base salaries are subject to review and approval by the Compensation Committee of our Board of Directors and are subject to adjustment based on changes in responsibilities or competitive market conditions.

In addition to base salary, senior officers can earn additional compensation under an incentive plan which is tied to the overall business performance. The incentive plan is based on a fiscal year and is designed to motivate employees to exceed financial and credit quality performance targets approved by the Board of Directors. These targets typically include return on assets, credit quality, loan volume, nonaccrual loan volume, cost of operations, net income, permanent capital and other key ratios. All employees are covered by an incentive plan.

Information on pension benefits attributable to the CEO, senior officers and other highly compensated individuals follows.

As of December 31, 2016 President	Plan	Years of Credited Service	Present Value of Accumulated Benefits	Payments Made During the Reporting Period
Byron Enix	–	–	$ –	$ –
Lynn Scherler	–	–	$ –	$ –

Services in the role of President by Byron Enix and Lynn Scherler were provided by American AgCredit and CoBank, respectively, in accordance with "Leased Employee Agreements" between the organizations. Enix and Scherler were not directly compensated; rather, the Association paid American AgCredit and CoBank directly for the services of these individuals.

Aggregate Number of Senior Officers/ Highly Compensated Individuals	Plan	Average Years of Credited Service	Present Value of Accumulated Benefits	Payments Made During the Reporting Period
4	Ninth Pension Plan	36.07	$ 6,615,188	$ 98,068

For the Ninth Pension Plan, the average years of service represents an average for the aggregate senior officers and highly compensated employee group included in the Plan.

Retirement Plan Overview – Certain Senior Officers participate in the Pension Plan.

Qualified Pension Plan – In general, the Pension Plan provides participants with a 50% joint-and-survivor annuity benefit at normal retirement that is equal to 1.50% of average monthly compensation during the 60 consecutive months in which an individual receives his highest compensation (High 60) multiplied by his years of benefit service, plus 0.25% of the amount by which the High 60 exceeds covered compensation multiplied by years of benefit service. The benefit is actuarially adjusted if the individual chooses a different form of distribution than a 50% joint-and-survivor annuity, such as a lump sum distribution. The pension valuation was determined using a blended approach assuming half of the benefits would be paid as a lump sum and half as an annuity at the participants earliest unreduced retirement age. The Pension Plan pays benefits up to the applicable limits under the Internal Revenue Code.

Non-qualified Pension Restoration Plan – The Pension Restoration Plan is unfunded and not qualified for tax purposes. Benefits payable under this plan are equal to the excess of the amount that would be payable under the terms of the Qualified Pension Plan disregarding the limitations imposed under Internal Revenue Code Sections 401(a)(17) and 415, over the pension actually payable under the Qualified Pension Plan. The plan also restores any benefits attributable to non-qualified deferred compensation excluded from the benefit determined under the Qualified Pension Plan. The nonqualified pension restoration valuation was determined using an assumption that benefits would be paid as a lump sum at the participants earliest unreduced retirement age.

TRANSACTIONS WITH SENIOR OFFICERS AND DIRECTORS

The Association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section are incorporated herein by reference from Note 12 to the financial statements, "Related Party Transactions," included in this annual report to shareholders.

INVOLVEMENT OF SENIOR OFFICERS AND DIRECTORS IN CERTAIN LEGAL PROCEEDINGS

There were no matters which came to the attention of management or the Board of Directors regarding involvement of senior officers or current directors in specified legal proceedings which are required to be disclosed in this section.

Borrower Privacy Statement

Since 1972, Farm Credit Administration (FCA) regulations have forbidden the directors and employees of Farm Credit institutions from disclosing personal borrower information to others without borrower consent. The Association does not sell or trade customers' personal information to marketing companies or information brokers. Additional information regarding FCA rules governing the disclosure of customer information can be obtained by contacting the Association.

Relationship with Independent Auditors

There were no changes in independent auditors since the prior annual report to shareholders and there were no material disagreements with our independent auditors on any matter of accounting principles or financial statement disclosure during this period.

Relationship with CoBank, ACB (CoBank)

The Association is materially affected by CoBank's financial condition and results of operations.

The Association's statutory obligation to borrow from CoBank is discussed in Note 7. Financial assistance agreements between the Association and CoBank are discussed in Note 8. Association requirement to invest in CoBank and CoBank's ability to access capital of the Association is discussed in Note 4 to the financial statements, "Investment in CoBank," included in this annual report to shareholders. CoBank's role in mitigating the Association's exposure to interest rate risk is discussed in the MD&A section – Liquidity.

CoBank is required to distribute its Annual Report to shareholders of the Association if the bank experiences a significant event that has a material effect on the Association as defined by FCA regulations.

Financial Statements

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 16, 2017, and the Report of Management, appearing as part of this annual report to shareholders, are incorporated herein by reference.

CoBank Annual and Quarterly Reports to Shareholders

The shareholders' investment in the Association is materially affected by the financial condition and results of operations of CoBank. Consequently, the Association's annual and quarterly reports should be read in conjunction with CoBank's 2016 Annual and Quarterly Reports to Shareholders. Quarterly reports are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. A copy of these reports may be obtained free upon request from the Association. The Association is located at 1606 East Kansas Avenue, Garden City, Kansas 67846, or may be contacted by calling (620) 275-4281. The reports may also be obtained free of charge by visiting CoBank's website at www.cobank.com.

FARM CREDIT
OF SOUTHWEST KANSAS

1606 E. Kansas Avenue • P.O. Box 2509 • Garden City, Kansas 67846 • (620) 275-4281