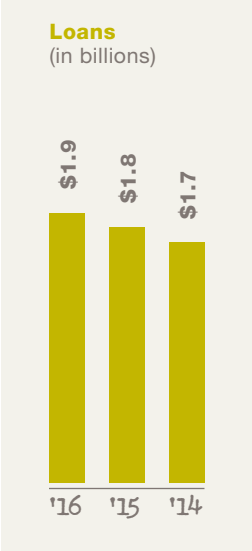
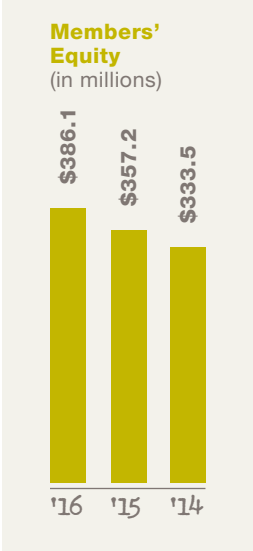
STRENGTH FOR TODAY. INVESTING FOR TOMORROW.

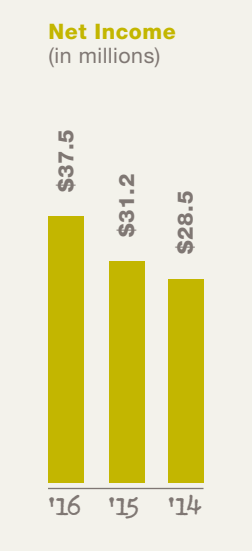
2016 annual report

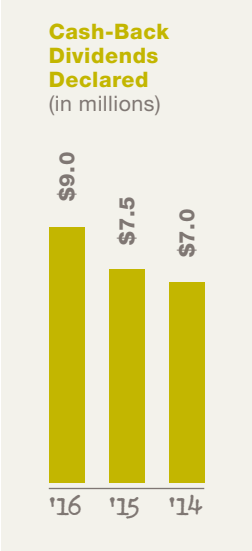
FRONTIER
FARM CREDIT

Financial Highlights









STRENGTH FOR TODAY.
INVESTING FOR TOMORROW.

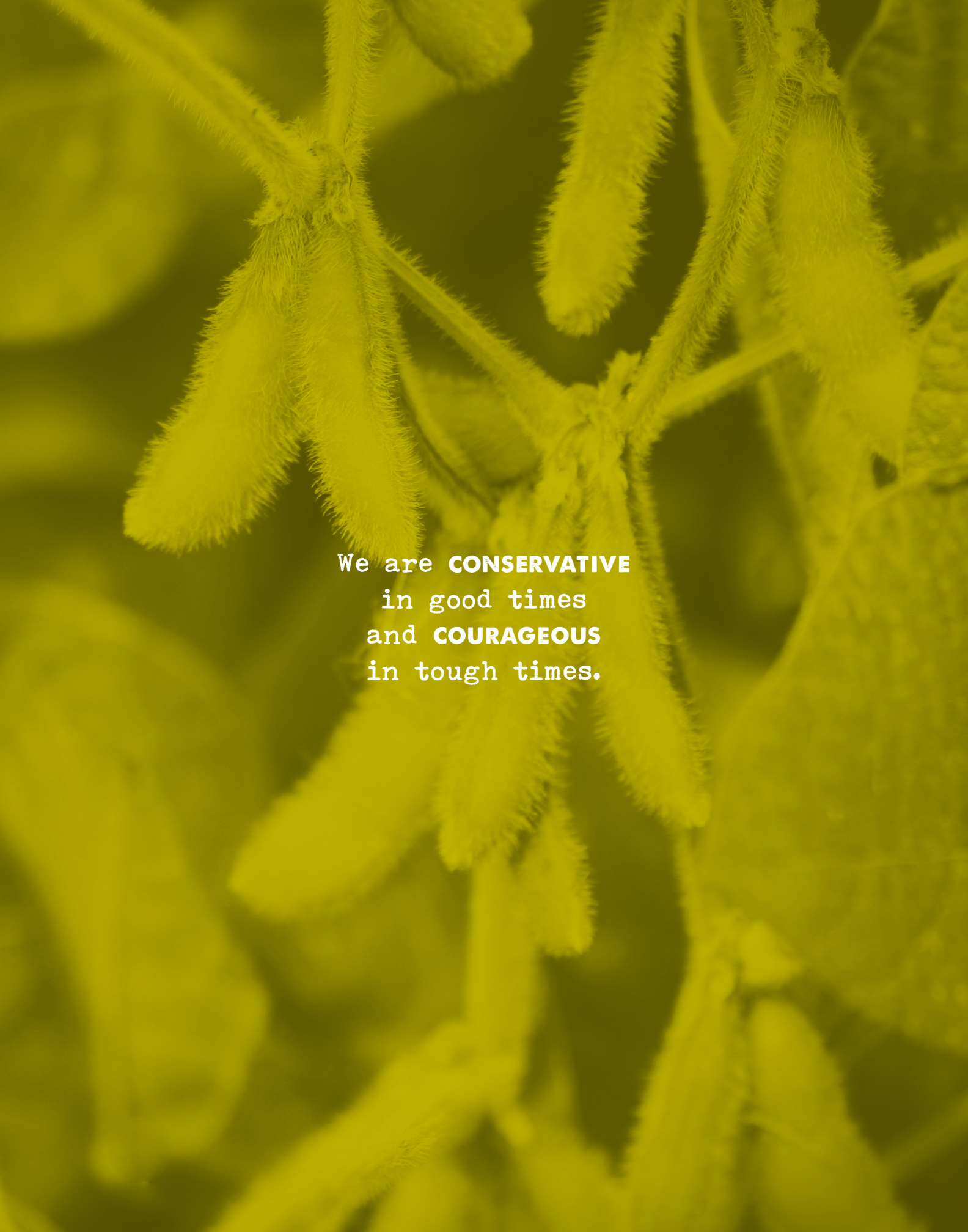
The ups and downs of agriculture are well-documented, but they don't always tell the story of how price fluctuations affect farm families and agribusiness.

Every cycle presents a challenge for some and an opportunity for others. Markets that benefit grain producers, for example, often have a negative effect on livestock producers.

As a lender dedicated to serving agriculture through good times and bad, we have the financial strength to support those working to keep what they have and the capacity to help those who can grow.

Now more than ever, your financial cooperative is committed to working with you to build an even better future.

FRONTIER
FARM CREDIT



We are **CONSERVATIVE**
in good times
and **COURAGEOUS**
in tough times.

The past year demonstrated the resiliency that has made America's farmers and ranchers the world's most dependable producers of food.

Slower exports, abundant U.S. and global supplies and a mature ethanol industry contributed to another year of low commodity prices. Bumper yields across the Midwest helped ease losses for grain producers but not without requiring farm families to make tough financial choices.

It also was a year for Frontier Farm Credit to live up to its mission of supporting agriculture through every economic cycle. Frontier Farm Credit built on the strong agricultural economy and earnings during much of the past decade to ensure your cooperative has the financial strength for today while continuing to invest for tomorrow.

We finished 2016 with a net income of $37.5 million. We had loan growth of 3.4 percent and members' equity rose 8.1 percent to $386.1 million.

We also returned $9 million of our 2016 profits to you, our customer-owners. The record dividend is a measure of Frontier Farm Credit's financial strength, the business benefits of the alliance between Frontier Farm Credit and Farm Credit Services of America, and a testament to our cooperative business model during a challenging time in the agricultural economy.

While the duration of this cycle is unknown, our capital position allows us to put our financial strength to work for you. An example of this is the investment your cooperative made in 2016 to add staff members whose sole focus is helping producers return their operations to financial viability.

Today's cycle will give way to better times. And as part of our commitment to dependability, we continue to invest in the future of agriculture. This includes providing educational opportunities centered on good financial practices, investing in programs to support young and beginning producers, advocating for agriculture in Washington, D.C., and continually improving the digital tools that help our customer-owners manage their finances and make it easier to do business with us.

I would like to thank you for your business during 2016. I hope you see your own experiences reflected in the customer profiles in this year's annual report. We strive to serve each and every one of you with the level of expertise, dependability and convenience that allows you to succeed.

Douglas R. Stark
President and CEO

IT PAYS TO KNOW A LENDER WHO KNOWS AGRICULTURE.

Frontier Farm Credit is a mission-driven lender dedicated to serving agriculture – a mission we take to heart. Every day, we strive to be the lender whose agricultural expertise helps your operation grow and thrive.

Our cooperative business model ensures that our elected Directors are farmers and ranchers whose business experiences and know-how shape our strategies for the benefit of all our customer-owners. And our financing and crop insurance teams work with you, side by side, to identify the challenges and opportunities unique to your operation.

Growing in agriculture means working with people who understand your business goals.

Eric and Jason Stadel represent the fourth generation to raise crops and feed cattle in the Flint Hills near Westmoreland, Kansas. Their father, Tim, has always made it a priority to grow the operation so his sons can take the reins one day.

“It means a lot to me to have my boys here. They’ve got a tougher row to hoe in this business than when I started,” Tim says. “If you don’t grow, you won’t be in business much longer. That’s where Frontier Farm Credit has helped us immensely in growing the right ways in the last five years.”

That working relationship helps assure Tim that his operation will be sustained through the next generation.

For Eric and Jason, it helps ease the stress that comes with taking on a larger role in an expanding farm and ranch.

“There’s always pressure, whether it’s to simply make money or to grow the operation so it is around for the next generation,” Eric says. “Our financial officer wants to help us get started and succeed in the industry.”

The latest phase of that growth came in a recent cattle-feeding facility expansion, a process made easier by a strong relationship with their Frontier Farm Credit financial officer.

“Expanding our cattle-feeding operation was a group decision. We weren’t going to do it unless we were all in,” Jason says. “We had everyone involved, including our financial officer.”

“Our financial officer understood what we wanted to accomplish – we wanted his opinion,” Tim says. “He thought we were doing the right thing, so we went ahead with it. The decision wasn’t easy, but having a trusted financial partner with the expertise necessary to know whether the feedlot expansion was the right path made all the difference.”

That kind of agricultural expertise is a huge part of why the Stadels work with Frontier Farm Credit.

“They have to know what we are doing out here, not what’s written down on paper. Our financial officer has a good feel for what we have and what we do,” Tim says. “These guys want to take the time to come out and see what we’re doing. That means something to me.”

NAME:
Tim, Eric & Jason Stadel
Stadel Farms, Inc.

LOCATION:
Westmoreland, Kansas

OPERATION:
Grain & Beef Producers

CUSTOMERS SINCE:
2012

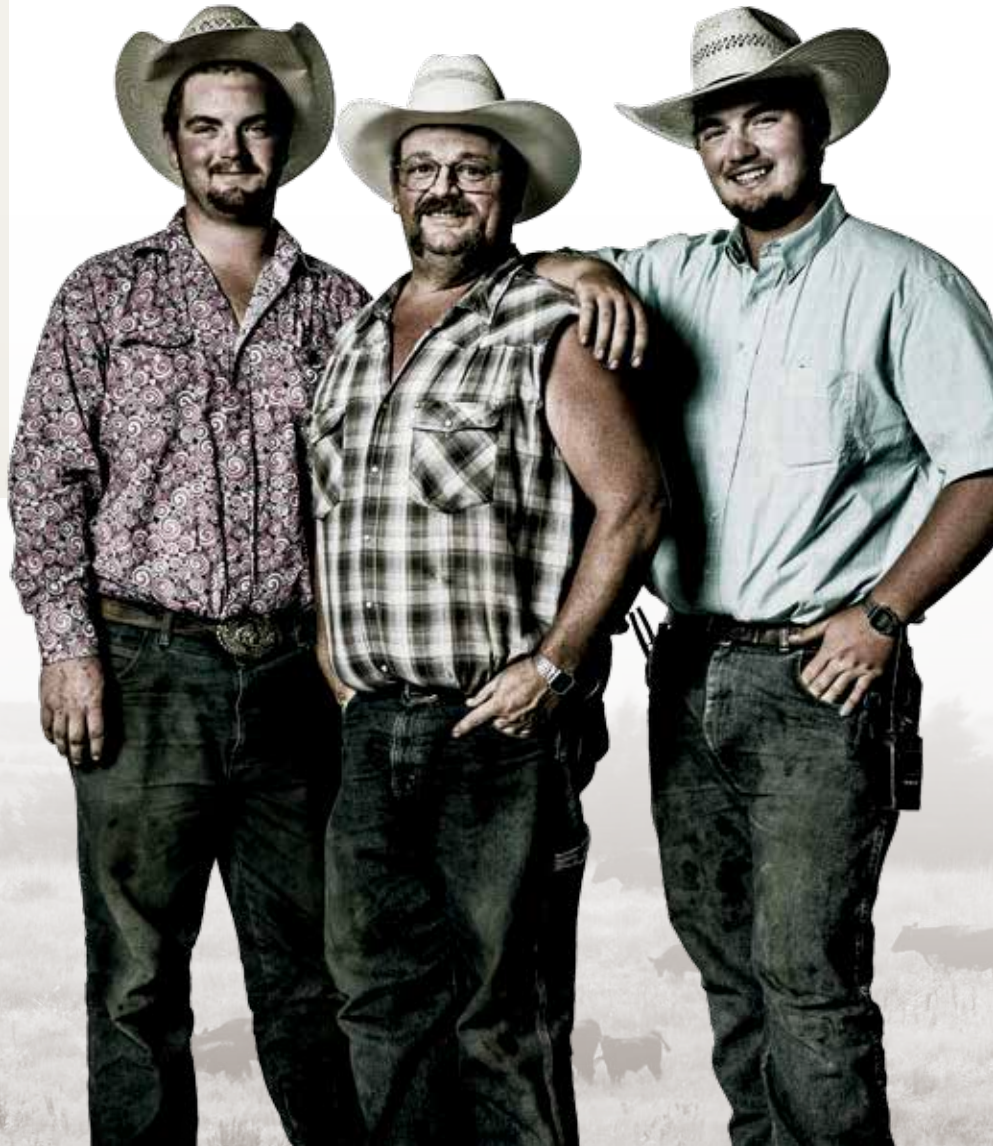
Our business approach
Tim: If you don't operate a farm like a big business, you're not going to make it. It's important to always look for ways to grow, especially today, with margins getting so tight.

The future of our operation
Jason: The way our operation is organized now, there is a lot of room to grow. I hear a lot of people say that if you aren't growing, you may as well get out of the business. We are doing what we can to grow in whatever aspect of our business we can.

What we've learned
Eric: It's important to work with somebody like Frontier Farm Credit, because they understand the pressures we face and they want to help us handle those pressures. They care. They know that we are their next generation of customers, and what they do plays a pretty big part in keeping the younger generation in agriculture.

"These guys want to take the time to come out and see what we're doing. That means something to me."

– Tim Stadel



PICTURED LEFT TO RIGHT:
Eric, Tim & Jason Stadel

CONVENIENT FINANCIAL TOOLS DESIGNED TO HELP MAKE YOUR JOB EASIER, MORE PRODUCTIVE.

We want to be more than your lender. At Frontier Farm Credit, we strive to be your most valued financial partner. This includes delivering services and products that save you time and money.

In 2016, we introduced our WorkSmart℠ line of credit with 24/7 account access, Remote Deposit, the AgriBuy® Rewards MasterCard® and management tools to help analyze the financial health of your business.

Getting efficient in agriculture means taking advantage of more online tools.

Like most young boys growing up in agriculture, Griff Howard farmed with toy tractors on the carpet of his childhood home. As far back as he can remember, his dream was to become a farmer.

Today, Griff is taking the lead on his family's Hiawatha, Kansas, row-crop farm. The transition requires an abundance of effort and time, and Griff jumps at any opportunity to create efficiency in the management of his operation.

"As a young producer, you're the manager, the CEO, the guy in the bin scooping grain and everything in between," Griff says. "With everything there is to do, it's important to find ways to make your operation better and more efficient."

Frontier Farm Credit's digital tools are instrumental to Griff accomplishing these goals. The tools are especially important to managing the financial side of his operation.

"I really get a lot out of tools like Remote Deposit. They're easy to use and allow us to get more done in the same amount of time," he says. "I'm always on the Frontier Farm Credit website, checking our line of credit, our balances and our interest accrued. On a day-to-day basis, it's nice to have that technology available."

Today, Griff uses Frontier Farm Credit's tools to monitor and manage his farm's finances, but Griff has bigger plans to integrate the tools into the broader management of his operation.

"My goal is to be able to do more on my phone from the cab, taking care of more financial management directly myself," Griff says. "We're becoming more app-based on the farm, and while we're conducting day-to-day business transactions with them now, we look forward to one day using them to do more to manage our business."

"With everything there is to do, it's important to find ways to make your operation better and more efficient."

– Griff Howard

NAME:
Griff & Kindra Howard
Howard Farms Inc.

LOCATION:
Hiawatha, Kansas

OPERATION:
Grain Producers

CUSTOMERS SINCE:
2001

How we prepared ourselves for agricultural business
Griff: In 2001, when I was in college, I sat down with dad and told him farming was really what I wanted to do. We started working on a game plan to grow the business and bring the next generation in, and after I graduated in 2005, I came back to the farm.

How we make decisions
Kindra: Griff and his mother and father and I all talk about it, and the four of us make decisions together.

Our greatest challenge
Griff: We all want to grow. As a young producer, my biggest challenge is figuring out how to do that strategically, so that we're not just farming more acres, but being more profitable in how we farm those acres. I think a lot about how we can become more efficient and continue to make our farm better so it is around for the next generation.

"We trust our financial officer to help us recognize the right opportunities."

- Phillip Goodyear

NAME:
Phillip & Kristen Goodyear
Cross Triangle Hay & Cattle

LOCATION:
Junction City, Kansas

OPERATION:
Grain & Livestock Producers

CUSTOMERS SINCE:
1996

What we enjoy most about farming
Phillip: The decisions we make have a direct impact on us. If we make good decisions, we reap the benefits. If we make bad decisions, we suffer the consequences. It's rewarding and scary to know it comes down to whether I did or didn't make a good choice. The buck stops here, and I like that.

Our greatest challenge
Phillip: We try to be proactive instead of reactive. Whether it's in animal health or crop health, we try to identify small problems before they become big issues.

Raising kids on the farm
Kristen: I have loved giving our kids space to grow and have experiences like riding in the feed truck with their dad and feeding their own bucket-calf every day. It's something I didn't grow up with, but it's an amazing opportunity to give our children.

SUCCESS MEANS HAVING A LONG-TERM VISION AND THE COMMITMENT TO SEE IT THROUGH.

We are dedicated to serving agriculture and understand the inherent risks and uncertainty you face, as well as your need for a dependable lender to see you through its ups and downs.

Even as we work with farmers and ranchers to help them weather today's ag economy, we are focused on what is to come and how we can grow your success. We are investing for the future – in technologies that reduce costs, in tools that add convenience, in programs that improve profit, in our communities to make them better, and in people to support your needs.

Dependability builds trust, confidence and loyalty in growth of cattle operation.

Though his upbringing was rooted on the farm, Phillip Goodyear took a different path than his father into agriculture.

"My father was a swine producer; we didn't have any cattle or crops. I really grew to love agriculture, especially cattle," Phillip says. "So I worked with neighboring farmers when I was 15 or 16, gained some experience and worked with Frontier Farm Credit to finance my first 12 steers."

Frontier Farm Credit played a critical role during Phillip's early years, when all he had was a plan, the willingness to work hard, and the drive to succeed.

"During that first experience borrowing money," Phillip recalls, "my financial officer asked, 'What's your plan?' I said we wanted to buy some steers, graze them for 90 days and make some money on them.

"And we did. We turned those 12 steers into a lot more."

Since then, Phillip has grown his operation with a confidence backed by Frontier Farm Credit's financial dependability. Now 20 years into his career, Phillip credits both his agricultural upbringing and the support of a proven financial partner for his operation's evolution.

"I'm loyal to people who are loyal to me, and Frontier Farm Credit has been very dependable through the years as our operation has grown," he says.

Looking to the future, Phillip says he expects Frontier Farm Credit to continue to be a reliable financial partner as his cattle and crop operation evolves and grows.

"Opportunities come along at different times and we seize them when we can," he says. "We trust our financial officer to help us recognize the right opportunities."

WE ARE DEDICATED TO SERVING OUR COMMUNITIES.

In 2016, our employees dedicated more than 450 hours to community service work. We also contributed nearly $200,000 to projects and initiatives that positively impact agriculture, including more than $95,000 through our *Working Here Fund* grant program.

We supported projects that provide agriculture education and use farming and ranching as a teaching platform to engage students in new ways. We also helped rural community leaders develop food production systems to engage residents, provide for the food insecure, and create new enthusiasm for agriculture.

The diverse initiatives we supported in 2016 had a shared goal of making a positive difference in the communities that support the farmers and ranchers we serve.

The accompanying map shows the scope of our community impact work in 2016. Those projects and initiatives touched on many different sectors of agriculture, including non-profit organizations needing volunteers, farm risk management and safety training, FFA, 4-H, and organizations for women in agriculture.

For more information about our community involvement, visit frontierfarmcredit.com/community.

450+
volunteer hours
contributed

nearly **$200,000**
in financial contributions

more than **$95,000** in
Working Here Fund grants

2016 COMMUNITY IMPACT report

Community Impact Map

Disaster Relief Employee volunteer hours and contributions supported local disaster cleanup efforts.

Employee Match This program provided matches of up to $100 for each employee contribution to causes that were meaningful to them.

Employee Volunteers Frontier Farm Credit employees volunteered 468 hours for organizations in their local communities.

Expanded Grants Up to $10,000 per grant provided in honor of the Farm Credit centennial, totaling $31,500.

Grain Bin Rescue Donated grain bin rescue training and equipment to 13 local volunteer fire departments.

Grants Provided 37 *Working Here Fund* grants totaling $63,785 for hunger and nutrition, ag education and young and beginning producer initiatives.

Hunger Relief Provided funding and employee volunteers for food rescue and food distribution to underserved counties with high percentages of food insecurity.

Local Contributions Each of our six offices impacted communities with funding support for local programs and initiatives.

Scholarships Awarded six junior and senior Kansas State University students each $2,500 scholarships.

The Big Garden Two new community gardens harvested and delivered fresh produce to the food insecure.

Today, we are better **PREPARED** to meet **CUSTOMERS**' financial needs as well as serve them with **EXPERT ADVICE** and strategic planning.

When the Board of Directors for Frontier Farm Credit formed a unique alliance with Farm Credit Services of America (FCSAmerica), one of the benefits we envisioned was greater financial strength and capacity to meet our customers' needs, regardless of the economic climate.

The importance of that decision became more evident just a year later as low commodity prices, coupled with a strong dollar that negatively impacted agricultural exports, made for a challenging 2016 for many farmers and ranchers.

Fundamental to our cooperative is the goal to be agriculture's most valued and dependable lending partner – in good and challenging times. We owe that to you so you can plan your future with confidence, knowing that you have a consistent, reliable source of financing, year in and year out.

Today, we are better prepared to meet the financial needs of our customers, as well as provide expert advice and strategic planning.

In 2016, the Board of Directors approved the hiring of additional staff members whose primary responsibility is to help producers survive this economic cycle so that, when better times return, they are in a position to carry on their legacy as part of the world's most efficient and reliable food production system.

Your Board of Directors understood the efficiencies that could be gained by aligning our two Associations to leverage shared and proven business practices. The financial success of this strategy is evident in our 2016 cash-back dividend. Our best-ever dividend of $9 million is a direct result of our improved efficiency and financial strength, and it comes at a time when our customers and the rural communities in which they live need it most.

Along with sharing our profits with our customer-owners, Frontier Farm Credit continues to invest in your future by offering educational meetings designed to help you do an even better job of managing your farms and ranches. I encourage you to take advantage of as many Frontier Farm Credit-sponsored meetings as possible.

We've also continued to grow our investment in young and beginning producers, including through our Development Fund that recognizes the special lending and capital needs of a new operation. It is in our country's best interest to help a new generation get established as the food producers of tomorrow.

Many of you use technology to apply fertilizer or herbicides more effectively, or electronic recordkeeping programs to better manage livestock. Our customer-owners also expect digital tools for their financing needs, and Frontier Farm Credit continues to invest in technology to make it easier to do business with your cooperative.

We are excited about the future of agriculture and proud to finance the many farmers and ranchers who will play a significant role in producing food for an ever-increasing world population.

I want to thank you for choosing Frontier Farm Credit as your agricultural lender and pledge to you that your Board of Directors and management team will continue to make decisions based on what we believe, with your input, is in the long-term best interest of agriculture.

William J. Miller
2016 Board Chair

Frontier Farm Credit, ACA Directors

Kathy Brick / Overland Park, Kansas
An appointed Director, Brick has consulted for the last five years with private, not-for-profit and public companies on a variety of financial, internal control, and process improvement matters, both through Kathy Brick, L.L.C. as well as an international management consulting firm. She also serves as managing director of Prairie View Holdings, L.L.C., a family farming operation in Missouri. She was appointed to the Frontier Farm Credit Board in 2014; her term ends March 31, 2021.

Mike Collinge / Hamilton, Kansas
Collinge owns and manages Collinge Cattle Co., a cattle operation on native grass, custom grazes cattle and maintains starting/backgrounding pens. He also owns and manages Hamilton Weigh Station, L.L.C., commercial truck scales. Collinge serves on the Woodson County Cooperative Association and the Ranchland Trust of Kansas Boards. He was elected to the Frontier Farm Credit Board in 2014; his term ends March 31, 2018.

Ronald Dunbar / Princeton, Kansas
Dunbar is president of Dunbar Farms, Inc. and raises a variety of crops and hay, maintains a beef cow herd, plus backgrounds and finishes cattle. He serves on the Franklin County Conservation District Board. He was elected to the Frontier Farm Credit Board in 2003; his current term ends March 31, 2020.

Bill Fleming / Lawrence, Kansas
An appointed Director, Fleming is a business and tax attorney who serves as general counsel for Treanor Architects, P.A. He serves as chairman of the Lawrence-Douglas County Housing Authority Board and secretary of the Free State Holdings, Inc. Board. He was appointed to the Frontier Farm Credit Board in 2007; his current term ends March 31, 2017.

Jennifer Gehrt / Alma, Kansas
Gehrt is the majority partner of G&W Ranch, L.L.C., president of Gehrt Farm, Inc. and an agricultural land owner. She also is associate director of information systems at Kansas State University, where she previously served as project director in the information services office and director of human resource services. Gehrt was appointed to the Frontier Farm Credit Board in 2011 and was elected to the Board in 2016. Her term ends March 31, 2020.

Alan Hess / Alma, Kansas
Hess is a fifth-generation farmer who, with his brother and nephew, owns and manages a family cattle ranch, Hess Ranch, Inc. and Hess Family, L.L.C. He was elected to the Frontier Farm Credit Board in 2002; his current term ends March 31, 2018.

Larry Hoobler / Manhattan, Kansas
Hoobler, a retired vocational agriculture teacher, has a cash grain farming operation consisting of corn and soybeans. Hoobler is a member of the Blue Valley Pork Producers Board. He was elected to the Frontier Farm Credit Board in 2008; his current term ends March 31, 2019.

William Miller / Council Grove, Kansas
Miller is the president of ABCD2 Cattle Co., L.L.C., a ranch on which he and his wife run commercial Angus cows, and co-owner of Miller Ranch, a cattle production business. Additionally, he does communication work for U.S. Premium Beef, L.L.C., where he previously served as vice president-communications. Miller is a member of the Morris County Hospital Board. He was elected to the Frontier Farm Credit Board in 2008; his current term ends March 31, 2017.

Lee Mueller / Hiawatha, Kansas
Mueller is the president of Laus Creek Farm, Inc. and raises corn and soybeans. He serves on the Padonia Township Board and the Highland Community College Precision Ag Department Advisory Committee. Mueller was elected to the Frontier Farm Credit Board in 2015; his term ends March 31, 2019.

Steve Powers / Chanute, Kansas
Powers owns and operates a farm and ranch that includes wheat, corn, soybeans, brood cows and stocker cattle. He serves on the Eastern Kansas Royalty Owners Association Board, Thayer Christian Church Board, Hidden Haven Church Camp Board and Thayer Cemetery Board. Powers was elected to the Frontier Farm Credit Board in 2010; his current term ends March 31, 2017.

Mark Wulfkuhle / Berryton, Kansas
Wulfkuhle is president of Rocking H Ranch Inc., a family farming operation that grows corn, wheat, soybeans, alfalfa and hay, and maintains a cow-calf herd. He also manages M&B Applicating, L.C., a chemical and fertilizer application company, and is a partner in Clough Place, L.C., a farm real estate rental company. Wulfkuhle is vice president of East Central Kansas No-Till Alliance and serves on the Kaw Valley Electric Cooperative Board, Stull United Methodist Church Administrative Board and the Shawnee Heights Middle School Site Council. He was elected to the Frontier Farm Credit Board in 2007; his current term ends March 31, 2017.

Note: In accordance with the Frontier Farm Credit Bylaws, the Board will be downsized to one appointed Director and six elected Directors as of April 1, 2017. Kathy Brick has been appointed to serve a term ending on March 31, 2021, and Bill Fleming and Alan Hess will retire from the Board effective March 31, 2017. The remaining elected Directors are candidates for re-election. Successful candidates will serve staggered terms to begin April 1, 2017.

Financial Information

Frontier Farm Credit, ACA

Consolidated Five-Year Summary of Selected Financial Data

(Dollars in thousands)

	2016	2015	2014	2013	2012
Balance Sheet Data					
Loans	**$1,898,181**	$1,835,021	$1,705,111	$1,596,629	$1,460,369
Less allowance for loan losses	**7,500**	4,300	4,943	5,004	5,057
Net loans	**1,890,681**	1,830,721	1,700,168	1,591,625	1,455,312
Investment in CoBank, ACB	**63,797**	59,520	56,533	52,173	47,606
Investment in AgDirect, LLP	**4,889**	4,829	4,551	4,401	2,853
Cash	**–**	4,675	18,908	16,588	18,942
Other property owned	**–**	–	–	1,244	1,264
Other assets	**64,455**	50,172	51,452	51,035	45,971
Total assets	**$2,023,822**	$1,949,917	$1,831,612	$1,717,066	$1,571,948
Obligations with maturities of one year or less	**$ 21,660**	$ 89,595	$ 46,430	$ 30,090	$ 31,559
Obligations with maturities longer than one year	**1,616,091**	1,503,100	1,451,720	1,374,941	1,249,584
Total liabilities	**1,637,751**	1,592,695	1,498,150	1,405,031	1,281,143
Protected members' equity	**–**	–	–	2	5
At-risk capital stock	**5,786**	5,213	5,197	5,179	5,066
Accumulated other comprehensive loss	**(298)**	(119)	(151)	(104)	(142)
Retained earnings	**380,583**	352,128	328,416	306,958	285,876
Total members' equity	**386,071**	357,222	333,462	312,035	290,805
Total liabilities and members' equity	**$2,023,822**	$1,949,917	$1,831,612	$1,717,066	$1,571,948
Statement of Income Data					
Net interest income	**$50,982**	$45,717	$42,918	$40,658	$38,910
Provision for (reversal of) credit losses	**3,481**	(37)	86	(169)	523
Noninterest income	**13,143**	12,899	15,857	12,487	12,467
Noninterest expense	**23,193**	27,207	30,164	25,183	22,456
Provision for income taxes	**–**	237	69	52	36
Net income	**$37,451**	$31,209	$28,456	$28,079	$28,362
Comprehensive income	**$37,272**	$31,191	$28,409	$28,117	$28,122
Key Financial Ratios					
For the year					
Return on average assets	**1.89%**	1.67%	1.61%	1.72%	1.91%
Return on average total members' equity	**10.03%**	8.95%	8.68%	9.22%	10.01%
Net interest income as a percentage of average earning assets	**2.72%**	2.62%	2.60%	2.66%	2.79%
Net (recoveries) charge-offs as a percentage of average loans	**0.02%**	(0.01)%	0.01%	(0.01)%	0.21%
At year-end					
Members' equity as a percentage of total assets	**19.08%**	18.32%	18.21%	18.17%	18.50%
Allowance for loan losses as a percentage of total loans	**0.40%**	0.23%	0.29%	0.31%	0.35%
Permanent capital ratio	**15.94%**	15.05%	14.83%	14.58%	15.12%
Total surplus ratio	**15.68%**	14.79%	14.56%	14.30%	14.82%
Core surplus ratio	**15.68%**	14.79%	14.56%	14.30%	14.82%
Other					
Cash patronage distribution payable to members	**$9,000**	$7,500	$7,000	$7,000	$7,000

Frontier Farm Credit, ACA

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following commentary reviews the consolidated financial condition and consolidated results of operations of Frontier Farm Credit, ACA and its subsidiaries, Frontier Farm Credit, FLCA and Frontier Farm Credit, PCA, and provides additional specific information. The accompanying consolidated financial statements and notes to the consolidated financial statements also contain important information about our financial condition and results of operations.

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

CoBank, ACB, a Farm Credit System bank, its affiliated associations and AgVantis are collectively referred to as the District. Frontier Farm Credit is one of the affiliated associations in the District.

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

To request a free copy of our annual or quarterly reports, contact us at PO Box 2409, Omaha, NE 68103-2409, (800) 531-3905, via email to $sr@frontierfarmcredit.com or view them on our website, frontierfarmcredit.com. The annual report is available on our website 75 days after the end of the calendar year, and members are provided a copy of the report 90 days after the end of the year. The quarterly reports are available on our website 40 days after the end of each calendar quarter.

Forward-Looking Information

This annual report includes forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipate," "believe," "estimate," "may," "expect," "intend," "outlook" and similar expressions are used to identify such forward-looking statements. These statements reflect our current views with respect to future events. However, actual results may differ materially from our expectations due to a number of risks and uncertainties which may be beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, financial markets, international and economic conditions and developments in the United States and abroad;
- political, legal, regulatory, financial markets, international and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural and farm-related business sectors;
- unfavorable weather, disease and other adverse climatic or biological conditions that periodically occur and impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the Farm Credit System as a government-sponsored enterprise, as well as investor and rating agency actions relating to events involving the United States government, other government-sponsored enterprises and other financial institutions;
- actions taken by the Federal Reserve System in implementing monetary policy;
- credit, interest rate and liquidity risks inherent in our lending activities; and
- changes in our assumptions for determining the allowance for loan losses.

2016 Highlights

The year ended December 31, 2016, was another year of continuing to enhance Frontier Farm Credit's financial strength. A strong balance sheet and solid earnings provide a firm foundation for 2017. Highlights include:

- In December, the Board declared a $9 million cash-back dividend distribution under the 2016 patronage program.
- Loan volume increased 3.4 percent to $1.9 billion.
- Total members' equity increased 8.1 percent to $386.1 million after recording a liability for the $9 million cash-back dividend payment.
- Net income for the year was $37.5 million compared to $31.2 million for 2015, an increase of 20 percent.

Frontier Farm Credit, ACA

Management's Discussion and Analysis of Financial Condition and Results of Operations

Commodity Review and Outlook

Net farm income for 2016, as reported by the United States Department of Agriculture, is forecast to decline by 17 percent to $66.9 billion. This is the third consecutive year of falling income after reaching record highs in 2013. Overall cash receipts are forecast to drop 6.2 percent with crop receipts largely remaining unchanged while livestock receipts are forecast to drop by 12.3 percent, primarily driven by lower cattle and egg prices. The major industries financed by Frontier Farm Credit were impacted by further price declines, leading to static or reduced profit margins. While 2016 yields were above average, cash grain farmers operated in a lower price environment for the third consecutive year. Protein producers received reduced to sharply lower prices for their commodities, while ethanol producers were generally profitable.

The average prices received by farmers and ranchers in December compared to prior years are reflected in the following chart based on United States Department of Agriculture data:

	Averages for the Month of December:				
Commodity	**2016**	2015	2014	2013	2012
Corn	**$3.33**	$3.65	$3.79	$4.41	$6.87
Soybeans	**$9.64**	$8.76	$10.30	$13.00	$14.30
Wheat	**$3.91**	$4.75	$6.14	$6.73	$8.30
Beef cattle	**$111.00**	$122.00	$164.00	$130.00	$124.00

In 2015, our Appraisal team began monitoring, compiling and reporting real estate sales information for the 41 counties in our territory in eastern Kansas. We also began monitoring seven benchmark farms in eastern Kansas, which are updated each January and July.

For 2016, there was an overall decrease of 1.9 percent in the benchmark values and an increase of 0.1 percent in the last six months of 2016. There continues to be demand for good quality tracts, but the number of sales in 2016 has been below 2015 across our territory.

Loan repayment capacity is largely dependent on income from corn, soybeans, wheat and cattle. Many of our customers are also dependent on off-farm income, although the level of off-farm income varies widely. Government-program payments related to corn, soybeans, wheat and the Conservation Reserve Program are also a source of income for many of our customers.

The following reflects economic conditions for various commodities prepared by our industry specialists based on United States Department of Agriculture and commodity industry reports.

Grain: Row crop producers again faced lower prices, but strong corn and soybean yields as well as an uptick in soybean prices modestly improved cash flows compared to 2015. Input prices declined modestly, led by lower fertilizer and fuel prices. Average cash rents declined approximately another 7 percent in 2016, down 15 percent from peak rents paid in 2013.

United States corn production in 2016 was a record 15.1 billion bushels, up 11 percent from the 2015 crop. As a result, corn stocks in the United States as of December 1 were up 10 percent from a year earlier at 12.4 billion bushels. Yields across the United States were strong averaging 174.6 bushels per acre, up 6.2 bushels per acre compared to a year ago. Kansas yields decreased 6 bushels per acre to 142 bushels per acre, but production was up 20 percent due to 950,000 additional planted acres.

Omaha cash corn prices in 2016 averaged $3.33 per bushel compared to $3.66 per bushel in 2015. Prices strengthened during the first half of the year, peaking at $4.09 per bushel in late June. However, when good rainfall continued to fall through the summer months and the large crop became more of a certainty, the corn price dropped by nearly $1.00 per bushel by late July. The corn price ended the year at $3.25 per bushel, down $0.24 per bushel from a year earlier.

United States soybean production in 2016 was also a record at 4.3 billion bushels, up 10 percent from 2015. Average yields were also a record high at 52.1 bushels per acre, eclipsing the 2015 record by 4.1 bushels per acre. Kansas production was up nearly 30 percent due to a 9.5-bushel-per-acre yield increase to 48 bushels per acre and 150,000 more acres planted to soybeans. Overall, United States soybean stocks were up 7 percent at December 1 to 2.9 billion bushels. Despite an increase in inventory, cash soybeans ended the year priced at $9.40 per bushel, up from $8.33 a year ago, primarily due to strong current and projected exports to China.

Wheat production in the United States was up 12 percent to 2.3 billion bushels due to a nine-bushel-per-acre yield increase. Wheat stocks grew by 19 percent to 2.07 billion bushels. Kansas yields were up strongly from 37 bushels per acre in 2015 to 57 bushels per acre in 2016. The increase in yields resulted in a 45 percent increase in state production, even though 700,000 fewer acres were planted.

Cow-Calf: Significant price declines also impacted the cow-calf sector in 2016 as feeder cattle margins were reduced $300 or more per head compared to last year. The lower calf prices were due to heavy losses in the fed cattle sector over the past two years, lower live cattle futures prices and a larger cow and calf supply. The cow herd continued to grow, up 3 percent for the year with growth projected to continue into 2017. Weather conditions provided ample forage across most of the cow-calf regions of the country, and when combined with lower grain costs, provided conditions to incent growth.

Beef Feedlot: Fed cattle prices continued to decline in 2016 leading to additional losses for cattle feeders. Cash prices declined $40 per cwt. from the high in the second quarter to the low in the fourth quarter, the second largest price drop in history. The loss of fed cattle packer capacity over the past decade, along with 1.2 million more cattle processed, resulted in an oversupply of market-ready cattle for much of the year. Cattle feeders averaged losses of $75 per head despite lower feeder cattle and feed prices compared to last year.

Domestic beef consumption improved from a year ago, as well as the trade balance, as exports rose 7 percent while imports decreased 11 percent. The additional consumption and export activity helped alleviate some impact from the additional beef supply as fed cattle carcass weights continued to move higher for most of the year. As the number of market-ready cattle and slaughter weights declined late in the fourth quarter, prices rebounded modestly affording feeders the opportunity for break-even or above break-even sales.

Ethanol: The ethanol industry in the United States was profitable in 2016, finishing the last quarter of the year with relatively strong prices and favorable operating profits. The National Renewable Fuel Feedstock/Co-Product Price Index revealed Oil Price Information Service national average ethanol price of $1.73 per gallon (four-week average) at the close of 2016 compared to $1.45 per gallon (four-week average) the prior year. Distiller's Dried Grains with Solubles priced at $111.58 per ton for the same period in 2016 compared to $131.25 per ton one year prior. Through the year in 2016, ethanol producers benefited from lower corn prices, stabilized energy prices, increasing domestic gasoline consumption and a relatively strong export market for ethanol. Most ethanol producers experienced modest to strong earnings for 2016 and remain on solid financial footings. Average earnings before interest, tax, depreciation and amortization margin improved from a year ago due to improved ethanol and corn oil pricing and reduced cost of feedstock.

Loan Portfolio

Our loan volume experienced another year of growth and increased $63.2 million during 2016, an increase of 3.4 percent.

We have no single customer or group of related customers who comprise more than 10 percent of our volume or who would have a material effect if they no longer did business with us.

Counties with more than 5 percent of total loan volume include Douglas with 8 percent and Nemaha with 5.6 percent.

The following table summarizes risk asset and delinquency information (accrual loans include accrued interest receivable; amounts are in thousands):

	December 31,		
	2016	2015	2014
Risk loans:			
Nonaccrual	**$10,666**	$5,697	$4,318
Restructured	**428**	502	302
90 days past due still accruing interest	**236**	–	–
Total risk loans	**11,330**	6,199	4,620
Other property owned, net	**–**	–	–
Total risk assets	**$11,330**	$6,199	$4,620
Risk loans as a percentage of total loans	**0.59%**	0.33%	0.27%
Total delinquencies as a percentage of total loans	**0.38%**	0.14%	0.06%

Total risk loans have increased since the end of 2015. The increase in nonaccrual loans is primarily due to accounts in the horticulture, grain and livestock industries being classified as nonaccrual. There was also an increase in loans 90 days past due still accruing interest. It is our practice to transfer accruing loans that are past due 90 days or more into nonaccrual unless they are adequately secured and in the process of collection. Based on our analysis, loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection. Risk loans as a percentage of total loans remain at acceptable levels.

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Our adversely classified assets increased during 2016, ending the year at 3.3 percent of the portfolio compared to 1.3 percent of the portfolio at December 31, 2015. Adversely classified assets are assets we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

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

Comparative allowance coverage of various loan categories follows:

	December 31,		
	2016	2015	2014
Allowance as a percentage of:			
Total loans	**0.40%**	0.23%	0.29%
Nonaccrual loans	**70.32%**	75.48%	114.47%
Total risk loans	**66.20%**	69.37%	106.99%

In our opinion, the allowance for loan losses at December 31, 2016, is adequate to provide for probable and estimable losses in the loan portfolio.

Results of Operations

The following table provides profitability information:

	December 31,		
	2016	2015	2014
Net income (in thousands)	**$37,451**	$31,209	$28,456
Return on average assets	**1.89%**	1.67%	1.61%
Return on average members' equity	**10.03%**	8.95%	8.68%

Changes to our return on average assets and return on average members' equity are related directly to the changes in income as described below, the changes in assets discussed in the Loan Portfolio section and the changes in members' equity discussed in the Members' Equity section. Major components of the changes in net income for 2016, 2015 and 2014 are outlined in the following table (in thousands):

	December 31,		
	2016	2015	2014
Net income prior year	**$31,209**	$28,456	$28,079
Increase (decrease) in net income attributable to changes in:			
Net interest income	**5,265**	2,799	2,260
Provision for credit losses	**(3,518)**	123	(255)
Noninterest income	**244**	(2,958)	3,369
Noninterest expense	**4,014**	2,957	(4,980)
Provision for income taxes, net	**237**	(168)	(17)
Net income for the year	**$37,451**	$31,209	$28,456

The effects on net interest income from changes in average volumes and rates are presented in the following table (in thousands):

	2016 vs. 2015	2015 vs. 2014
Changes in volume	**$3,152**	$2,591
Changes in rates	**1,959**	284
Change in nonaccrual income	**154**	(76)
Net change	**$5,265**	$2,799

The average lending rate was 4.20 percent for 2016 compared to 4.18 percent for 2015. The average cost of debt was 1.73 percent for 2016 compared to 1.69 percent for 2015. The net interest margin was 2.72 percent in 2016 compared to 2.62 percent in 2015.

Net interest income included income on nonaccrual loans that totaled $0.2 million in 2016, $0.1 million in 2015 and $0.2 million in 2014. Nonaccrual income is recognized when:

- received in cash,
- collection of the recorded investment is fully expected, and
- prior charge-offs have been recovered.

We recorded a $3.5 million provision for credit losses for 2016 compared to a $37 thousand (reversal of) provision for credit losses for 2015. The provision for credit losses includes the provision for loan losses and the provision for unfunded lending commitments. The increase in the allowance for loan losses is primarily due to an increase in the allowance for the grain, beef feedlot and horticulture industries. The reserve for unfunded lending commitments balance at December 31, 2016, was the same as the balance at December 31, 2015. The reserve for unfunded lending commitments is based on our best estimate of losses inherent in lending commitments made to customers but not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement were utilized in determining this contingency.

We recorded net recoveries of charge-offs of $0.3 million in 2016 ((0.02) percent of average loans). We recorded net recoveries of charge-offs of $0.2 million in 2015 ((0.01) percent of average loans) and net charge-offs of $0.1 million in 2014 (0.01 percent of average loans).

The increase in noninterest income is primarily due to an increase in loan fees partially offset by a decrease in mineral income.

The decrease in noninterest expense is primarily due to the sharing of expenses with Farm Credit Services of America (FCSAmerica) as part of the strategic alliance agreement. The decrease in provision for taxes for 2016 is primarily due to decreased taxable income in our taxable subsidiary.

Patronage Program

Our Board adopted a patronage program for eligible customers in 2016. The patronage program has been in place for more than a decade. The 2016 program is based on each customer's eligible average loans outstanding during the year. The patronage program is a qualified (cash) distribution referred to as cash-back dividends. The Board declared a cash-back dividend of $9 million at its December 2016 meeting to be distributed no later than April 30, 2017. We recorded a liability of $9 million in December 2016. The 2015 patronage program was also based on each customer's eligible average loans outstanding during the year. The Board declared a cash-back dividend of $7.5 million at its December 2015 meeting to be distributed no later than April 30 of the following year.

The 2014 patronage program was based on each customer's accrued interest on eligible loans outstanding during the year. The Board declared a cash-back dividend of $7 million at its December 2014 meeting to be distributed no later than April 30 of the following year. We recorded a liability of $7 million in December 2014.

Our Board has also adopted a patronage program for 2017. The 2017 patronage program will once again be based on each customer's average daily balance of eligible loans during 2017.

CoBank, ACB Patronage Income

We receive patronage from CoBank, ACB at the discretion of CoBank, ACB's Board of Directors. Patronage is paid in cash and stock.

We received patronage income based on the average balance of our note payable to CoBank, ACB. We recorded patronage income of $7.1 million in 2016, $6.8 million in 2015 and $6.5 million in 2014. Changes in our note payable to CoBank, ACB caused the variance in the patronage income amounts.

Funding and Liquidity

Our approach to sustaining sufficient liquidity to fund operations and meet current obligations is to maintain an adequate line of credit with CoBank, ACB. As of January 1, 2017, we had a $1.9 billion revolving line of credit with CoBank, ACB. We generally apply excess cash to this line of credit.

As described in Note 7 to the consolidated financial statements, "Notes Payable," this line of credit is governed by a General Financing Agreement and is collateralized by a pledge of substantially all of our assets and is also subject to regulatory borrowing limits. The line of credit is renegotiated periodically. We expect this line of credit to be sufficient to fund our operations. The note payable related to this line of credit reprices monthly.

At December 31, 2016, the direct loan balance was $1.6 billion compared to $1.5 billion at the end of 2015 and $1.4 billion at the end of 2014.

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The interest rate risk inherent in our loan portfolio is substantially mitigated through this funding relationship. CoBank, ACB manages interest rate risk through its direct loan pricing and asset/liability management processes. The direct loan pricing mechanism simulates matching the cost of underlying debt with substantially the same terms as the anticipated terms of our loans to customers. The primary risks we manage include pipeline risk and basis risk. Pipeline risk occurs when we commit a fixed interest rate to a customer in advance of the loan's closing date and is effectively mitigated through the use of rate-lock agreements. Basis risk occurs when the interest rate on a loan reprices according to one index, while the debt supporting that loan reprices according to another index.

We provide financing to eligible customers with various interest rate programs. New loans are priced with consideration given to the local competitive conditions, the cost of debt that will be incurred to fund the loan, the individual risk elements of the loan and profit objectives. Interest on real estate loans is generally paid in full annually, while interest on agricultural production loans is generally paid in full at the annual renewal date of the loan.

We offer variable-rate loan products that include variable-rate loans repriced at our discretion, as dictated by market conditions, and market-indexed variable-rate loans that provide customers with the option of indexing their interest rate to external market indices such as LIBOR or the prime rate.

We also offer fixed-rate operating loans for up to two years, fixed-rate installment loans for up to 10 years and fixed-rate mortgage loans in yearly increments from 5-35 years.

In addition, we offer real estate adjustable-rate loans that are indexed to one-, three- or five-year U.S. Department of the Treasury rates. The loans reprice at one-, three- or five-year intervals at a rate equal to the corresponding U.S. Department of the Treasury rate plus a contractual spread. The one-, three- and five-year adjustable-rate loans are generally subject to periodic caps ranging from 2-2.50 percent with a 6 percent life cap. The cost of debt supporting these loans is capped accordingly.

We also offer a prepayment-restricted loan product. This is a fixed-rate product with a prepayment penalty provision if prepayments are made during the initial three, five or seven years of the loan term. For agreeing to restricted prepayments, the customer receives a reduced interest rate that remains in effect for the entire loan term.

A breakdown of the loan portfolio by rate type, as a percentage of total volume at December 31, is shown in the following table:

	December 31,	
	2016	2015
Variable rate	**41.6%**	43.2%
Fixed rate	**57.6**	55.8
Adjustable rate	**0.8**	1.0
	100.0%	100.0%

Our other source of lendable funds is unallocated surplus.

Members' Equity

Our equity structure is described in Note 8 to the consolidated financial statements, "Members' Equity."

Members' equity increased to $386.1 million at December 31, 2016, compared to $357.2 million at December 31, 2015. The increase in 2016 was due to net income recorded in 2016 and net capital stock issued partially offset by patronage payable and the change in other comprehensive loss.

Members' equity as a percentage of total assets increased to 19.08 percent at December 31, 2016, compared to 18.32 percent at December 31, 2015. The increase in the members' equity-to-assets ratio was due to the growth rate of members' equity exceeding the growth rate of assets. The increase in members' equity is described in the previous paragraph. The increase in assets is primarily due to the increase in loans described in the Loan Portfolio section.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Farm Credit Administration regulations require us to maintain a permanent capital ratio of at least 7 percent, a total surplus ratio of at least 7 percent and a core surplus ratio of at least 3.5 percent. The calculation of these ratios according to Farm Credit Administration regulations is discussed below:

- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. At December 31, 2016, our ratio was 15.94 percent compared to 15.05 percent at December 31, 2015.
- The total surplus ratio is average unallocated surplus less any deductions made in the computation of permanent capital divided by average risk-adjusted assets. At December 31, 2016, our ratio was 15.68 percent compared to 14.79 percent at December 31, 2015.
- The core surplus ratio is average unallocated surplus less any deductions made in the computation of total surplus divided by average risk-adjusted assets. At December 31, 2016, our ratio was 15.68 percent compared to 14.79 percent at December 31, 2015.

The capital adequacy ratios are directly impacted by the changes in members' equity as more fully explained earlier and the changes in assets as further discussed in the Loan Portfolio section.

Additional discussion of these regulatory ratios, along with discussion of new regulations and capital requirements effective January 1, 2017, are included in the Regulatory Matters section and Note 8 to the consolidated financial statements, "Members' Equity."

We are not aware of any reason why the capital ratios, including the new capital ratios, would fall below the regulatory requirements during 2017.

Relationship with CoBank, ACB

We borrow from CoBank, ACB to fund our lending operations in accordance with the Farm Credit Act of 1971, as amended. Approval from CoBank, ACB is required for us to borrow elsewhere. A General Financing Agreement, as discussed in Note 7 to the consolidated financial statements, "Notes Payable," governs this lending relationship. The interest rate may be periodically adjusted by CoBank, ACB based on the terms and conditions of the General Financing Agreement.

We are required to own stock in CoBank, ACB to capitalize our notes payable balance and participation loans sold to CoBank, ACB. The current requirement for capitalizing the notes payable to CoBank, ACB is 4 percent of our prior year average notes payable balance. The 2016 requirement for capitalizing patronage-based participation loans sold to CoBank, ACB is 8 percent of our prior 10-year average balance of participations sold to CoBank, ACB. Under the current CoBank, ACB capital plan applicable to participations sold, patronage from CoBank, ACB related to these participations sold is paid 75 percent cash and 25 percent Class A stock. The capital plan is evaluated annually by CoBank, ACB's Board of Directors and management and is subject to change.

CoBank, ACB may require the holders of its equities to subscribe for 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, ACB takes into account the financial condition of each stockholder and other considerations, as it deems appropriate.

We receive patronage income based on the annual average daily balance of our note payable to CoBank, ACB. CoBank, ACB's Board of Directors sets the patronage rates.

Due to the nature of our financial relationship with CoBank, ACB, the financial condition and results of operations of CoBank, ACB materially affect our stockholders' investment in Frontier Farm Credit. To request a free copy of the combined CoBank, ACB and affiliated associations' financial reports, contact us at PO Box 2409, Omaha, NE 68103-2409, (800) 531-3905 or via email to $sr@frontierfarmcredit.com. You may also obtain copies by accessing CoBank, ACB's website, cobank.com. Annual reports are available within 75 days after the end of the calendar year, and quarterly reports are available within 40 days after the end of each calendar quarter.

Relationship with Farm Credit Services of America

A strategic alliance between Frontier Farm Credit and FCSAmerica was implemented January 1, 2015. The alliance is designed to benefit the farmers and ranchers who own and support the two financial services cooperatives by ensuring that both Associations have the strength and capacity to serve agricultural customers' needs for years to come.

Frontier Farm Credit and FCSAmerica continue to exist as separate associations while integrating their day-to-day business operations, technology systems and leadership teams. Each Association continues to have its own Board, with representatives participating in a coordinating committee to facilitate Board governance between the two organizations.

Frontier Farm Credit, ACA

Management's Discussion and Analysis of Financial Condition and Results of Operations

Under the alliance agreement, Frontier Farm Credit and FCSAmerica have agreed to share current-year income and expenses based on the average total assets of each entity for the prior calendar year. Due to the transition period required to fully implement the alliance, the agreement specifies generally that pre-tax net income will be shared on fixed percentages of 94 percent for FCSAmerica and 6 percent for Frontier Farm Credit for 2015, and 93 percent for FCSAmerica and 7 percent for Frontier Farm Credit for 2016. For the year ending December 31, 2016, Frontier Farm Credit recorded $16.2 million of operating expenses under the income- and expense-sharing provisions of the alliance agreement primarily due to the salary and related expenses incurred by FCSAmerica for former Frontier Farm Credit employees added to the FCSAmerica payroll. The operating expenses recorded by Frontier Farm Credit were $10.4 million for the year ended December 31, 2015.

Frontier Farm Credit has $2 billion in assets and serves multiple counties in eastern Kansas. FCSAmerica has $26.4 billion in assets and serves the states of Iowa, Nebraska, South Dakota and Wyoming.

AgDirect, LLP

We participate in the AgDirect trade credit financing program, which includes origination and refinancing of agricultural equipment loans through independent equipment dealers. The program is facilitated by FCSAmerica through a limited liability partnership in which we are a partial owner. Our investment in AgDirect, LLP was $4.9 million at December 31, 2016, $4.8 million at December 31, 2015, and $4.6 million at December 31, 2014. The LLP is an unincorporated business entity.

Farm Credit Foundations

We purchase human resource information systems and benefit and payroll services from Farm Credit Foundations. The Farm Credit System entities using Farm Credit Foundations' services contributed an investment into the service corporation in January 2012. Our investment was $0.01 million at December 31, 2016, December 31, 2015, and December 31, 2014. The total cost of services purchased from Farm Credit Foundations was $0.1 million in 2016, $0.2 million in 2015 and $0.2 million in 2014.

Regulatory Matters

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

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

The final rule replaced existing core surplus and total surplus ratios with common equity tier 1, tier 1 capital and total capital risk-based capital ratios. The final rule also added a tier 1 leverage ratio and an unallocated retained earnings equivalents leverage ratio. The permanent capital ratio continues to remain in effect with the final rule. Refer to Note 8, "Members' Equity," to the accompanying consolidated financial statements for additional information regarding these ratios.

Frontier Farm Credit, ACA

Report of Management

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

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

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

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

Douglas R. Stark
President and CEO
March 2, 2017

Craig P. Kinnison
Senior Vice President – CFO
March 2, 2017

William J. Miller
Chairperson, Board of Directors
March 2, 2017

Frontier Farm Credit, ACA

Report on Internal Control Over Financial Reporting

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

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

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

Douglas R. Stark
President and CEO
March 2, 2017

Craig P. Kinnison
Senior Vice President – CFO
March 2, 2017

Frontier Farm Credit, ACA

Report of Audit Committee

The consolidated financial statements of Frontier Farm Credit, ACA (Association) were prepared under the oversight of the Audit Committee. The Audit Committee is composed of 10 individuals from the Association Board of Directors. In 2016, the Audit Committee met seven times. The Audit Committee oversees the scope of the Association's internal audit program, the approval and independence of PricewaterhouseCoopers LLP (PwC) as our independent 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 Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

Management is responsible for internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and to issue their report based on their audit. The Audit Committee's responsibilities include monitoring and overseeing these processes. In this context, the Audit Committee reviewed and discussed the audited consolidated financial statements for the year ended December 31, 2016, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards AU-C260, *The Auditor's Communication With Those Charged With Governance,* and both PwC and the internal auditors directly provided reports on any significant matters to the Audit Committee.

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

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the annual report for the year ended December 31, 2016.

Kathy Brick
Chair, Audit Committee
Frontier Farm Credit, ACA
March 2, 2017

Audit Committee Members:
Mike Collinge
Ronald Dunbar
Bill Fleming
Jennifer Gehrt
Alan Hess
Larry Hoobler
Lee Mueller
Steve Powers
Mark Wulfkuhle

Independent Auditor's Report

To the Board of Directors of Frontier Farm Credit, ACA,

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's 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 Frontier Farm Credit, ACA and its subsidiaries as of December 31, 2016, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 2, 2017

PricewaterhouseCoopers LLP, 45 South Seventh Street, Suite 3400, Minneapolis, MN 55402
T: (612) 596 6000, F: (612) 373 7160, www.pwc.com/us

Frontier Farm Credit, ACA

Consolidated Balance Sheet

(Dollars in thousands)

	December 31,		
	2016	2015	2014
Assets			
Loans	**$1,898,181**	$1,835,021	$1,705,111
Less allowance for loan losses	**7,500**	4,300	4,943
Net loans	**1,890,681**	1,830,721	1,700,168
Cash	**–**	4,675	18,908
Accrued interest receivable	**23,936**	21,393	19,433
Investment in CoBank, ACB	**63,797**	59,520	56,533
Investment in AgDirect, LLP	**4,889**	4,829	4,551
Premises and equipment, net	**19,053**	20,896	21,944
Prepaid benefit expense	**593**	–	–
Other assets	**20,873**	7,883	10,075
Total assets	**$2,023,822**	$1,949,917	$1,831,612
Liabilities			
Notes payable to CoBank, ACB	**$1,616,091**	$1,503,100	$1,444,956
Accrued interest payable	**2,540**	2,942	6,764
Patronage payable	**9,000**	7,500	7,000
Reserve for unfunded lending commitments	**800**	800	–
Accrued benefits liability	**1,075**	1,340	1,044
Other liabilities	**8,245**	77,013	38,386
Total liabilities	**1,637,751**	1,592,695	1,498,150
Commitments and contingencies (Note 12)			
Members' Equity			
At-risk capital:			
Class B common stock	**5,662**	5,147	5,142
Class C common stock	**124**	66	55
Accumulated other comprehensive loss	**(298)**	(119)	(151)
Retained earnings	**380,583**	352,128	328,416
Total members' equity	**386,071**	357,222	333,462
Total liabilities and members' equity	**$2,023,822**	$1,949,917	$1,831,612

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

Frontier Farm Credit, ACA

Consolidated Statement of Comprehensive Income

(Dollars in thousands)

	Year Ended December 31,		
	2016	2015	2014
Net Interest Income			
Interest income	**$79,491**	$73,672	$69,617
Interest expense	**28,509**	27,955	26,699
Net interest income	**50,982**	45,717	42,918
Provision for (reversal of) credit losses	**3,481**	(37)	86
Net interest income after provision for credit losses	**47,501**	45,754	42,832
Noninterest Income			
Patronage income from CoBank, ACB	**7,129**	6,843	6,503
Loan fees	**2,098**	876	830
Insurance services	**2,343**	2,134	2,778
Mineral income	**992**	1,845	2,261
Gains on other property owned	**–**	–	2,407
Other noninterest income	**581**	1,201	1,078
Total noninterest income	**13,143**	12,899	15,857
Noninterest Expense			
Salaries and employee benefits	**15,323**	13,512	18,674
Occupancy and equipment expense	**1,966**	1,611	2,165
Purchased services from AgVantis	**–**	2,333	3,413
Insurance fund premiums	**2,572**	1,762	1,603
Other operating expenses	**3,332**	7,989	4,309
Total noninterest expense	**23,193**	27,207	30,164
Income before income taxes	**37,451**	31,446	28,525
Provision for income taxes	**–**	237	69
Net income	**$37,451**	$31,209	$28,456
Comprehensive Income			
Actuarial (loss) gain in retirement obligation	**(195)**	7	(61)
Amortization of retirement costs	**16**	25	16
Change in cash flow hedge	**–**	–	(2)
Total comprehensive income	**$37,272**	$31,241	$28,409

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

Frontier Farm Credit, ACA

Consolidated Statement of Changes in Members' Equity

(Dollars in thousands)

	Protected Members' Equity	Accumulated Other Comprehensive (Loss) Income	At-Risk Capital		Total Members' Equity
	Capital Stock and Participation Certificates		Capital Stock	Retained Earnings	
Balance at December 31, 2013	$2	$(104)	$5,179	$306,958	$312,035
Net income				28,456	28,456
Patronage declared				(7,000)	(7,000)
Patronage accrual adjustment				2	2
Other comprehensive loss		(47)			(47)
Capital stock and participation certificates:					
Issued			409		409
Retired	(2)		(391)		(393)
Balance at December 31, 2014	–	(151)	5,197	328,416	333,462
Net income				31,209	31,209
Patronage declared				(7,500)	(7,500)
Patronage accrual adjustment				3	3
Other comprehensive income		32			32
Capital stock:					
Issued			361		361
Retired	–		(345)		(345)
Balance at December 31, 2015	–	(119)	5,213	352,128	357,222
Net income				**37,451**	**37,451**
Patronage declared				**(9,000)**	**(9,000)**
Patronage accrual adjustment				**4**	**4**
Other comprehensive loss		**(179)**			**(179)**
Capital stock:					
Issued			**1,388**		**1,388**
Retired	**–**		**(815)**		**(815)**
Balance at December 31, 2016	**$ –**	**$(298)**	**$5,786**	**$380,583**	**$386,071**

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

Frontier Farm Credit, ACA

Consolidated Statement of Cash Flows

(Dollars in thousands)

	Year Ended December 31,		
	2016	2015	2014
Cash Flows from Operating Activities:			
Net income	**$37,451**	$31,209	$28,456
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for (reversal of) credit losses	**3,481**	(37)	86
Decrease (increase) in stock patronage received from CoBank, ACB	**233**	(50)	(50)
Allocated patronage from AgVantis	**–**	–	(392)
Carrying value write-down on AgVantis allocated surplus	**–**	1,115	–
Gain on sales of other property owned	**–**	–	(2,418)
Loss (gain) on sales of premises and equipment	**839**	(152)	(81)
Carrying value write-down on premises and equipment	**–**	110	–
Depreciation on premises and equipment	**886**	1,020	1,127
Increase in accrued interest receivable	**(2,543)**	(1,960)	(1,157)
Decrease in accrued interest payable	**(402)**	(3,822)	(3,770)
Increase in prepaid benefit expense	**(593)**	–	–
(Increase) decrease in other assets	**(12,990)**	1,077	339
(Decrease) increase in accrued benefits liability	**(444)**	328	216
(Decrease) increase in other liabilities	**(68,768)**	38,627	16,079
Total adjustments	**(80,301)**	36,256	9,979
Net cash provided by operating activities	**(42,850)**	67,465	38,435
Cash Flows from Investing Activities:			
Increase in loans, net	**(63,441)**	(129,716)	(108,692)
Increase in investment in CoBank, ACB	**(4,510)**	(2,937)	(4,360)
Increase in investment in AgDirect, LLP	**(60)**	(278)	(150)
Purchases of premises and equipment, net	**(1,633)**	(102)	(142)
Proceeds from sales of other property owned	**–**	–	3,662
Proceeds from sales of premises and equipment	**1,751**	172	–
Net cash used in investing activities	**(67,893)**	(132,861)	(109,682)
Cash Flows from Financing Activities:			
Increase in notes payable, net	**112,991**	58,144	80,549
Protected capital stock retired	**–**	–	(2)
Capital stock issued	**1,388**	361	409
Capital stock retired	**(815)**	(345)	(391)
Patronage paid in cash	**(7,496)**	(6,997)	(6,998)
Net cash provided by financing activities	**106,068**	51,163	73,567
Net (decrease) increase in cash	**(4,675)**	(14,233)	2,320
Cash at beginning of year	**4,675**	18,908	16,588
Cash at end of year	**$ –**	$ 4,675	$18,908
Supplemental Schedule of Non-Cash Investing and Financing Activities:			
Cash patronage distribution declared	**$9,000**	$7,500	$7,000
Change in accumulated other comprehensive (loss) income	**$(179)**	$32	$(47)
Supplemental Cash Flow Information:			
Interest paid on notes payable	**$23,027**	$18,250	$30,469
Income taxes paid	**$356**	$84	$53

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

Note 1 – Organization and Operations

Farm Credit System and District

Farm Credit System Lending Institutions

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

Effective January 1, 2012, U.S. AgBank, FCB merged with and into CoBank, FCB, a wholly owned subsidiary of CoBank, ACB. As a result of the merger, CoBank, ACB became our funding bank beginning January 1, 2012.

CoBank, ACB, its related associations and AgVantis, Inc. (AgVantis) are collectively referred to as the District. CoBank, ACB 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, ACB. As of January 1, 2017, the CoBank District consisted of CoBank, ACB, 23 Agricultural Credit Associations (ACA), which each have two wholly owned subsidiaries, a Federal Land Credit Association (FLCA) and a Production Credit Association (PCA), one FLCA and AgVantis.

Federal Land Credit Associations are authorized to originate long-term real estate mortgage loans. Production Credit Associations are authorized to originate short-term and intermediate-term loans. Agricultural Credit Associations are authorized to originate long-term real estate mortgage loans, and short-term and intermediate-term loans either directly or through their subsidiaries. Associations are authorized to provide lease financing options for agricultural purposes and are also authorized to purchase and hold certain types of investments including mission-related investments.

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

Farm Credit System Regulator

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

Farm Credit Insurance Fund

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

At the discretion of the Farm Credit System Insurance Corporation, the Farm Credit Insurance Fund is also available to provide assistance to certain troubled Farm Credit System institutions and for the operating expenses of the Farm Credit System Insurance Corporation. Each Farm Credit System bank is required to pay premiums into the Farm Credit Insurance Fund until the assets in the Farm Credit Insurance Fund equal 2 percent of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. This percentage of aggregate obligations can be changed by the Farm Credit System Insurance Corporation, at its sole discretion, to a percentage it determines to be actuarially sound. The basis for assessing premiums is debt outstanding with adjustments made for nonaccrual loans and impaired investment securities, which are assessed a surcharge, while guaranteed loans and investment securities are deductions from the premium base. CoBank, ACB, in turn, assesses premiums to its related associations each year based on similar factors.

Association

Frontier Farm Credit, ACA and its subsidiaries, Frontier Farm Credit, FLCA, and Frontier Farm Credit, PCA, are lending institutions of the Farm Credit System. We are a member-owned cooperative providing credit and credit-related services to or for the benefit of eligible members for qualified agricultural purposes in the counties of Allen, Anderson, Atchison, Brown, Bourbon, Chase, Chautauqua, Cherokee, Clay, Coffey, Crawford, Dickinson, Doniphan, Douglas, Elk, Franklin, Geary, Greenwood, Jackson, Jefferson, Johnson, Labette, Leavenworth, Linn, Lyon, Marion, Marshall, Miami, Morris, Montgomery, Nemaha, Neosho, Osage, Pottawatomie, Riley, Shawnee, Wabaunsee, Washington, Wilson, Woodson and Wyandotte in the state of Kansas. We borrow from CoBank, ACB and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural

Frontier Farm Credit, ACA
Notes to Consolidated Financial Statements

home mortgage loans, and provides lease financing options in collaboration with Farm Credit Leasing Services and CoBank, ACB. The PCA makes short-term and intermediate-term loans for agricultural production or operating purposes, and provides lease financing options in collaboration with Farm Credit Leasing Services and CoBank, ACB. We offer risk management services, including credit life insurance, crop insurance, crop-hail insurance, estate planning, tax and recordkeeping services, and fee appraisals for borrowers and those eligible to borrow.

Relationship with Farm Credit Services of America

A strategic alliance between Frontier Farm Credit and Farm Credit Services of America (FCSAmerica) was implemented January 1, 2015. The alliance is designed to benefit the farmers and ranchers who own and support the two financial services cooperatives by ensuring that both Associations have the strength and capacity to serve agricultural customers' needs for years to come.

Frontier Farm Credit and FCSAmerica continue to exist as separate associations while integrating their day-to-day business operations, technology systems and leadership teams. Each Association continues to have its own Board, with representatives participating in a coordinating committee to facilitate Board governance between the two organizations.

Under the alliance agreement, Frontier Farm Credit and FCSAmerica have agreed to share current-year income and expenses based on the average total assets of each entity for the prior calendar year. Due to the transition period required to fully implement the alliance, the agreement specifies generally that pre-tax net income will be shared on fixed percentages of 94 percent for FCSAmerica and 6 percent for Frontier Farm Credit for 2015, and 93 percent for FCSAmerica and 7 percent for Frontier Farm Credit for 2016. For the year ending December 31, 2016, Frontier Farm Credit recorded $16.2 million of operating expenses under the income- and expense- sharing provisions of the alliance agreement primarily due to the salary and related expenses incurred by FCSAmerica for former Frontier Farm Credit employees added to the FCSAmerica payroll. The operating expenses recorded by Frontier Farm Credit were $10.4 million for the year ended December 31, 2015.

Frontier Farm Credit has $2 billion in assets and serves multiple counties in eastern Kansas. FCSAmerica has $26.4 billion in assets and serves the states of Iowa, Nebraska, South Dakota and Wyoming.

Note 2 – Summary of Significant Accounting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America and prevailing practices within the financial services industry.

Preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. We have reclassified certain amounts in prior years' financial statements to conform to current financial statement presentation. The consolidated financial statements present the consolidated financial results of Frontier Farm Credit, ACA (the parent) and Frontier Farm Credit, FLCA, and Frontier Farm Credit, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

The following are our significant accounting policies:

Loans

Mortgage loan terms range from 5-35 years at origination. Almost all commercial loans are made for agricultural production or operating purposes with original terms of 10 years or less.

Loans are carried at their principal amount outstanding net of any unearned income, cumulative charge-offs and unamortized premiums or discounts on purchased loans. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding.

We place loans in nonaccrual status when:

- principal or interest is delinquent for 90 days or more (unless the loan is well-secured and in the process of collection), or
- circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status, we reverse accrued interest to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment of the loan. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior charge-offs. Nonaccrual loans may be returned to accrual status when:

- principal and interest are current,
- prior charge-offs have been recovered,
- the ability of the borrower to fulfill the contractual repayment terms is fully expected, and
- the loan is not classified as doubtful or loss.

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

Loans are charged off at the time they are determined to be uncollectible.

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

Allowance for Loan Losses and Reserve for Unfunded Lending Commitments

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as:

- loan loss history,
- changes in credit risk classifications,
- changes in collateral values,
- changes in risk concentrations, and
- changes in economic and environmental conditions.

Loans in our portfolio that are considered impaired are analyzed individually to establish a specific allowance for impaired loans or are analyzed on a pool basis if they have similar risk characteristics. A loan is impaired when it is probable that all amounts due under the contractual terms of the loan agreement will not be collected. We measure impairment based on the net realizable value of the collateral. All risk loans are considered to be impaired loans. Risk loans include:

- nonaccrual loans,
- formally restructured loans, and
- loans that are 90 days or more past due and still accruing interest.

We record a specific allowance to reduce the carrying amount of the risk loan to the lower of book value or the net realizable value of collateral. When collection is unlikely, we charge the loan principal and prior year(s) accrued interest against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses.

An allowance is recorded for probable and estimable credit losses as of the financial statement date for loans that are not individually assessed as impaired.

Changes in the allowance for loan losses consist of provision activity, recorded as "Provision for (reversal of) credit losses" on the Consolidated Statement of Comprehensive Income, and charge-offs and recoveries.

The reserve for unfunded lending commitments is based on our best estimate of losses inherent in lending commitments made to customers but not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement were utilized in determining this contingency. Changes in the reserve for unfunded commitments consist of provision activity, recorded as "Provision for (reversal of) credit losses" on the Consolidated Statement of Comprehensive Income.

Investment in CoBank, ACB

Accounting for our investment in CoBank, ACB is on a cost plus allocated equities basis.

Investment in AgDirect, LLP

Accounting for the investment in AgDirect, LLP is on a cost basis.

Other Property Owned

We record other property owned, consisting of real and personal property acquired through a collection action, at fair value, less estimated selling costs at the time of acquisition. Revised estimates of the fair value, less estimated selling costs, are reported as adjustments to the carrying amount of the asset, provided that the adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations, carrying value adjustments and realized gains (losses) on sales are recorded as "Gains on other property owned" on the Consolidated Statement of Comprehensive Income.

Premises and Equipment

The carrying amount of premises and equipment is at cost, less accumulated depreciation. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets, which are normally 5-40 years for building and improvements, and 3-10 years for furniture and equipment. Gains and losses on premises and equipment dispositions are reflected in current-year income. Maintenance and repairs are included in operating expense, and improvements are capitalized.

Advance Conditional Payments

We are authorized under the Farm Credit Act to accept advance conditional payments from customers. We net the advance conditional payments against the customer's related loan balance to the extent the real estate customer's loan balance exceeds the advance payments. Under the strategic alliance with Farm Credit Services of America, we adopted their advance conditional payment system and programs in October 2015. Real estate funds

Frontier Farm Credit, ACA

Notes to Consolidated Financial Statements

held balances under the program totaled $0.9 million at December 31, 2016, and $15.1 million at December 31, 2015. The amount of commercial advance conditional payments accepted cannot exceed the commitment amount of the customer's note. We classify commercial advance conditional payments as "Other liabilities" on the Consolidated Balance Sheet since the limit on commercial advance conditional payments is based on note commitments. Commercial advance conditional payments under the program totaled $2.5 million at December 31, 2016, and $17.6 million at December 31, 2015.

Employee Benefit Plans

Our employees participate in a defined contribution plan and/or pension plan. Benefit plans are described in Note 9, "Employee Benefit Plans." In addition, we provide a retiree health-care benefit to employees who meet specific age and service requirements.

Income Taxes

The ACA and PCA accrue federal and state income taxes. Deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance. The expected future tax consequences of uncertain income tax positions are accrued.

The FLCA is exempt from federal and other taxes to the extent provided in the Farm Credit Act.

Patronage Program

We accrue patronage distributions as declared by the Board of Directors, normally in December of each year. We pay the accrued patronage during the first quarter of each subsequent year. Cash patronage distributions are referred to as cash-back dividends.

Statement of Cash Flows

For purposes of reporting cash flow, cash includes cash on hand and on deposit at commercial banks.

Other Comprehensive Income

Other comprehensive income refers to revenue, expenses, gains and losses that under generally accepted accounting principles are recorded as an element of shareholders' equity and comprehensive income but are excluded from net income. Accumulated other comprehensive (loss) income refers to the balance of these transactions. We record other comprehensive (loss) income associated with the liability under the Pension Restoration Plan.

Fair Value Measurement

The Financial Accounting Standards Board guidance on *Fair Value Measurements* 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 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:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, quoted prices that are not current or principal market information that is not released publicly;
- inputs that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and
- inputs derived principally from, or corroborated by, observable market data by correlation or other means.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect our own assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

We currently have no material financial statement items required to be accounted for within the consolidated financial statements at fair value.

Recently Issued or Adopted Accounting Pronouncements

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

Standard	Description	Effective Date and Financial Statement Impact
In June 2016, the Financial Accounting Standards Board issued ASU 2016-13 *Financial Instruments – Credit Losses.*	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021. Early adoption is permitted as of annual reporting periods beginning after December 15, 2018, including interim periods within those annual periods. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows and financial statement disclosures.
In February 2016, the Financial Accounting Standards Board issued ASU 2016-02 *Leases.*	The guidance modifies the recognition and accounting for lessees and lessors, and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2019, and interim periods the subsequent year. Early adoption is permitted, and modified retrospective adoption is required. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows and financial statement disclosures.
In January 2016, the Financial Accounting Standards Board issued ASU 2016-01 *Recognition and Measurement of Financial Assets and Financial Liabilities.*	The guidance is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments address certain aspects of recognition, measurement, presentation and disclosure of financial statements.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2018, and interim periods with annual periods beginning after December 15, 2019. Certain disclosure changes are permitted to be immediately adopted for annual reporting periods that have not yet been made available for issuance. Nonpublic entities are no longer required to include certain fair value of financial instruments disclosures as part of these disclosure changes. We have immediately adopted this guidance and have excluded such disclosures from our notes to consolidated financial statements. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2017, for other applicable sections of the guidance. We are currently evaluating the impact of the remaining guidance on our financial condition, results of operations, cash flows and financial statement disclosures.

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Standard	Description	Effective Date and Financial Statement Impact
In February 2015, the Financial Accounting Standards Board issued ASU 2015-02 *Consolidation: Amendments to the Consolidation Analysis.*	The guidance modifies the assessment of Variable Interest Entity characteristics as well as the assessment of related parties. Additional clarifying guidance was issued in October 2016 under ASU 2016-17 *Consolidation: Interests Held through Related Parties That Are under Common Control.*	The guidance is effective for nonpublic entities for annual reporting after December 15, 2016, and interim periods within annual periods beginning after December 15, 2017. Early adoption is allowed, including in any interim period. The adoption of this guidance did not have a material impact on our financial condition, results of operations, cash flows and financial statement disclosures.
In August 2014, the Financial Accounting Standards Board issued ASU 2014-15 *Presentation of Financial Statements-Going Concern.*	The guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt to continue as a going concern exists if it is probable that the entity will be unable to meet its obligations for the assessed period.	This guidance became effective for all entities for interim and annual periods ending after December 15, 2016. The adoption of this guidance did not have a material impact on our financial condition, results of operations, cash flows or financial statement disclosures.
In May 2014, the Financial Accounting Standards Board issued ASU 2014-09 *Revenue from Contracts with Customers.*	The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the Financial Accounting Standards Board are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. In March 2016, the Financial Accounting Standards Board issued ASUs 2016-08 and 2016-10, which provided further clarifying guidance on the previously issued standard. We are in the process of reviewing contracts to determine the effect, if any, on our financial condition and results of operations.

Note 3 – Loans and Allowance for Loan Losses

Loans, including participations purchased and nonaccruals, consisted of the following (in thousands):

	December 31,					
	2016		2015		2014	
	Amount	**Percentage**	Amount	Percentage	Amount	Percentage
Long-term agricultural mortgage	**$1,079,520**	**57.0%**	$1,042,482	56.8%	$1,062,841	62.4%
Production and intermediate term	**482,929**	**25.4**	516,541	28.2	457,218	26.8
Agribusiness	**217,413**	**11.4**	157,210	8.5	115,599	6.7
Rural residential real estate	**78,356**	**4.1**	74,476	4.1	7,846	0.5
Rural infrastructure	**30,513**	**1.6**	32,832	1.8	48,246	2.8
Agricultural export finance	**9,450**	**0.5**	11,480	0.6	13,361	0.8
Total loans	**$1,898,181**	**100.0%**	$1,835,021	100.0%	$1,705,111	100.0%

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We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume or comply with Farm Credit Administration regulations. The following table presents information regarding participations purchased and sold (participations purchased do not include syndications; amounts are in thousands):

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations		Participations		Participations	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
As of December 31, 2016						
Long-term agricultural mortgage	**$ 51,959**	**$11,632**	**$ –**	**$ –**	**$ 51,959**	**$11,632**
Production and intermediate term	**82,124**	**18,145**	**–**	**–**	**82,124**	**18,145**
Agribusiness	**208,128**	**18,914**	**14,363**	**–**	**222,491**	**18,914**
Rural infrastructure	**41,010**	**10,497**	**–**	**–**	**41,010**	**10,497**
Agricultural export finance	**9,450**	**–**	**–**	**–**	**9,450**	**–**
Total	**$392,671**	**$59,188**	**$14,363**	**$ –**	**$407,034**	**$59,188**
As of December 31, 2015						
Long-term agricultural mortgage	$ 49,910	$21,928	$ 2,191	$ –	$ 52,101	$21,928
Production and intermediate term	71,937	7,588	800	–	72,737	7,588
Agribusiness	179,404	32,074	13,046	–	192,450	32,074
Rural infrastructure	58,646	25,814	–	–	58,646	25,814
Agricultural export finance	20,653	9,173	–	–	20,653	9,173
Total	$380,550	$96,577	$16,037	$ –	$396,587	$96,577
As of December 31, 2014						
Long-term agricultural mortgage	$ 35,734	$ 28,570	$ –	$ –	$ 35,734	$ 28,570
Production and intermediate term	76,950	24,775	5,262	–	82,212	24,775
Agribusiness	153,595	78,611	12,903	–	166,498	78,611
Rural infrastructure	90,136	43,122	2,464	1,232	92,600	44,354
Agricultural export finance	24,982	11,621	–	–	24,982	11,621
Total	$381,397	$186,699	$20,629	$1,232	$402,026	$187,931

Participations purchased increased $10.4 million in 2016, while participations sold decreased by $37.4 million. The changes are primarily due to centralization of our Agribusiness Finance and Capital Markets teams under the alliance with FCSAmerica.

We have concentrations with individual borrowers within various agricultural commodities. At December 31, 2016, loans outstanding plus commitments to our 10 largest borrowers, net of participations sold, totaled an amount equal to 39 percent of members' equity. One single borrower's loans outstanding plus commitments exceeds 6 percent of members' equity. There are no other single borrower's loans outstanding plus commitments that exceed 5 percent of members' equity.

Our credit risk concentration in various agricultural commodities is shown in the following table. While the amounts represent our maximum potential credit risk related to recorded loan principal, a substantial portion of our lending activities is collateralized, which reduces our exposure to credit loss associated with lending activity. We include an estimate of our credit risk exposure in determining the allowance for loan losses. Agricultural concentrations were as follows:

	December 31,		
	2016	2015	2014
Grain	**39.1%**	42.4%	42.0%
Cow-calf	**18.2**	19.4	22.2
Landlords/investors	**8.9**	9.0	9.8
Beef feedlot	**6.6**	5.1	2.7
Forest products	**2.7**	1.6	0.9
Swine	**2.6**	3.0	3.3
Dairy	**1.7**	1.7	1.8
General livestock	**1.6**	2.6	1.2
Meat/proteins processing	**1.6**	1.7	0.8
Farm supply	**1.5**	0.9	0.8
Renewable fuels	**0.4**	0.2	0.3
Poultry	**0.3**	0.3	0.5
Other	**15.1**	12.1	13.7
Total	**100.0%**	100.0%	100.0%

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on our 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 a first lien on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property's appraised value. However, internal lending procedures require a more conservative loan-to-value ratio, which results in an average loan-to-value ratio in the real estate portfolio of less than 60 percent of current market values.

Risk loans (accruing loans include accrued interest receivable) are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. The following table presents information concerning the recorded investment in risk loans (in thousands):

	December 31,		
	2016	2015	2014
Nonaccrual loans:			
Current as to principal and interest	**$ 7,333**	$4,331	$3,667
Past due	**3,333**	1,366	651
Total nonaccrual loans	**10,666**	5,697	4,318
Impaired accrual loans:			
Restructured	**428**	502	302
90 days or more past due	**236**	–	–
Total risk loans	**$11,330**	$6,199	$4,620

Total risk loans have increased since the end of 2015. The increase in nonaccrual loans is primarily due to accounts in the horticulture, grain and livestock industries being classified as nonaccrual. There was also an increase in loans 90 days past due still accruing interest. It is our practice to transfer accruing loans that are past due 90 days or more into nonaccrual unless they are adequately secured and in the process of collection. Based on our analysis, loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection. Risk loans as a percentage of total loans remain at acceptable levels.

At December 31, 2016, there were approximately $0.3 million in commitments to lend additional funds to customers whose loans were at risk.

Interest income is recognized and cash payments are applied on nonaccrual loans as described in Note 2, "Summary of Significant Accounting Policies." The following table sets forth interest income recognized on risk loans (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Interest income recognized on nonaccrual loans	**$249**	$ 95	$171
Interest income on risk accrual loans	**43**	38	38
Interest income recognized on risk loans	**$292**	$133	$209

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Risk loans by loan type are as follows (accruing volume includes accrued interest receivable; amounts are in thousands):

	December 31,		
	2016	2015	2014
Nonaccrual loans:			
Long-term agricultural mortgage	**$ 5,445**	$4,270	$4,038
Production and intermediate term	**4,923**	1,034	149
Rural residential real estate	**298**	393	131
Total nonaccrual loans	**$10,666**	$5,697	$4,318
Accruing restructured loans:			
Long-term agricultural mortgage	**$ 137**	$ 206	$ 302
Rural residential real estate	**291**	296	–
Total accruing restructured loans	**$ 428**	$ 502	$ 302
Accruing loans 90 days or more past due:			
Production and intermediate term	**$ 236**	$ –	$ –
Total accruing loans 90 days or more past due	**$ 236**	$ –	$ –
Total risk loans	**$11,330**	$6,199	$4,620

All risk loans are considered to be impaired loans. The following table provides additional impaired loan information (in thousands):

	As of December 31, 2016			For the Period Ended December 31, 2016	
	Recorded Investment [1]	Unpaid Principal Balance [2]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Production and intermediate term	$3,326	$3,380	$1,906	$2,042	$ –
Total	$3,326	$3,380	$1,906	$2,042	$ –
Impaired loans with no related allowance for loan losses:					
Long-term agricultural mortgage	$5,588	$ 6,240	$ –	$5,758	$178
Production and intermediate term	1,826	4,121	–	1,124	98
Rural residential real estate	590	705	–	644	16
Total	$8,004	$11,066	$ –	$7,526	$292
Total impaired loans:					
Long-term agricultural mortgage	$ 5,588	$ 6,240	$ –	$5,758	$178
Production and intermediate term	5,152	7,501	1,906	3,166	98
Rural residential real estate	590	705	–	644	16
Total	$11,330	$14,446	$1,906	$9,568	$292

[1] The recorded investment in the 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 write-down of the investment.
[2] Unpaid principal balance represents the contractual principal balance of the loan.

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	As of December 31, 2015			For the Period Ended December 31, 2015	
	Recorded Investment [1]	Unpaid Principal Balance [2]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Long-term agricultural mortgage	$ –	$ –	$ –	$ –	$ –
Production and intermediate term	50	50	50	12	–
Total	$50	$50	$50	$12	$ –
Impaired loans with no related allowance for loan losses:					
Long-term agricultural mortgage	$4,475	$5,032	$ –	$4,731	$ 49
Production and intermediate term	984	3,134	–	934	82
Rural residential real estate	690	798	–	286	2
Total	$6,149	$8,964	$ –	$5,951	$133
Total impaired loans:					
Long-term agricultural mortgage	$4,475	$5,032	$ –	$4,731	$ 49
Production and intermediate term	1,034	3,184	50	946	82
Rural residential real estate	690	798	–	286	2
Total	$6,199	$9,014	$50	$5,963	$133

[1] *The recorded investment in the 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 write-down of the investment.*

[2] *Unpaid principal balance represents the contractual principal balance of the loan.*

	As of December 31, 2014			For the Period Ended December 31, 2014	
	Recorded Investment [1]	Unpaid Principal Balance [2]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Long-term agricultural mortgage	$ –	$ –	$ –	$ –	$ –
Production and intermediate term	–	–	–	–	–
Rural infrastructure	–	–	–	–	–
Total	$ –	$ –	$ –	$ –	$ –
Impaired loans with no related allowance for loan losses:					
Long-term agricultural mortgage	$4,340	$4,778	$ –	$4,554	$ 70
Production and intermediate term	149	2,384	–	271	118
Agribusiness	–	–	–	487	21
Rural residential real estate	131	133	–	55	–
Total	$4,620	$7,295	$ –	$5,367	$209
Total impaired loans:					
Long-term agricultural mortgage	$4,340	$4,778	$ –	$4,554	$ 70
Production and intermediate term	149	2,384	–	271	118
Agribusiness	–	–	–	487	21
Rural residential real estate	131	133	–	55	–
Total	$4,620	$7,295	$ –	$5,367	$209

[1] The recorded investment in the 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 write-down of the investment.
[2] Unpaid principal balance represents the contractual principal balance of the loan.

One credit quality indicator we utilize is the Farm Credit Administration Uniform 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.

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

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The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Classification System as a percentage of total loans and related accrued interest receivable by loan type:

	Acceptable	OAEM	Substandard/Doubtful
As of December 31, 2016			
Long-term agricultural mortgage	**91.53%**	**5.43%**	**3.04%**
Production and intermediate term	**86.76%**	**7.59%**	**5.65%**
Agribusiness	**99.20%**	**0.80%**	**–**
Rural residential real estate	**96.87%**	**1.01%**	**2.12%**
Rural infrastructure	**100.00%**	**–**	**–**
Agricultural export finance	**100.00%**	**–**	**–**
Total	**91.58%**	**5.16%**	**3.26%**
As of December 31, 2015			
Long-term agricultural mortgage	97.45%	1.38%	1.17%
Production and intermediate term	95.27%	2.48%	2.25%
Agribusiness	96.62%	3.38%	–
Rural residential real estate	98.09%	0.97%	0.94%
Rural infrastructure	88.49%	11.51%	–
Agricultural export finance	100.00%	–	–
Total	96.65%	2.02%	1.33%
As of December 31, 2014			
Long-term agricultural mortgage	97.92%	1.26%	0.82%
Production and intermediate term	97.63%	1.71%	0.66%
Agribusiness	99.71%	0.29%	–
Rural residential real estate	96.40%	1.94%	1.66%
Rural infrastructure	100.00%	–	–
Agricultural export finance	100.00%	–	–
Total	98.03%	1.27%	0.70%

The following table provides an aging analysis of past due loans by loan type (accruing volume includes accrued interest receivable; amounts are in thousands):

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	90 Days or More Past Due and Accruing
As of December 31, 2016						
Long-term agricultural mortgage	**$2,256**	**$ 67**	**$2,323**	**$1,092,350**	**$1,094,673**	**$ –**
Production and intermediate term	**2,322**	**2,452**	**4,774**	**485,934**	**490,708**	**236**
Agribusiness	**–**	**–**	**–**	**218,154**	**218,154**	**–**
Rural residential real estate	**41**	**131**	**172**	**78,373**	**78,545**	**–**
Rural infrastructure	**–**	**–**	**–**	**30,571**	**30,571**	**–**
Agricultural export finance	**–**	**–**	**–**	**9,466**	**9,466**	**–**
Total	**$4,619**	**$2,650**	**$7,269**	**$1,914,848**	**$1,922,117**	**$236**
As of December 31, 2015						
Long-term agricultural mortgage	$1,125	$ 84	$1,209	$1,055,446	$1,056,655	$ –
Production and intermediate term	871	147	1,018	516,275	517,293	–
Agribusiness	–	–	–	163,284	163,284	–
Rural residential real estate	330	–	330	74,397	74,727	–
Rural infrastructure	–	–	–	32,892	32,892	–
Agricultural export finance	–	–	–	11,563	11,563	–
Total	$2,326	$231	$2,557	$1,853,857	$1,856,414	$ –
As of December 31, 2014						
Long-term agricultural mortgage	$365	$413	$ 778	$1,075,417	$1,076,195	$ –
Production and intermediate term	229	69	298	462,522	462,820	–
Agribusiness	–	–	–	115,942	115,942	–
Rural residential real estate	–	–	–	7,872	7,872	–
Rural infrastructure	–	–	–	48,281	48,281	–
Agricultural export finance	–	–	–	13,434	13,434	–
Total	$594	$482	$1,076	$1,723,468	$1,724,544	$ –

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A restructuring of a loan constitutes a troubled debt restructuring 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. Concessions vary by program and borrower, and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. As a restructured loan constitutes a troubled debt restructuring, these loans are included within our risk loans. All risk loans are analyzed within our allowance for loan losses. There were no troubled debt restructurings during the years ended December 31, 2016, and 2015. The following table presents information regarding troubled debt restructurings that occurred during the year ended December 31 (in thousands):

	2014	
	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Long-term agricultural mortgage	$2,469	$2,469

Premodification represents the recorded investment just prior to restructuring, and postmodification represents the recorded investment immediately following the restructuring. The recorded investment is the face amount of the 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 investment.

There were no troubled debt restructurings that occurred within the previous 12 months and for which there was a subsequent payment default during 2016, 2015 or 2014.

Troubled debt restructurings outstanding at December 31, 2016, totaled $2.5 million, of which $2.1 million were in nonaccrual status, compared to $3.1 million at December 31, 2015, of which $2.6 million were in nonaccrual status, and $3.1 million at December 31, 2014, of which $2.8 million were in nonaccrual status. Additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring were $1 thousand at December 31, 2016.

The "Provision for (reversal of) credit losses" on the Consolidated Statement of Comprehensive Income includes a provision for (reversal of) loan losses and a provision for unfunded lending commitments. A summary of changes in the allowance for loan losses and reserve for unfunded lending commitments follows (in thousands):

	December 31,		
Allowance for Loan Losses	**2016**	2015	2014
Balance at beginning of year	**$4,300**	$4,943	$5,004
Provision for (reversal of) loan losses	**3,481**	(837)	86
Loans charged off	**(452)**	(79)	(252)
Recoveries	**171**	273	105
Balance at end of year	**$7,500**	$4,300	$4,943

	December 31,		
Reserve for Unfunded Lending Commitments	**2016**	2015	2014
Balance at beginning of year	**$800**	$ –	$ –
Provision for unfunded lending commitments	**–**	800	–
Balance at end of year	**$800**	$800	$ –

A summary of changes in the allowance for loan losses and period-end recorded investments in loans by loan type is as follows (in thousands):

	Balance at December 31, 2015	**Loan Recoveries**	**Loan Charge-Offs**	**Provision for (Reversal of) Loan Losses**	**Balance at December 31, 2016**
Long-term agricultural mortgage	$2,114	**$ 5**	**$ (13)**	**$1,280**	**$3,386**
Production and intermediate term	1,225	**165**	**(438)**	**2,391**	**3,343**
Agribusiness	506	**–**	**–**	**(13)**	**493**
Rural residential real estate	134	**–**	**–**	**2**	**136**
Rural infrastructure	305	**–**	**–**	**(175)**	**130**
Agricultural export finance	16	**–**	**–**	**(4)**	**12**
Total	$4,300	**$170**	**$(451)**	**$3,481**	**$7,500**

	Balance at December 31, 2014	Loan Recoveries	Loan Charge-Offs	(Reversal of) Provision for Loan Losses	Balance at December 31, 2015
Long-term agricultural mortgage	$2,186	$ –	$ (3)	$ (69)	$2,114
Production and intermediate term	2,223	273	(76)	(1,195)	1,225
Agribusiness	405	–	–	101	506
Rural residential real estate	3	–	–	131	134
Rural infrastructure	119	–	–	186	305
Agricultural export finance	7	–	–	9	16
Total	$4,943	$273	$(79)	$(837)	$4,300

	Balance at December 31, 2013	Loan Recoveries	Loan Charge-Offs	Provision for (Reversal of) Loan Losses	Balance at December 31, 2014
Long-term agricultural mortgage	$1,968	$ –	$ (84)	$302	$2,186
Production and intermediate term	2,316	105	(168)	(30)	2,223
Agribusiness	622	–	–	(217)	405
Rural residential real estate	2	–	–	1	3
Rural infrastructure	90	–	–	29	119
Agricultural export finance	6	–	–	1	7
Total	$5,004	$105	$(252)	$ 86	$4,943

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	Allowance for Credit Losses Ending Balance at December 31, 2016		Recorded Investments 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**
Long-term agricultural mortgage	**$ –**	**$3,386**	**$ –**	**$1,094,673**
Production and intermediate term	**1,906**	**1,437**	**3,326**	**487,382**
Agribusiness	**–**	**493**	**–**	**218,154**
Rural residential real estate	**–**	**136**	**–**	**78,545**
Rural infrastructure	**–**	**130**	**–**	**30,571**
Agricultural export finance	**–**	**12**	**–**	**9,466**
Total	**$1,906**	**$5,594**	**$3,326**	**$1,918,791**

	Allowance for Credit Losses Ending Balance at December 31, 2015		Recorded Investments 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
Long-term agricultural mortgage	$ –	$2,114	$4,475	$1,052,180
Production and intermediate term	50	1,175	1,034	516,259
Agribusiness	–	506	–	163,284
Rural residential real estate	–	134	690	74,037
Rural infrastructure	–	305	–	32,892
Agricultural export finance	–	16	–	11,563
Total	$50	$4,250	$6,199	$1,850,215

	Allowance for Credit Losses Ending Balance at December 31, 2014		Recorded Investments 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
Long-term agricultural mortgage	$ –	$2,186	$4,340	$1,071,855
Production and intermediate term	–	2,223	149	462,671
Agribusiness	–	405	–	115,942
Rural residential real estate	–	3	131	7,741
Rural infrastructure	–	119	–	48,281
Agricultural export finance	–	7	–	13,434
Total	$ –	$4,943	$4,620	$1,719,924

Our adversely classified assets increased during 2016, ending the year at 3.3 percent of the portfolio compared to 1.3 percent of the portfolio at December 31, 2015. Adversely classified assets are assets we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

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

We recorded a $3.5 million provision for credit losses for 2016 compared to a $0.04 million (reversal of) provision for credit losses for 2015. The provision for credit losses includes the provision for loan losses and the provision for unfunded lending commitments. The increase in the allowance for loan losses is primarily due to an increase in the allowance for the grain, beef feedlot and horticulture industries. The reserve for unfunded lending commitments balance at December 31, 2016, was the same as the balance at December 31, 2015. The reserve for unfunded lending commitments is based on our best estimate of losses inherent in lending commitments made to customers but not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement were utilized in determining this contingency.

We recorded net recoveries of charge-offs of $0.3 million in 2016 ((0.02) percent of average loans). We recorded net recoveries of charge-offs of $0.2 million in 2015 ((0.01) percent of average loans) and net charge-offs of $0.1 million in 2014 (0.01 percent of average loans).

In 2016 we terminated our Standby Commitment to Purchase Agreements with the Federal Agricultural Mortgage Corporation. Termination fees were not material to the Consolidated Statement of Comprehensive Income.

Note 4 – Investment in CoBank, ACB

We are required to invest in the capital stock of CoBank, ACB as a condition for maintaining a readily available source of funds. The minimum required investment is 4 percent of our prior year's average direct loan volume. The investment in CoBank, ACB comprises patronage-based stock and purchased stock. The requirement for capitalizing our patronage-based participation loans sold to CoBank, ACB is 8 percent of our prior 10-year average of such participations sold to CoBank, ACB. Under the current CoBank, ACB capital plan applicable to such participations sold, patronage from CoBank, ACB related to these participations sold is paid 75 percent cash and 25 percent Class A stock. The capital plan is evaluated annually by CoBank ACB's Board of Directors and management, and is subject to change.

At December 31, 2016, our investment in CoBank, ACB is in the form of Class A stock with a par value of $100 per share.

CoBank, ACB may require the holders of its equities to subscribe for 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, ACB shall take into account the financial condition of each such holder and such other considerations, as it deems appropriate.

Note 5 – Investment in AgDirect, LLP

We participate in the AgDirect trade credit financing program, which includes origination and refinancing of agricultural equipment loans through independent equipment dealers. The program is facilitated by FCSAmerica through a limited liability partnership in which we are a partial owner. Our investment in AgDirect, LLP was $4.9 million at December 31, 2016, $4.8 million at December 31, 2015, and $4.6 million at December 31, 2014. The LLP is an unincorporated business entity.

Note 6 – Premises and Equipment

Premises and equipment consisted of the following (in thousands):

	December 31,		
	2016	2015	2014
Land, buildings and improvements	**$21,473**	$23,265	$23,266
Furniture and equipment	**2,348**	3,958	4,460
	23,821	27,223	27,726
Less accumulated depreciation	**4,768**	6,327	5,782
Premises and equipment, net	**$19,053**	$20,896	$21,944

Frontier Farm Credit, ACA

Notes to Consolidated Financial Statements

Note 7 – Notes Payable

Our notes payable to CoBank, ACB represents borrowings to fund our loan portfolio. This notes payable is collateralized by a pledge of substantially all of our assets and is governed by a General Financing Agreement (GFA), which provides for a revolving line of credit of $1.9 billion effective January 1, 2017. The GFA and promissory note are subject to periodic renewals in the normal course of business. The GFA matures on May 31, 2018, and we expect renewal at that time. We were in compliance with the terms and conditions of the GFA as of December 31, 2016. Substantially all borrower loans are match-funded with CoBank, ACB. Payments and disbursements are made on the notes payable to CoBank, ACB on the same basis as we collect payments from and disburse on borrower loans. The interest rate may periodically be adjusted by CoBank, ACB based on the terms and conditions of the borrowing. The weighted average interest rate was 1.73 percent for the year ended December 31, 2016, compared with 1.69 percent for the year ended December 31, 2015, and 1.89 percent at December 31, 2014.

The consolidated notes payable balance is presented in the following table (in thousands):

	December 31,		
	2016	2015	2014
Notes payable to CoBank, ACB	**$1,616,091**	$1,503,100	$1,444,956

Under the Farm Credit Act, we are obligated to borrow only from CoBank, ACB unless CoBank, ACB approves borrowing from other funding sources. CoBank, ACB, consistent with Farm Credit Administration regulations, has established limitations on our ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2016, we were within the specified limitations.

Note 8 – Members' Equity

A description of our capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities follows.

Capital Stock and Participation Certificates

In accordance with the Farm Credit Act of 1971, as amended, each borrower is required to invest in us as a condition of obtaining a loan. Our capitalization bylaws require a customer to invest in capital stock equal to $1,000 or 2 percent of the amount of the loan, whichever is less. Our Board of Directors may increase the amount of investment, if necessary, to meet capital needs. The Board of Directors approved a change to the member stock program effective October 10, 2016. Under the new program, the stock requirement for loan customers will generally be $1,000 and stock is issued to each loan co-maker. Non-loan customers purchasing financially related services from the Association continue to purchase one $5 share of stock. All stock is funded with a non-interest–bearing obligation that will be due only in the unlikely event that the Association does not meet regulatory capital requirements. Loan co-makers who do not currently own stock will acquire stock when a new loan is originated or a loan servicing action takes place.

Stock for most loan customers was previously funded with loan proceeds. The conversion to the new stock program resulted in a transfer of $4.9 million from loans to the new non-interest–bearing obligation. The non-interest–bearing obligation is included in "Other assets" on the Consolidated Balance Sheet. Discontinuing the accrual of interest for acquisition of stock is not expected to have a material impact on the Consolidated Statement of Comprehensive Income for the Association.

We retain a first lien on the stock or participation certificates owned by customers. Retirement of 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 or participation certificates.

Each customer purchasing capital stock is entitled to one vote as a stockholder regardless of the number of shares held. The customer acquires ownership of the capital stock at the time the loan is made.

Regulatory Capitalization Requirements and Restrictions

The Farm Credit Administration's capital adequacy regulations require us to accumulate and maintain permanent capital of at least 7 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the 7 percent capital requirement can initiate certain mandatory and possibly additional discretionary actions by the Farm Credit Administration that, if undertaken, could have a direct material effect on our consolidated financial statements. We are prohibited from reducing permanent capital by retiring stock or making certain other distributions to stockholders unless the prescribed permanent capital standards are met and maintained. Farm Credit Administration regulations also require that additional minimum standards for capital be achieved. These standards require all Farm Credit System institutions to achieve and maintain ratios of total surplus as a percentage of risk-adjusted assets of 7 percent and of core surplus (generally retained earnings less investment in CoBank, ACB) as a percentage of risk-adjusted assets of 3.5 percent.

At December 31, 2016, our regulatory capital ratios were:

- 15.94 percent for permanent capital,
- 15.68 percent for total surplus, and
- 15.68 percent for core surplus.

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

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

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

A Farm Credit Administration regulation empowers it to direct a transfer of funds or equities by one or more Farm Credit System institutions to another institution of the Farm Credit System under specified circumstances. We have not been called upon to initiate any transfers and are not aware of any proposed action under this regulation.

Description of Equities

The following table presents information regarding the classes and number of shares of stock outstanding as of December 31, 2016. All shares are at-risk and have a par or stated value of $5 per share.

	Shares Outstanding
Class B common stock	1,132,309
Class C common stock	24,765

Our bylaws authorize us to issue an unlimited number of shares of Class B common stock and Class C common stock with a par or face value of $5 per share.

Class B common stock is voting and is issued solely to a farmer, rancher, or producer or harvester of aquatic products. Class C common stock has no voting rights and is issued to customers to capitalize rural home and farm-related business loans or to become eligible for financial services. Class B common stock and Class C common stock may be retired at the discretion of the Board of Directors, at book value not to exceed par, provided we meet minimum capital adequacy standards under Farm Credit Administration regulations.

Subject to our policies, Class B and Class C common stock are transferable to any person eligible to hold the respective class of stock. Class B common stock and Class C common stock cannot be transferred when we do not meet capital adequacy standards under Farm Credit Administration regulations.

At any time within two years after the loan of a customer is repaid in full, any voting stock held by the customer is converted to nonvoting stock. The nonvoting stock may be converted back to voting stock if the owner of the stock borrows additional funds.

As determined by the Board of Directors, we may declare dividends in stock, cash or any combination, provided we meet capital adequacy standards under Farm Credit Administration regulations and no stock is impaired. In the event we would liquidate or dissolve, any assets remaining after payment or retirement of all liabilities would be distributed to the holders of stock in the following order of priority:

- first, to the holders of common stock and participation certificates, equally and pro rata in proportion to the number of shares or units of common stock and participation certificates issued and outstanding, until an amount equal to the aggregate par value of all common stock and participation certificates has been distributed;
- second, to the holders of allocated surplus pro rata, on the basis of oldest allocations first, until an amount equal to the total account has been distributed; and
- third, any remaining assets would be distributed among current and former stockholders in the proportion which the aggregate patronage of each stockholder bears to the total patronage of all current and former stockholders, to the extent practicable and as determined by the Board unless otherwise provided by law.

Patronage Distributions

Subject to the Farm Credit Act and Farm Credit Administration regulations, and provided that at the time of declaration no class of stock is impaired, patronage distributions may be declared and paid in amounts determined by the Board of Directors. Patronage distributions may be paid in any class of stock that the recipient is eligible to hold, in allocated surplus, in cash, in qualified or nonqualified notices of allocation, or in any combination, and must be paid on an equitable and nondiscriminatory basis as determined by the Board of Directors.

The Board of Directors declared cash patronage distributions, referred to as cash-back dividends, of $9 million in 2016, $7.5 million in 2015 and $7 million in 2014.

Frontier Farm Credit, ACA

Notes to Consolidated Financial Statements

We are prohibited from distributing earnings on a patronage basis to the extent they would reduce our permanent capital ratio below the Farm Credit Administration's minimum permanent capital adequacy requirements. We do not foresee any events that would result in this prohibition in 2017.

Note 9 – Employee Benefit Plans

We participate in the benefits plans administered by Farm Credit Foundations, a service corporation for Farm Credit System entities. The Farm Credit Foundations Plan Sponsor and Trust Committees provide governance and oversight for the benefit plans. The governance committees are either elected or appointed representatives (senior leadership or Board of Director members) from the participating organizations. The Plan Sponsor Committee is responsible for decisions regarding benefits at the direction of the participating employers. The Trust Committee is responsible for fiduciary and plan administration functions. The Association has senior officers who serve on both committees.

Under the alliance agreement described in Note 1, "Organization and Operations," the 2016 benefits expense of $45.6 million was shared between Frontier Farm Credit and FCSAmerica on a 7 percent and 93 percent basis respectively, which excluded any Frontier Farm Credit pension plans expense in excess of FCSAmerica's retirement programs. In addition, Frontier Farm Credit's net pension plans expense was $1.3 million for 2016. The employee benefits expense is included in "Salaries and employee benefits" on the Consolidated Statement of Comprehensive Income.

Defined Contribution Plan and Nonqualified Deferred Compensation Plan

We participate in the Farm Credit Foundations Defined Contribution/401(k) Plan for benefits-eligible employees. The plan is a qualified plan up to the limits provided under the Internal Revenue Code.

For employees who do not participate in the Qualified Pension Plan, Frontier Farm Credit matches the employee's contributions dollar for dollar up to a maximum of 6 percent of the employee's compensation on both pre-tax and post-tax contributions. In addition, Frontier Farm Credit contributes a fixed 3 percent of the employee's compensation to the plan. For employees who participate in the Qualified Pension Plan, Frontier Farm Credit matches the employee's contributions dollar for dollar up to 2 percent of the employee's compensation and 50 percent of the employee's contributions above 2 percent and up to and including 6 percent of the employee's compensation, on both pre-tax and post-tax contributions.

The Farm Credit Foundations Nonqualified Deferred Compensation Plan serves two purposes. The plan provides for employer matching or fixed contributions that exceed the Internal Revenue Code limits of the Defined Contribution Plan. In addition, eligible employees may defer a portion of their base salary, variable pay and other compensation into this plan. Under the plan, eligible participants include the Chief Executive Officer and other employees who meet certain compensation thresholds as determined by the Internal Revenue Code.

Pre-409A Frozen Nonqualified Deferred Compensation Plan

We also participate in the Farm Credit Foundations Pre-409A Frozen Nonqualified Deferred Compensation Plan. This plan serves the same purposes as the Nonqualified Deferred Compensation Plan. However, the plan was frozen effective January 1, 2007. As such, no additional participants are eligible to enter the plan and no additional employer contributions are made to the plan.

Qualified Pension Plan

We participate in the Ninth Farm Credit District Pension Plan for certain eligible employees hired prior to January 1, 2007. The plan is a noncontributory, qualified defined benefit 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 (ERISA), as amended. 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. As a multiemployer plan, the assets, liabilities and costs of the plan are not segregated by participating employers. 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 Frontier Farm Credit chooses to stop participating in the plan, we may be required to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Because of the multiemployer 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 plan reflects an unfunded liability totaling $95 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 and fair value of the multiemployer plan assets as of December 31 follows (in millions):

	2016	2015	2014
Projected benefit obligation	**$270.6**	$244.3	$242.1
Fair value of plan assets	**$175.6**	$155.1	$152.3

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 participating 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. Costs and contributions for the multiemployer plan as of December 31 follow (in millions):

	2016	2015	2014
Total plan expenses for all participating employers	**$11.3**	$16.1	$12.9
Association's allocated share of plan expenses included in "Salaries and employee benefits"	**$1.3**	$1.8	$2.6
Total plan contributions for all participating employers	**$20.4**	$13.6	$11.1
Association's allocated share of plan contributions	**$2.3**	$1.5	$1.3

While the plan is a governmental plan and is not subject to minimum funding requirements, the participating 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 million. Frontier Farm Credit's allocated share of these pension contributions is expected to be $2.1 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.

Benefits are based on compensation and years of service. In general, the plan provides participants with a 50 percent joint-and-survivor annuity benefit at normal retirement that is equal to 1.50 percent of average monthly compensation during the 60 consecutive months in which an individual receives his or her highest compensation (High 60) multiplied by the employee's years of benefit service, plus 0.25 percent 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 other than a 50 percent 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 participant's earliest unreduced retirement age. The plan pays benefits up to the applicable limits under the Internal Revenue Code.

Nonqualified Pension Restoration Plan

We participate in the Ninth District Pension Restoration Plan that is a nonqualified, unfunded retirement plan. This plan provides retirement benefits above the Internal Revenue Code compensation limit to certain former highly compensated eligible employees. Benefits payable under this plan are offset by the benefits payable from the Qualified Pension Plan.

The plan reflects an unfunded liability totaling $759 thousand at December 31, 2016. The funding status reflects the net fair value of the plan assets and the projected benefit obligation at the date of these consolidated financial statements. The plan is not funded so the fair value of plan assets is zero.

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 data based on assumed future compensation levels. The projected benefit obligation of the plan was $759 thousand at December 31, 2016, $550 thousand at December 31, 2015, and $522 thousand at December 31, 2014.

The plan expenses included in "Salaries and employee benefits" was $31 thousand in 2016, $60 thousand in 2015, and $48 thousand in 2014. See the Consolidated Statements of Comprehensive Income and Changes in Members' Equity for the impact of net actuarial gains (losses). Assumptions utilized for the plan were consistent with the Qualified Pension Plan. Benefits payouts are expected to be $256 thousand annually in 2017-2019 and then zero thereafter.

Retiree Health Care

We participate in the Farm Credit Foundations Retiree Medical Plan. The plan benefits are provided to retired employees who meet certain age and service requirements. 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. The related expense is not considered material to our financial position.

Frontier Farm Credit, ACA

Notes to Consolidated Financial Statements

Note 10 – Income Taxes

Our provision for income taxes follows (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Current:			
Federal	**$ –**	$188	$57
State	**–**	49	12
Total current	**$ –**	$237	$69
Deferred:			
Federal	**$(735)**	$270	$76
State	**(172)**	63	18
Increase (decrease) in valuation allowance	**907**	(333)	(94)
Total deferred	**–**	–	–
Provision for income taxes	**$ –**	$237	$69

The decrease in provision for income taxes for 2016 is primarily due to a decrease in taxable income for our taxable subsidiary.

The following table calculates the differences between the provision for income taxes and income taxes at the statutory rates (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Federal tax at statutory rate	**$12,742**	$11,005	$9,699
State tax, net	**–**	103	8
Tax effect of:			
Exempt FLCA earnings	**(11,253)**	(9,093)	(8,429)
Deferred tax valuation allowance	**907**	(333)	(83)
Patronage distribution	**(2,349)**	(1,401)	(1,119)
Other	**(47)**	(44)	(7)
Provision for income taxes	**$ –**	$ 237	$ 69

The following table provides the components of deferred tax assets and liabilities (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Allowance for loan losses	**$1,321**	$505	$836
Nonaccrual loan interest	**127**	156	155
CoBank, ACB patronage allocation	**(722)**	(626)	(623)
Prepaid pension expense	**216**	–	–
Deferred tax asset	**942**	35	368
Deferred tax asset valuation allowance	**(942)**	(35)	(368)
Net deferred tax asset	**$ –**	$ –	$ –

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

Deferred tax assets were fully offset by a valuation allowance for all years presented. We will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

Our income tax returns are subject to review by various United States taxing authorities. We record accruals for items that we believe may be challenged by these taxing authorities. However, we had no uncertain income tax positions at December 31, 2016. In addition, we believe we are no longer subject to income tax examinations for years prior to 2013.

Note 11 – Related Party Transactions

In the ordinary course of business, we may enter into loan transactions with our directors, senior officers, employees and other organizations with whom such persons may be associated. These loans are subject to special approval requirements contained in the Farm Credit Administration regulations and/or our policy, and are made on the same terms, including interest rates and collateral, as those prevailing at that time for comparable transactions with unrelated customers. Total loans to these persons at December 31, 2016, amounted to $16.6 million compared to $17.7 million at December 31, 2015, and $15.7 million at December 31, 2014. The related parties can be different each year-end primarily due to changes in the composition of the Board of Directors and the mix of organizations with which such person may be associated. In our opinion, loans outstanding to directors and senior officers at December 31, 2016, did not involve more than a normal risk of collectability.

Prior to conversion to FCSAmerica technology systems, we purchased technology services from AgVantis. Expenses for AgVantis services were $2.3 million in 2015 and $3.4 million in 2014.

We purchase human resource information systems and benefit and payroll services from Farm Credit Foundations. The Farm Credit System entities using Farm Credit Foundations' services contributed an investment into the service corporation when it was formed as a separate service corporation. Our investment was $21 thousand for all years presented. The total cost of services purchased from Farm Credit Foundations was $94 thousand in 2016, $105 thousand in 2015 and $219 thousand in 2014.

Note 12 – Commitments and Contingencies

In the normal course of business, we have various outstanding commitments and contingent liabilities, such as commitments to extend credit, which are not reflected in the consolidated financial statements. Commitments to extend credit are agreements to lend to a customer 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. Since some of the commitments may expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis using the same credit policies as for on-balance-sheet financial instruments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on our credit evaluation of the counterparty. Collateral held upon exercise of commitments varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing property. We had remaining commitments for additional borrowing at December 31, 2016, of approximately $479 million.

We also participate in standby letters of credit to satisfy the financing needs of customers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2016, $3.5 million of standby letters of credit were outstanding. Outstanding standby letters of credit have expiration dates ranging to 2022. The maximum potential amount of future payments we are required to make under the guarantees is equal to the total amount of the letters of credit outstanding.

Actions are pending against us in which claims for money damages are asserted. In our opinion, based on current information, the ultimate liability, if any, would not have a material impact on our financial position.

Note 13 – Fair Value Measurements

The Financial Accounting Standards Board guidance on *Fair Value Measurements and Disclosures* 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 guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. See Note 2, "Summary of Significant Accounting Policies," for a more complete description of the three input levels.

We do not have any material assets or liabilities measured at fair value on a recurring basis. We may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis. The following tables provide information on assets measured at fair value on a nonrecurring basis (in thousands):

As of December 31, 2016	**Fair Value Measurement Using**			**Total Fair Value**	**Total Losses**
	Level 1	**Level 2**	**Level 3**		
Loans	**–**	**–**	**$1,419**	**$1,419**	**$1,856**

As of December 31, 2015	Fair Value Measurement Using			Total Fair Value	Total Losses
	Level 1	Level 2	Level 3		
Loans	–	–	–	–	$50

As of December 31, 2014	Fair Value Measurement Using			Total Fair Value	Total (Gains)
	Level 1	Level 2	Level 3		
Loans	–	–	$60	$60	$(87)

The amount of loans in the previous tables represents the fair value of certain loans that were evaluated for impairment based on the estimated appraised value of the underlying 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 our 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 collateral, less estimated costs to sell, is less than the carrying value of the loan, a specific reserve is established.

Note 14 – Subsequent Events

We have evaluated subsequent events through March 2, 2017, which is the date the consolidated financial statements were available to be issued. There have been no material subsequent events that would require recognition in our 2016 consolidated financial statements or disclosures in the "Notes to Consolidated Financial Statements."

Frontier Farm Credit, ACA

Disclosure Information

Required by Farm Credit Administration Regulations (Unaudited)

Description of Business

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

The description of significant developments that had, or could have, a material impact on earnings, interest rates to customers, acquisitions or dispositions of material assets, and material changes in the manner of conducting the business, if any, required to be disclosed in this section are incorporated herein by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this annual report to stockholders.

Description of Property

Our corporate office is located in Manhattan, Kansas, and is owned. The locations of our retail offices are incorporated herein by reference to the last page of this annual report to stockholders. All retail office locations are owned.

The Manhattan office at 2009 Vanesta Place was remodeled in 2016 to accommodate the retail team. Construction of a new retail office in Emporia began in 2016 with completion anticipated in 2017.

Legal Proceedings

Information required to be disclosed in this section is incorporated herein by reference from Note 12 to the consolidated financial statements, "Commitments and Contingencies," included in this annual report to stockholders.

Description of Capital Structure

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

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 consolidated financial statements, "Notes Payable," included in this annual report to stockholders.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Note 12 to the consolidated financial statements, "Commitments and Contingencies," included in this annual report to stockholders.

Customer Privacy

Customer privacy is important to us. We hold customer financial and other personal information in strict confidence. We do not sell or trade customers' personal information to marketing companies or information brokers for their use. By Farm Credit Administration regulations, we are required to provide a list of current stockholders to any stockholder who requests such information for defined purposes. Additional information regarding this Farm Credit Administration rule governing the disclosure of customer information can be obtained by contacting the Farm Credit Administration or our Legal team at PO Box 2409, Omaha, NE 68103-2409.

Financial and Supervisory Relationship with the Association's Funding Bank

Information required to be disclosed in this section is incorporated herein by reference from the "Relationship with CoBank, ACB" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" and from Note 7 to the consolidated financial statements, "Notes Payable."

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 "Consolidated Five-Year Summary of Selected Financial Data" included in this annual report to stockholders.

Management's Discussion and Analysis of Financial Condition and Results of Operations

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in this annual report to stockholders and is required to be disclosed in this section, is incorporated herein by reference.

Directors and Compensation of Directors

The listing of directors, term of office, business experience during the past five years, principal occupation and employment during the past five years, and any other business interests, which are required to be disclosed in this section, are incorporated herein by reference from the "Frontier Farm Credit, ACA Directors" section in this annual report to stockholders.

Our bylaws permit compensation of directors for service on the Board. Compensation is provided for attendance at Board and committee meetings, special assignments, training and development, and travel time associated with these responsibilities. Per diem for 2016 was $500. Monthly retainers for 2016 were $2,300 for the Board Chairperson, $2,000 for the Board Vice-Chairperson and Committee Chairpersons, and $1,800 for all other directors. An additional $200 per month is included in the monthly retainer for a director who serves as a Board Vice-Chairperson and a Committee Chairperson.

Compensation information for each director who served in 2016 follows:

Director	2016 Committee Chaired	Board Days	Other Days	Committee Compensation**	Total 2016 Compensation
Kathy Brick*	Audit	8.5	24.0	$1,500	**$40,250**
Mike Collinge		7.0	24.5	$1,750	**$37,350**
Ronald Dunbar		8.5	19.5	$1,500	**$35,600**
Jim Feldkamp***	Governance	2.0	9.0	$250	**$11,500**
Bill Fleming		8.5	21.5	$1,250	**$37,400**
Jennifer Gehrt*	Human Capital	8.5	25.5	$1,750	**$41,000**
Alan Hess*	Governance	8.5	30.5	$1,250	**$42,700**
Larry Hoobler		8.5	23.5	$1,750	**$37,600**
William Miller, Board Chairperson		8.5	38.0	–	**$50,850**
Lee Mueller		8.5	25.5	$1,250	**$38,600**
Steve Powers*	Business Risk	8.5	22.5	$1,250	**$38,700**
Mark Wulfkuhle, Board Vice-Chairperson		8.5	34.0	$1,500	**$45,250**
				Total Compensation	**$456,800**

** Denotes committee chair.*
*** All directors, except the Board Chairperson, serve as members of the four Board committees. Committee compensation is included in total compensation.*
**** Board term ended March 31, 2016.*

Total compensation is rounded to the nearest dollar and includes retainers and all per diems paid in 2016.

Frontier Farm Credit, ACA

Disclosure Information

Required by Farm Credit Administration Regulations (Unaudited)

Compensation of CEO and Senior Officers

The CEO and senior officers as of December 31, 2016, are shown below. The CEO and senior officers provide joint management for Frontier Farm Credit (Association) and Farm Credit Services of America (FCSAmerica).

Name	Current Position	Date Started in Current Position	Previous Position(s) During Past Five Years
Douglas Stark	President and CEO	March 2005	–
Robert Campbell	Senior Vice President	April 1999	–
Scott Coziahr	Senior Vice President – General Counsel	February 2006	–
Frank W. (Bill) Davis	Senior Vice President – Chief Credit Officer	July 2005	–
Ann Finkner	Senior Vice President – Chief Administrative Officer	July 2005	–
James M. (Mark) Jensen	Senior Vice President – Chief Risk Officer	September 2013	Senior Vice President – Enterprise Risk Management
Anthony Jesina	Senior Vice President – Related Services	June 2015	Vice President – Country Home Loans
Kenneth Keegan	Executive Vice President	August 2013	Executive Vice President – Chief Risk Officer; Senior Vice President – Chief Risk Officer
Craig Kinnison	Senior Vice President – Chief Financial Officer	November 2006	–
Jim Knuth	Senior Vice President	September 2001	–
Timothy Koch	Senior Vice President – Specialized Lending	June 2015	Vice President – Agribusiness Credit
David Martin	Senior Vice President – Chief Strategy Officer	December 2008	–
James Roberge	Senior Vice President – Commercial Lending	March 2012	CoBank – Regional Manager, Minneapolis Banking Center
Robert Schmidt	Senior Vice President	May 1999	–

Other business interests of senior officers are shown below.

Name	Other Business Interests
Scott Coziahr	• Managing member of JDI Properties, LLC, a residential real estate management company.
Ann Finkner	• Board of Directors and Plan Sponsor Committee, Farm Credit Foundations, a provider of benefits and payroll services for Farm Credit System organizations. • Board of Directors, Institute for Career Advancement Needs, a non-profit organization focusing on professional and personal leadership development. • Partner, Jane Doughs Investment Club, a group owning publicly traded investments.
Kenneth Keegan	• Board of Directors, The Durham Museum, a non-profit regional learning and cultural center organization.
Craig Kinnison	• Trust Committee, Farm Credit Foundations, a provider of benefits and payroll services for Farm Credit System organizations. • Board of Directors, Food Bank for the Heartland, a non-profit organization that distributes emergency and supplemental food to people in Nebraska and western Iowa.
David Martin	• Board of Directors, Release Ministries, a non-profit organization supporting youth in the juvenile justice system. • President of DCM Ventures, LLC, a residential real estate company. • President of DCM Properties, LLC, a residential real estate company.
Robert Schmidt	• Board of Governors, South Dakota State University Foundation, a non-profit organization supporting private funding for the university. • Board of Directors, South Dakota Corn Growers Association, a commodity group representing South Dakota corn producers.

Compensation Overview: The Association's compensation programs are market-based and designed to provide competitive compensation, including base salary, incentives and benefits that attract, retain, motivate and reward an engaged and talented workforce while achieving business results aligned with the best interests of our shareholders.

The design and governance of our CEO and senior officer compensation program are consistent with prudent risk management standards and provide total compensation that promotes our mission to ensure a safe, sound and dependable source of credit and related services for agriculture and rural America. The design of the compensation program supports our risk management goals and includes (1) a competitive mix of base salary and variable pay, (2) a balanced use of variable pay performance measures that are risk-adjusted where appropriate, (3) a pay-for-performance process that allocates individual awards based on individual performance and contributions, and (4) a long-term portion of variable pay to align with the strategic direction of the Association, provide for competitive market-based compensation and align with shareholder interests.

Compensation for the CEO and senior officers includes base salary, short-term incentive plan opportunity and long-term incentive plan opportunity. Compensation for all other employees includes base salary and short-term incentive plan opportunity. The CEO and senior officers participate in benefit plans generally available to all employees. Under the alliance agreement described in Note 1, "Organization and Operations," the 2016 compensation and benefits expense for the CEO, senior officers, and all Association and FCSAmerica employees was shared between the Association and FCSAmerica on a 7 percent and 93 percent basis respectively, excluding any Association pension plans expense in excess of the FCSAmerica retirement programs. There were no senior officers under the Association pension plans in 2016 or 2015.

As of January 1, 2015, the CEO is employed pursuant to an employment agreement through December 31, 2019. The agreement provides specified compensation and related benefits in the event his employment is terminated, except for termination for cause or voluntary termination without notice. The employment agreement also provides certain limited payments upon death or disability. To receive payments and other benefits under the agreement, the CEO must sign a separation agreement and release of all legal claims against the Association that relate to his employment with the Association. The agreement also provides for noncompetition by the CEO for two years following termination of employment.

Frontier Farm Credit, ACA

Disclosure Information

Required by Farm Credit Administration Regulations (Unaudited)

Base Salaries: Base salaries for all employees, including the CEO and senior officers, are determined based upon position, experience and responsibilities, performance and market-based compensation data. The CEO base salary is reviewed and approved by the Board of Directors. The Board of Directors approves the merit and market-adjustment pools available for senior officers' base salaries. Employer expense for base salaries is included in "Salaries and employee benefits" on the Consolidated Statement of Comprehensive Income, which was shared by the Association and FCSAmerica as part of the overall allocation of salaries and benefits.

Short-Term Incentive: The Board of Directors approves the annual short-term incentive plan, including the performance measures. The 2016 short-term incentive plan performance measures included combined results for the Association and FCSAmerica. The senior officers participate in the annual short-term incentive plan along with the other eligible Association employees. Select employees must sign an assignment, nonsolicitation and nondisclosure agreement to participate in the short-term incentive plan. Payouts under the short-term incentive plan are based on financial and business results, select initiatives and credit performance measures, and are approved by the Board of Directors. Payouts are not provided unless specific levels of performance are achieved. No more than one-half of the short-term incentive-plan award opportunity may be paid in the fourth quarter of the plan year (first award payout), and the remainder of the award payout (final award payout) is paid no later than March 15 after the end of the plan year. The first award payout is based on the results achieved as of September 30 for select performance measures. The final award payout is based upon the year-end results net of the first award payout. The first payout under the 2016 short-term incentive plan occurred in November 2016. The second and final payout occurred in February 2017 and was net of the November 2016 payout.

The CEO's short-term incentive opportunity is established by the Board of Directors. The Board has full discretion as to the amount of any payout to the CEO under the short-term incentive plan and has historically and for 2016 used the results from the short-term incentive plan to determine the payout amount.

The expense for the annual short-term incentive plan was $24.6 million for 2016, which was shared by the Association and FCSAmerica as part of the overall allocation of salaries and benefits.

Long-Term Incentive: The CEO and senior officers are eligible for long-term senior officer incentive plans. The long-term incentive plans were approved by the Board of Directors to align CEO and senior officer compensation with the strategic business plan and the goals of the Association while providing the opportunity for competitive market-based compensation at a level that will attract, retain and reward key staff for the accomplishment of Association goals. The CEO and senior officers must sign an assignment, nonsolicitation and nondisclosure agreement to participate. The plans are nonqualified performance unit plans that are effective January 1, 2014, through December 31, 2016; January 1, 2015, through December 31, 2017; and January 1, 2016, through December 31, 2018.

The plans have independent performance goals measured over the three-year term of the plans that include core return on assets, customer experience index, employee engagement, adverse assets to risk funds and nonaccrual loans to total classified assets. The 2016 and 2015 results included in the plans were combined results for the Association and FCSAmerica. Payments are made no later than March 15 after the end of each three-year plan's term. The Board of Directors approves the total dollars available for the long-term incentive plans, which are then converted into units. The value of each unit is determined by the results achieved toward the established goals.

The CEO has discretion as to the distribution of the units to the senior officers for each three-year plan, which is based on consideration of market compensation and individual contributions and performance. The CEO's long-term incentive opportunity is established by the Board of Directors. The Board has full discretion as to the amount of any payout to the CEO under the long-term incentive plan and has historically used the results from the long-term senior officer incentive plan to determine the unit value for the payout amount.

A liability and salary and benefits expense of $2.7 million was recorded in 2016 for the long-term incentive plans. The expense was shared by the Association and FCSAmerica as part of the overall allocation of salaries and benefits. The payout for the 2014-2016 plan occurred in February 2017 and is reflected in the Summary Compensation Table in the "Long-Term Incentive" column for the calendar year 2016. The payout for the 2013-2015 plan was paid in the first quarter of 2016 and is reflected in the Summary Compensation Table in the "Long-Term Incentive" column for the calendar year 2015.

Disclosure Information

Required by Farm Credit Administration Regulations (Unaudited)

The following Summary Compensation Table includes compensation paid to the CEO and the senior officers during fiscal years 2016, 2015 and 2014.

Name of CEO	Year	Salary [2]	Short-Term Incentive [3]	Long-Term Incentive [4]	Deferred [5]	Other [6]	Total
Douglas Stark, CEO	**2016 [7]**	**$660,000**	**$288,618**	**$410,700**	**$217,694**	**$14,131**	**$1,591,143**
Douglas Stark, CEO	2015 [7]	$635,000	$289,920	$381,700	$204,451	$9,839	$1,520,910
Douglas Hofbauer, CEO	2014	$318,750	$106,144	–	$40,657	$28,740	$494,291

Aggregate No. of Sr. Officers in Year Excluding CEO [1]	Year	Salary [2]	Short-Term Incentive [3]	Long-Term Incentive [4]	Deferred [5]	Other [6]	Total
13	**2016 [7]**	**$3,544,555**	**$1,776,409**	**$1,776,688**	**$922,340**	**$192,466**	**$8,212,458**
15	2015 [7]	$3,714,420	$1,946,555	$1,523,747	$1,123,728	$133,456	$8,441,906
6	2014	$1,004,831	$280,768	–	$9,919	$1,351,278	$2,646,796

[1] The number includes employees designated as senior officers during the fiscal year. The 2016 number does not include a senior officer who retired on January 4, 2016. The 2015 number includes a senior officer who retired in 2015 plus the addition of two senior officers and the former Frontier Farm Credit CEO, who was a senior officer during the year.

[2] Salary includes base salaries paid in the fiscal year. For the 2016 senior officer disclosure, the number includes an amount for a senior officer who retired in 2016.

[3] Short-term incentive earned in the fiscal year.

[4] Incentive earned at the end of the respective three-year long-term incentive plan. For 2016, the total includes a prorated amount for a senior officer who retired in 2015. For 2015, only 12 of the 15 senior officers participated in the long-term incentive.

[5] The amounts represent the Association's contributions to the Defined Contribution Plan and Nonqualified Deferred Compensation Plan. For 2016, the number includes an amount for a senior officer who retired in 2016. For 2014, the amounts include the Association's contributions to the Defined Contribution Plan, health incentives and any changes in the value of pension benefits. 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 9 to the consolidated financial statements, "Employee Benefit Plans."

[6] The amounts represent executive physicals, sign-on bonus, special recognition bonus, retirement gift, taxable moving expense, vacation leave payout, recognition and referral awards, health and fitness account payouts, health incentives, taxable vehicle use, long-term disability premiums and group life insurance imputed income. For 2016, the number includes amounts for a senior officer who retired in 2016.

[7] For 2016, the Association paid 7 percent and FCSAmerica paid 93 percent of the compensation expense. For 2015, the Association paid 6 percent and FCSAmerica paid 94 percent of the compensation expense.

Disclosure of the total compensation paid during 2016 to any senior officer included in the Summary Compensation Table is available to stockholders upon written request to Frontier Farm Credit, PO Box 2409, Omaha, NE 68103-2409.

Details of the benefit plans are described in Note 9 to the consolidated financial statements, "Employee Benefit Plans."

Travel, Subsistence and Other Related Expenses

Director reimbursements for travel, subsistence and other related expenses are set forth in the Board's Governance Guidelines. The policy regarding employee reimbursements is set forth in the Human Resources Manual. Each provides authority for and control over reimbursement of travel and subsistence expenses for authorized individuals traveling on official business. Copies of the related Governance Guidelines and Human Resources Manual provisions are available to our stockholders upon written request to Frontier Farm Credit, PO Box 2409, Omaha, NE 68103-2409.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all our directors was $119 thousand in 2016, $129 thousand in 2015 and $216 thousand in 2014.

Transactions with Directors, Senior Officers and Employees

Directors and certain employees may obtain loans from us, provided they meet all eligibility requirements and provided that such loans are made on the same terms available to other customers. Approval of CoBank, ACB is required for loans to our directors and employees, and for loans to any customer if a director or employee is to receive more than $50 thousand of the loan proceeds, has a significant personal interest in the loan or its security, may exercise control over the customer, or guarantees or cosigns a loan in excess of $50 thousand. Further, directors and employees are required to refrain from taking any part in the consideration or decision on any loan in which they or their relatives have an interest.

Frontier Farm Credit, ACA

Disclosure Information

Required by Farm Credit Administration Regulations (Unaudited)

Our bylaws and policies require that directors' loans be maintained at a high level of credit quality. Any director whose loan is classified "substandard" must prepare and obtain approval of a plan to improve and upgrade the loan within a specified period of time. For directors, failure to comply with our bylaws and policies would result in the director's position being vacated. Directors whose loans are classified "doubtful" or "loss," or have any portion of a loan charged off, must resign immediately.

The Farm Credit Act and Farm Credit Administration regulations require certain disclosures to stockholders concerning loans to directors and employees, their relatives, organizations with which they are affiliated or entities that they may control. Disclosure is required where such loans were made on terms other than those available to other customers, or where such loans are considered to have more than a normal risk of collectability. None of our loans made to directors or employees, their relatives, affiliated organizations or entities they may control were made on terms other than those available to all customers, nor were any such loans considered to have more than a normal risk of collectability.

Director, senior officer and employee nonloan transactions with us are regulated by our policy.

Concerning property that was mortgaged or pledged as security for Farm Credit System debt within the preceding 12 months, the policy requires that senior officers and employees obtain approval from the Standards of Conduct officer for purchase of the property.

Concerning property acquired within the preceding 12 months in satisfaction of Farm Credit System debt, this policy:

- prohibits lease, purchase or acquisition except through inheritance by senior officers and employees; and
- prohibits lease, purchase or acquisition except through inheritance, public auction or other open competitive bidding process by directors.

The policy does permit directors, senior officers and employees to purchase furniture and equipment owned by us provided that any item having a value of greater than $5 thousand must be purchased through an open competitive bidding process.

The Farm Credit Act and Farm Credit Administration regulations also require certain disclosures to stockholders concerning nonloan transactions a director or senior officer, or any of his or her relatives, affiliated organizations or entities he or she may control have with us. Such disclosure is required if such transactions did not involve competitive bidding, involved amounts in excess of $5 thousand or provided a special benefit to the director or senior officer. No such transactions took place during 2016.

Involvement in Certain Legal Proceedings

There were no material legal proceedings or enforcement actions involving Frontier Farm Credit, our directors or senior officers that require disclosure in this section.

Relationship with Qualified Public Accountant

PricewaterhouseCoopers LLP serves as our qualified public accountant. There were no changes in our qualified public accountant since the prior annual report to stockholders, and there were no material disagreements on any matter of accounting principles or financial statement disclosures during this period. Expenses recognized in the 2016 consolidated financial statements for services provided by PricewaterhouseCoopers LLP were approved by the Board Audit Committee and include $76 thousand for audit services.

Financial Statements

The "Consolidated Financial Statements," "Notes to Consolidated Financial Statements," "Report of Management," "Report on Internal Control Over Financial Reporting," "Report of Audit Committee" and "Independent Auditor's Report" required to be disclosed in this section are incorporated herein by reference from this annual report to stockholders.

Credit and Services to Young, Beginning and Small Producers

We have specific programs in place to serve the credit and related needs of young, beginning and small producers in our territory. Programs focus on providing sound financial services, education and networking opportunities. The definitions of young, beginning and small producers follow:

Definitions

- Young – producers age 35 and under.
- Beginning – producers with 10 years or less of production agriculture as their primary source of income.
- Small – producers who generate less than $250,000 in annual gross sales of agricultural products.

Disclosure Information

Required by Farm Credit Administration Regulations (Unaudited)

Program Elements

Our program for serving young, beginning and small producers includes the following:

Conventional Loans: Producers age 35 and under, or with 10 years or less of farming or ranching experience, may have sufficient capacity, credit history or financial backing to meet our traditional loan approval standards.

AgStart Loans: Producers age 35 and under, or with 10 years or less experience, can benefit from modified credit approval standards to help them get started. The goal is to graduate participating producers from the AgStart program into conventional product offerings over time.

Development Fund: This new program, which was made available to customers in 2016, is designed to assist young, beginning and small producers who are beginning, growing or enhancing an agriculturally based operation by providing them with needed working capital loans and business planning assistance.

Youth in Agriculture Loans for Breeding Livestock: The Breeding Livestock loan program for youth provides loans for terms of 1-5 years, up to $10,205 including stock, for the purpose of purchasing breeding livestock. These loans require a cosigner of legal age and are approved based on the strength and credit scores of the cosigner.

Education and Finance Sponsorships: We provide donations and sponsor state and local FFA activities and conventions, state 4-H activities and conventions, and agricultural leadership programs.

College Scholarships: In 2016, we offered six $2,500 scholarships to qualified students studying agriculture at land-grant universities within our territory.

Small Producer Financing: Small producers are served primarily through three loan programs: Country Home Loans®, AgDirect® and the full line of products and services offered through our retail marketplaces. All of these programs are designed to meet the needs of small producers, part-time farmers or rural residents with a convenient and efficient delivery of financial services. Small producers who also meet the definition of young or beginning are eligible for the young and beginning program.

Credit Underwriting Standards

Young and beginning producers who do not meet traditional credit standards are considered under an outreach loan program called AgStart. Through this program, applicants' requests are analyzed and assessed based primarily on character and capacity credit factors. Farm Service Agency guarantees are used as deemed necessary, with additional support provided by our payment of the first $2,500 of external fees. As of December 31, 2016, AgStart customers account for 200 loans to 145 customers with an outstanding commitment of $22.1 million.

Results and Goals

As of December 31, 2016, we had 3,871 unique young, beginning and small customers, with total loan volume of $628 million. These include:

- 674 customers who qualify as young, with total loan volume of $120 million.
- 967 customers who qualify as beginning, with total loan volume of $152 million.
- 3,602 customers who qualify as small, with total loan volume of $561 million.

Young and Beginning Segment: In our territory, the young and beginning definitions result in 3,267 producers age 35 and under and 6,866 producers with 10 years or less of production experience, according to the 2012 United States Department of Agriculture Census of Agriculture. The 2012 data is the most recent census data available. As of December 31, 2016, we had 674 young customers and 967 beginning customers, some of whom are counted in both categories. This equates to a young market share of 21 percent and a beginning market share of 14 percent. Total loan volume to young and beginning customers was $206 million.

Small Producer Segment: According to 2012 United States Department of Agriculture Census of Agriculture data, 26,658 farms representing 90.5 percent of all farms in our territory meet the definition of small (less than $250,000 in annual gross sales of agricultural products). The 2012 United States Department of Agriculture Census of Agriculture includes any operation with farm income in its definition of a farm. In the census data, 14,308 operations have gross farm income of less than $10,000. We believe that farm income in these operations is incidental to total income and that our services are likely not needed or may not even be eligible under the Farm Credit Administration regulations.

Frontier Farm Credit, ACA

Disclosure Information

Required by Farm Credit Administration Regulations (Unaudited)

	Potential Customers*	Frontier Farm Credit Customers	Market Share***
Young	1,766	674	38.16%
Beginning	3,021	967	32.01%
Small**	6,631	3,602	54.32%

** 2012 United States Department of Agriculture Census of Agriculture data of farms with debt.*

*** Potential customers in the small category are those who reported annual gross sales between $10,000 and $249,999.*

**** Market share was computed by comparing the number of producers in the young, beginning or small categories maintaining a loan relationship with Frontier Farm Credit to the total number of producers with debt in those categories.*

	Young, Beginning and Small Producer New Customer Growth		
	2017 Goals	2018 Goals	2019 Goals
Young	60	65	75
Beginning	75	85	95
Small	65	75	85

Special Program Goal (AgStart): This program goal will positively affect all three young, beginning and small categories. Use of this outreach loan program is seen as a critical component of long-term success in the marketplace.

The Association's goal is to increase AgStart loan commitments by 8-12 percent annually.

Related Services

Young and Beginning Producer Conference: In 2015, Frontier Farm Credit began jointly hosting an annual conference for young and beginning producers with FCSAmerica. The Side by Side Conference was held in Omaha, Nebraska, on August 3-5, 2016. Including customers from FCSAmerica, there were 230 young and beginning producers in attendance at this conference.

Producers benefited from the opportunity to network with one another, learn from the speakers, and learn more about Frontier Farm Credit. The conference provided benefits by creating an opportunity for participants to become better-informed business managers and by building customer loyalty.

Education and Finance Sponsorships: We awarded $15,000 in college scholarships in 2016. In addition, the Association donated funds for state and local FFA and 4-H activities, as well as provided additional funding and resources for young and beginning producer education, leadership development programs and local scholarships.

Awareness

Young and Beginning Team: We maintain a standing cross-functional team that meets periodically to monitor, review and modify our young and beginning program to most effectively meet the needs of the segment and the goals of the organization. The team continues to periodically rotate members as a way to bring new, innovative ideas to the team.

Frontier Farm Credit Retail Office Locations

1270 N. 300 Road
Baldwin City, KS 66006

2009 Vanesta Place
Manhattan, KS 66505

1221 E. 12th Avenue
Emporia, KS 66801

835 Pony Express Highway
Marysville, KS 66508

2219 Natchez Street
Hiawatha, KS 66434

2005 Harding Drive
Parsons, KS 67357

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800-397-3191 // frontierfarmcredit.com

Frontier Farm Credit strives to be environmentally conscious. If you would like to receive an additional copy of our 2016 annual report, please contact us at 1-800-397-3191.

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