2016 Annual Report

EMBRACING OPPORTUNITIES

Cultivating Potential

EST. 1916

AgSouth Farm Credit, ACA

In Memoriam

A. HARVEY LEMMON

In this report, we recognize Mr. Harvey Lemmon, who served as a member of the Board of Directors for 37 years and passed away in January 2017. We are thankful for Mr. Lemmon's dedication to the Association, its Board and Members and for his unwavering support and leadership in the Georgia cattle industry.

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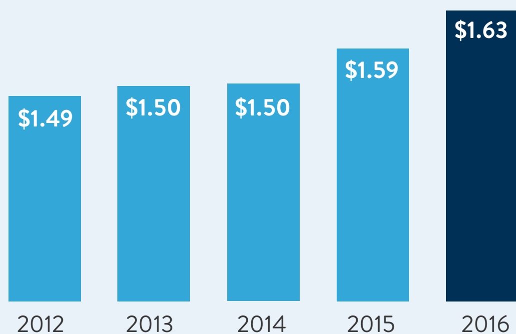
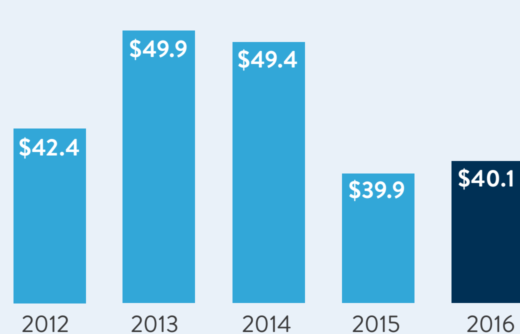
Message from our CEO

PAT CALHOUN
Chief Executive Officer

On behalf of the Board, management and staff of AgSouth Farm Credit, I am pleased to present your 2016 Annual Report. Thanks to you, our member borrowers, 2016 was another year of strong performance. Net earnings of your cooperative were more than $40.1 million. Gross loan volume, which includes loans and participations, grew approximately 5 percent, and member equity approached $339 million. As a result of these strong operating results, and in keeping with the cooperative principles that guide your Association, your Board has for the 29th consecutive year declared a patronage refund from 2016 operations. Approximately $28.5 million of 2016 earnings were designated for this important cooperative purpose. This year's patronage represents an increase of nearly $2 million over the distribution declared in 2015. These tangible distributions not only help at home and on the farm, but they turn over several times in the rural communities we serve.

2016 was a year marked by at least two highlights for AgSouth. First, we celebrated a century of service to our members. President Woodrow Wilson signed the Federal Farm Loan Act on July 17, 1916, creating the Farm Credit System. AgSouth is still fulfilling our mission of serving agriculture and rural communities across Georgia and South Carolina after 100 years. Your Association marked this centennial celebration through community service efforts by our employees during our "100 Days of Giving" program. We engaged with the communities we serve through educational workshops, by increasing the awareness of the Farm Credit brand and the benefits of our cooperative structure, and through various customer functions across our branch network.





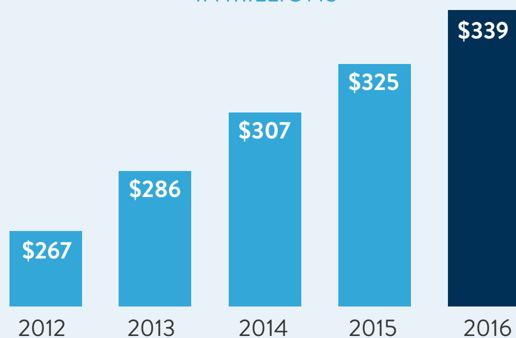
The second highlight for AgSouth was that 2016 was a year of transition. After more than a quarter of a century of service, longtime CEO Bill Spigener announced his retirement. The Board conducted a search for his replacement and I was selected as his successor, effective September 1, 2016. I am appreciative of the opportunity to serve you and to lead your Association. Van McCall, Director of Education and Outreach, and Ronnie Summers, South Carolina Regional President, both with more than 35 years of service and members of the Senior Management Team, announced retirements as well. The experience and contributions of these leaders will be missed. As a part of our transition, we have had great success in finding capable, experienced staff members to take up the mantle of leadership and move the Association forward into our next century.

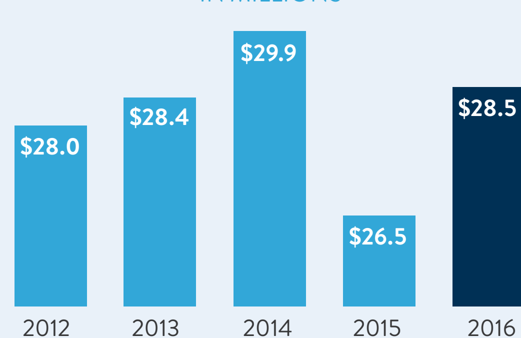
2016 brought trials as well as strong results. Lower commodity prices, coupled with extreme weather events in certain areas of our territory contributed to challenges for many operators in our footprint. Our team has worked hard to meet the increased needs of these customers, and we realize that 2017 has the potential to be challenging as well. I can report that your cooperative is postured and prepared to weather the storm — literally as well as figuratively. Our staff stands ready to help in good times and in bad. It's our mission and we take it seriously.

Our theme for 2017 is "Embracing Opportunities, Cultivating Potential," and it aligns well with my vision for AgSouth. You will see this theme throughout this report and around the Association in 2017. We intend to embrace the opportunities we have to serve, improve and grow. We will serve you and our communities. We will improve processes and services. We will grow our business. We will also cultivate, or nurture, potential wherever we find it. From working with young, beginning and small farmers to making sure we have a well trained and equipped staff, we are committed to finding potential and developing it.

Finally, I want to thank you for your business. You, our valued customers, are the reason AgSouth Farm Credit exists and continues to be successful. Whether it's a loan, a residential mortgage, crop insurance or one of our leasing products, we strive to meet you where you are and to deliver top notch products and services. Please continue to choose AgSouth to help meet your needs. We will do our best each and every day to continue to earn your business and put our profits in your pockets!

Pat Calhoun
Chief Executive Officer





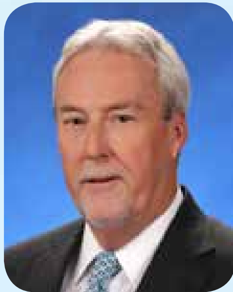
Leadership Team

AgSouth Farm Credit is led by a team of senior management and directors with a passion for agriculture and decades of financial and agricultural experience. The average tenure of our senior management team is more than 23 years. Our directors include seasoned ag professionals who are also AgSouth customer-owners together with three outside professionals elected by the board. You can count on them to make sound decisions to help lead agriculture and rural America into a bright future.

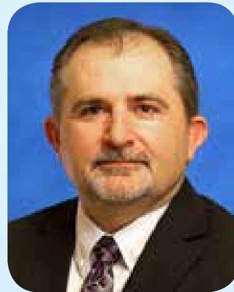
SENIOR MANAGEMENT

Pat Calhoun
Chief Executive Officer
28 years of service

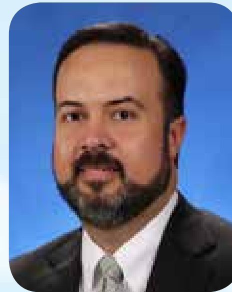
Alisa D. Gunter
Chief Financial Officer
35 years of service



Craig Peebles
Chief Lending Officer
35 years of service



Stacy Anderson
Chief Credit Officer
13 years of service



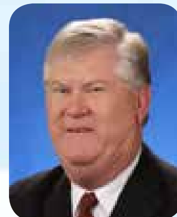
Wes Sutton
General Counsel
15 years of service

Theron Anderson
Director of Secondary Market & Related Services
25 years of service

Debbie Sikes
Chief Compliance and Risk Officer
15 years of service

SPECIAL ACKNOWLEDGEMENTS

William P. Spigener
Chief Executive Officer
29 years of service
(Retiring 3-31-17)



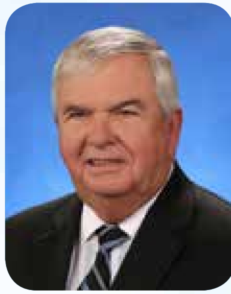
Ronald Summers
SC Divisional President
35 years of service
(Retired 12-31-16)

Van McCall
Education, Outreach and Special Programs Manager
36 years of service
(Retired 12-31-16)

Owen Smith
Association Credit Trainer
38 years of service
(Retiring 12-31-17)

BOARD OF DIRECTORS

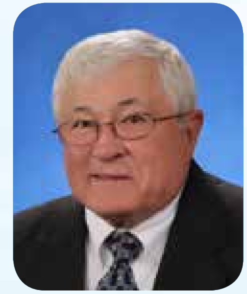
William T. Robinson
Chairman
Elected to Board 2011
5 years of service



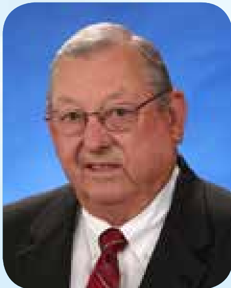
James "Jimmy" C. Carter, Jr.
Vice Chairman
Elected to Board 1979
37 years of service

H. Frank Ables, Jr.
Elected to Board 2015
1 year of service

Arthur Q. Black
Elected to Board 1995
21 years of service



Thomas H. Coward
Elected to Board 1986
30 years of service

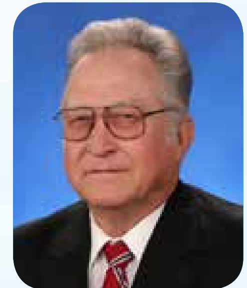


Loy D. Cowart
Elected to Board 1968
48 years of service

Lee H. DeLoach
Elected to Board 2002
14 years of service

Walter W. Douglas
Elected to Board 2012
4 years of service

Phillip E. Love, Jr.
Elected to Board 2014
2 years of service

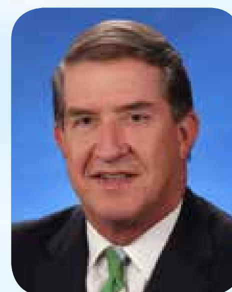


Jimmy B. Metts
Elected to Board 1978
38 years of service

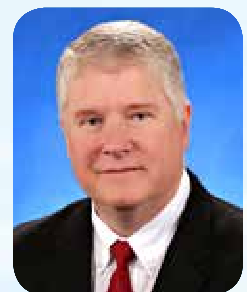
Jerome G. Parker
Elected to Board 1987
29 years of service J.

Jay Peay
Elected to Board 2015
1 year of service

Charles C. Rucks
Elected to Board 1988
28 years of service



Hugh E. Weathers
Elected to Board 1998
18 years of service



David H. Womack
Elected to Board 1991
24 years of service

Embracing Opportunities

At AgSouth, we are dedicated to helping you embrace opportunities — from expanding your farm to buying your dream home in the country.

We are proud to be one of the largest and most successful agricultural cooperatives in the Southeast, but we realize that it is our members — nearly 10,000 of you — who are our true success. When you're successful in your business, it leads to success within your cooperative and the communities in which you live and do business.

Your Board of Directors and management make sure your cooperative operates to ensure your success so you can continue to embrace the life you want to live. We do that by keeping our rates competitive, paying a healthy patronage return, revolving allocated surplus on a timely basis, and educating the public and new farmers about agriculture.

PATRONAGE

A big part of helping you embrace opportunities lies in our unique patronage program. Because we are a cooperative, AgSouth Farm Credit is able to share our profits directly with our members. For you, that means cash back in your hands every year that we are profitable. That's money that helps you realize your dreams and support your community.

In the spring of 2016, AgSouth returned nearly 28 percent of interest earned to our members for the year ending December 2015. The disbursement equaled more than $26 million — $7.9 million in cash and $18.5 million in allocated surplus which is intended to be distributed at a future date. The allocated surplus is set aside to provide financial strength for the Association. Any distribution in a future year is at the discretion of the Board of Directors.

Additionally, the Association returned another $18 million in allocated surplus from the year ending December 2010. The total amount returned IN CASH to our members this year was more than $26 million.

If you're a longtime customer, you know that cash back is the rule, rather than the exception. Since we began returning profits to our members in 1991, AgSouth has distributed more than $530 million to members, including nearly $433 million in cash.

In the spring of 2017, AgSouth plans another significant return to our members of $28.5 million for the year ending December 2016, and an allocated surplus return of more than $19 million from fiscal year 2011.

GOOD FOR YOU, GOOD FOR THE COMMUNITY

Our patronage returns affect not only our members, but each and every community we serve, sowing seeds far and wide throughout the region that promise greater returns in the future.

Dr. David M. Kohl, Professor Emeritus of Agricultural Finance and Small Business Management and Entrepreneurship at Virginia Tech, in talking about AgSouth's patronage program, said: "If one uses a multiplier effect of five to ten dollars for every dollar of patronage as a result of possible investment, spending, and employment, then one can quickly ascertain how $26 million in patronage returns [the total amount of cash AgSouth paid to members in 2016] could equate to nearly $130 million to more than a quarter of a billion dollars of activity."

We Put Our Profits in Your Pockets!®

Cultivating Your Potential with AgSouth Services

Beyond patronage, lending is the foundation on which we build a successful organization to support agriculture and rural living within the communities we serve. With rates at all-time lows and the economy on the rise in recent years, we have seen growth in land loans for agricultural and recreational purposes. We also have seen an upward trend in home loans — some with large acreage — and a growing market for leases.

AgSouth gives you the options you need to cultivate a successful future. In fact, we offer a wide range of loans and products that you may not be aware of, including:

LOANS FOR REAL ESTATE

- Large Acreage
- Residential Lots
- Timberland
- Farms

LOANS FOR AGRICULTURE

- Equipment
- Farm Improvements
- Operating Expenses
- Barns
- Fencing
- Vehicles
- Livestock
- Personal Expenses

LOANS FOR HOMES

- Home Purchases
- Home Construction
- Home Improvements
- Refinances

SECONDARY MARKET DIVISION

AgSouth Mortgages offers loans to farmers and non-farmers for:

- Home Purchases in Town or Out in the Country
- Construction-to-Perm Loans with one closing and the ability to lock in a fixed rate (Certain restrictions may apply)
- Homes for Investment Purposes
- Second Homes
- Vacation Properties

ADDITIONAL SERVICES

AgSouth also has other options to help you fully embrace your opportunities and cultivate your own success. Those include:

AccountAccess – Securely view your AgSouth Farm Credit account details, balances and recent transactions and even make payments and transfer funds 24 hours a day, 7 days a week through AccountAccess. Sign up today by clicking on the AccountAccess button on our homepage.

AgSouth Farm Credit Mobile – By signing up for AgSouth's AccountAccess, you can now get our secure and safe mobile app to keep up with the same information. Just search for the "AgSouth Farm Credit" app on your iPhone or Android device. (Note: This product was formerly called "Mobile Roots.")

AGAware® – Our national award-winning program continues to provide training to young, beginning, small and underserved farmers to help them successfully start or take over a farming operation. For information about our workshops, visit our AGAware page on our website.

AutoDraft – AutoDraft automatically deducts payments from your checking or savings account whether you have monthly, quarterly or annual payments, helping protect your credit by making sure your payments are made on time. You can also make special principal payments online through AccountAccess.

Crop Insurance – When Mother Nature takes its toll on your crops, you don't have to worry if you have AgSouth behind you. And when you purchase your crop insurance from AgSouth, you're also included in our exclusive crop insurance patronage pool. Since the crop insurance patronage program began in 2004, AgSouth has distributed $4,279,972 to our crop insurance customers. That's an average of 43.56 percent of the commission earned by the Association.

*Farm Credit **EXPRESS*** – AgSouth works with participating dealers to provide financing right in the dealership. It is a convenient way to get an equipment loan that is serviced by your local branch office.

FastCash – Use FastCash to withdraw funds from your line of credit with a simple phone call to your local office or through AccountAccess. We'll electronically transfer funds from your line of credit to your checking or savings account at no cost to you.

Leasing – Need new equipment or a building? Save valuable time and money by leasing your vehicles, buildings and equipment through the Association. For the benefits of leasing, go to the Services tab at the top of our home page and click on Leasing.

Life Insurance – Protect what's important to you — even if you're not there to do it yourself — with life insurance from AgSouth. Ask your loan officer about our life insurance products.

MEMBER REFERRAL PROGRAM

Referrals are an effective method of growing our Association. When you refer a new customer to AgSouth, you win two ways!

1) You strengthen your Association and the potential for larger patronage distributions, PLUS

2) You receive your choice of $100 or a free AgSouth jacket immediately.

Simply refer a customer to AgSouth Farm Credit, and if your referral results in a new business relationship (loan or lease of $10,000 or more*), we'll mail you a check for $100 or send you a jacket in your size.

** Most home loans and any other loans subject to RESPA are not eligible for this promotion.*

AgSouth's experienced professionals are here to help you take control of your future. We make available tools that will allow you to embrace opportunities and cultivate potential so you can follow your dreams.

Producing Excellence

AgSouth customer Kristy Griffis Arnold of Wayne County, Georgia, who was featured in AgSouth's centennial video, was subsequently selected as a recipient of the national Farm Credit Producing Excellence Award. Congratulations, Kristy, on this special recognition!

Kristy Griffis Arnold knew at an early age that farming was her passion. She grew up on her family's 465-acre Boggy Creek Farm and earned a bachelor's degree in animal science and pre-vet medicine and a master's degree in agricultural education, both from the University of Georgia.

Kristy's grandfather purchased the farmland in 1941 with a Farm Credit loan. When the time came, her father took over. There was little doubt that Kristy would do the same.

"You can't deny what's in your blood," she says.

Kristy took over from her father, Ronnie, in 2006. Since then, she has managed the farm's 350-head commercial cow herd and other operations. The farm's contract embryo calf operation works with purebred stock producers to super-ovulate and fertilize eggs with semen from donor farms as a means to develop superior genetics. When the cow embryos are seven days old, they're either frozen or transferred fresh into Kristy's brood stock. She raises the calves for seven months before returning them to the donor farms.

Kristy says there is no such thing as a typical workday. Doing what needs to be done, she preps cows for embryo transfer, builds fences, hauls cattle and operates a tractor to plant or harvest the rye, oats, hay and millet that feed the cattle.

"You have to love the life to be a farmer," she says. "I love what I do." An active member of the community, Kristy serves as president of the Wayne County Livestock Association, a position she has held three times since she was 18; she belongs to the Wayne County and Georgia Young Farmers Associations; she is the current Vice President of the Georgia Cattlemen's Association, a member of the Beef Quality Assurance Committee; and she's a supervisor for the Satilla District Georgia Soil & Water Conservation District.

Kristy's efforts have paid off. In 2010, the Georgia Cattlemen's Association gave her and Ronnie the Georgia Producer of the Year Award. In 2012, the Arnolds won the 2012 Wayne County Farm Family of the Year Award. And in 2014, Boggy Creek Farms won Georgia's Beef Quality Assurance Award.

It's too soon to know if Kristy's two children will take over as the next generation of farmers at Boggy Creek Farms. Regardless, she hopes they will uphold the family legacy of leaving the land and livestock in good condition for generations to come.

"You have to love the life to be a farmer — I love what I do."

KRISTY GRIFFIS ARNOLD

Relationship Manager Stacy Nobles meets this busy woman at the farm to get her signature on some paperwork.

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(dollars in thousands)	2016	2015	December 31, 2014	2013	2012
Balance Sheet Data					
Cash	**$ 5,160**	$ 4,191	$ 4,976	$ 7,061	$ 4,619
Investment securities	**7,057**	8,395	8,713	7,193	4,159
Loans	**1,631,945**	1,557,881	1,499,004	1,496,553	1,490,967
Allowance for loan losses	**(14,183)**	(13,099)	(12,357)	(11,648)	(10,873)
Net loans	**1,617,762**	1,544,782	1,486,647	1,484,905	1,480,094
Investments in other Farm Credit institutions	**22,847**	22,145	22,537	22,586	22,767
Other property owned	**3,289**	5,425	4,189	1,731	12,565
Other assets	**66,868**	66,242	67,871	70,660	59,076
Total assets	**$ 1,722,983**	$1,651,180	$1,594,933	$1,594,136	$1,583,280
Notes payable to AgFirst Farm Credit Bank*	**$ 1,342,601**	$1,286,760	$1,243,701	$1,271,311	$1,280,348
Accrued interest payable and other liabilities with maturities of less than one year	**41,682**	39,801	44,595	37,048	36,367
Total liabilities	**1,384,283**	1,326,561	1,288,296	1,308,359	1,316,715
Protected borrower stock	**2**	2	3	16	78
Capital stock and participation certificates	**8,493**	7,972	7,527	7,192	7,030
Retained earnings					
Allocated	**118,570**	116,777	112,635	110,391	113,193
Unallocated	**212,028**	200,380	187,002	168,402	146,871
Accumulated other comprehensive income (loss)	**(393)**	(512)	(530)	(224)	(607)
Total members' equity	**338,700**	324,619	306,637	285,777	266,565
Total liabilities and members' equity	**$ 1,722,983**	$1,651,180	$1,594,933	$1,594,136	$1,583,280
Statement of Income Data					
Net interest income	**$ 57,582**	$ 56,473	$ 57,568	$ 56,727	$ 58,018
Provision for loan losses	**1,072**	1,232	262	1,974	1,162
Noninterest income (expense), net	**(16,409)**	(15,379)	(7,881)	(4,853)	(14,435)
Net income	**$ 40,101**	$ 39,862	$ 49,425	$ 49,900	$ 42,421
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.40%**	2.52%	3.14%	3.22%	2.70%
Total members' equity	**12.21%**	12.60%	16.82%	18.29%	16.30%
Net interest income as a percentage of average earning assets	**3.58%**	3.71%	3.81%	3.83%	3.89%
Net (chargeoffs) recoveries to average loans	**0.001%**	(0.032)%	0.030%	(0.081)%	(0.013)%
Total members' equity to total assets	**19.66%**	19.66%	19.23%	17.93%	16.84%
Debt to members' equity (:1)	**4.09**	4.09	4.20	4.58	4.94
Allowance for loan losses to loans	**0.87%**	0.84%	0.82%	0.78%	0.73%
Permanent capital ratio	**20.55%**	20.68%	20.00%	18.69%	17.05%
Total surplus ratio	**20.01%**	20.23%	19.53%	18.17%	16.54%
Core surplus ratio	**16.11%**	16.31%	15.86%	14.46%	12.50%
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 8,545**	$ 7,945	$ 8,976	$ 8,521	$ 8,384
Qualified allocated retained earnings	**1,339**	515	533	759	584
Nonqualified allocated retained earnings	**18,599**	18,024	20,412	19,123	18,979

** General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 2017.*

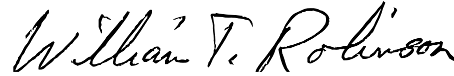
REPORT OF MANAGEMENT

The accompanying Consolidated Financial Statements and related financial information appearing throughout this annual report have been prepared by management of AgSouth Farm Credit, ACA (Association) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the Consolidated Financial Statements and financial information contained in this report.

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the Association are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Association maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Board of Directors.

The Consolidated Financial Statements have been audited by independent certified public accountants, whose report appears elsewhere in this annual report. The Association is also subject to examination by the Farm Credit Administration.

The Consolidated Financial Statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2016 Annual Report of AgSouth Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



William T. Robinson
Chairman of the Board

Pat Calhoun
Chief Executive Officer

Alisa D. Gunter
Chief Financial Officer

March 13, 2017

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Association's 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 framework in *Internal Control — Integrated Framework (2013)*, 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's management 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.

Pat Calhoun
Chief Executive Officer

Alisa D. Gunter
Chief Financial Officer

March 13, 2017

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of AgSouth Farm Credit, ACA, (Association) for the year ended December 31, 2016 with comparisons to the years ended December 31, 2015 and December 31, 2014. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying Consolidated Financial Statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for 100 years. The System's mission is to maintain and improve the income and well-being of American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration (FCA) which is an independent safety and soundness regulator.

The Association is a cooperative, which is owned by the members (also referred to throughout this Annual Report as stockholders or shareholders) served. The territory of the Association extends across a diverse agricultural region of Georgia and South Carolina. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, ***www.agfirst.com,*** or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly Reports are also available upon request free of charge on the Association's website, ***www.agsouthfc.com***, or by calling 1-912-489-4842, extension 2663, or writing Alisa D. Gunter, CFO, P.O. Box 718, Statesboro, GA 30459. The Association prepares an electronic version of the Annual Report, which is available on the Association's website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the Association's website, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the Farm Credit System, as a government-sponsored enterprise, as well as investor and rating-agency reactions to events involving other government-sponsored enterprises and other financial institutions; and
- actions taken by the Federal Reserve System in implementing monetary policy.

AGRICULTURAL OUTLOOK

The following United States Department of Agriculture (USDA) analysis provides a general understanding of the U.S. agricultural economic outlook. However, this outlook does not take into account all aspects of the Association's business.

References to USDA information in this section refer to the U.S. agricultural market data and are not limited to information/data in the AgFirst District.

The February 2017 USDA forecast estimates 2016 farmers' net cash income, which is a measure of the cash income after payment of business expenses, at $91.9 billion, down $12.8 billion from 2015 and down $11.3 billion from its 10-year average of $103.2 billion. The decline in net cash income in 2016 was primarily due to decreases in livestock receipts of $21.7 billion and cash farm-related income of $3.7 billion, partially offset by a decrease in cash expenses of $8.3 billion.

The February 2017 USDA forecast for the farm economy, as a whole, forecasts 2017 farmers' net cash income to increase to $93.5 billion, a $1.6 billion increase from 2016, but $9.7 billion below the 10-year average. The forecasted increase in farmers' net cash income for 2017 is primarily due to an expected increase in cash farm-related income of $3.7 billion, partially offset by a decrease in crop receipts of $1.0 billion and an increase in cash expenses of $700 million.

The following table sets forth the commodity prices per bushel for certain crops, by hundredweight for hogs, milk, and beef cattle, and by pound for broilers and turkeys from December 31, 2013 to December 31, 2016:

Commodity	12/31/16	12/31/15	12/31/14	12/31/13
Hogs	$43.10	$42.80	$64.30	$61.50
Milk	$18.80	$17.30	$20.40	$22.00
Broilers	$0.48	$0.47	$0.58	$0.56
Turkeys	$0.74	$0.89	$0.73	$0.69
Corn	$3.33	$3.65	$3.79	$4.41
Soybeans	$9.64	$8.76	$10.30	$13.00
Wheat	$3.91	$4.75	$6.14	$6.73
Beef Cattle	$111.00	$122.00	$164.00	$130.00

The USDA's income outlook varies depending on farm size and commodity specialties. The USDA classifies all farms into four primary categories: small family farms (gross cash farm income (GCFI) less than $350 thousand), midsize family farms (GCFI between $350 thousand and under $1 million), large-scale family farms (GCFI of $1 million or more), and nonfamily farms (principal operator or individuals related to the operator do not own a majority of the business). Approximately 99 percent of U.S. farms are family farms and the remaining 1 percent are nonfamily farms. The family farms produce 89 percent of the value of agricultural output and the nonfamily farms produce the remaining 11 percent of agricultural output. The small family farms represent about 90 percent of all U.S. farms, hold 57 percent of farm assets and account for 24 percent of the value of production. Approximately 65 percent of production occurs on 9 percent of family farms classified as midsize or large-scale.

According to the USDA February 2017 forecast, farm sector equity (assets minus debt) is expected to decline 2.1 percent in 2017 to $2.44 trillion, the third consecutive year of declining equity after a record $2.60 trillion in 2014. Farm sector debt is expected to rise 5.2 percent to $395 billion in 2017, while a 1.1 percent decline is anticipated in the market value of farm sector assets to $2.84 trillion. Farm real estate accounts for about 84 percent of farm sector assets and the 2017 forecast anticipates a slight decline in real estate values. This reflects falling farm profit margins, increased interest rates, and more restrictive debt terms.

Two measures of the financial health of the agricultural sector used by the USDA are the farm sector's debt-to-asset and debt-to-equity ratios. As a result of the decline in farm assets and continued increase in farm debt, these ratios are forecast to rise in 2017 to 13.9 percent and 16.2 percent from 13.1 percent and 15.1 percent in 2016. The debt-to-asset ratio has increased for the fifth straight year but is still well below the all-time highs of over 20 percent in the 1980s.

As estimated by the USDA in February 2017, the System's market share of farm business debt (defined as debt incurred by those involved in on-farm agricultural production) increased to 40.6 percent at December 31, 2015 (the latest available data), as compared with 39.6 percent at December 31, 2014.

In general, agriculture, during the past several years, experienced favorable economic conditions driven by high commodity and livestock prices and increased farmland values during this period. To date, the Association's financial results have remained favorable as a result of these favorable agricultural conditions. Production agriculture; however, remains a cyclical business that is heavily influenced by commodity prices and various other factors. In an environment of less favorable economic conditions in agriculture, including extensive and extended drought conditions, and without sufficient government support programs, including USDA-sponsored crop insurance programs, the Association's financial performance and credit quality measures would likely be negatively impacted. Conditions in the general economy remain more volatile given the state of the global economy. Certain agriculture sectors, as described more fully in this *Management's Discussion and Analysis*, recently have experienced significant financial stress and could experience additional financial stress in the near future, which could have a negative financial impact on the Association. Any negative impact from these less favorable conditions should be lessened by geographic and commodity diversification and the influence of off-farm income sources supporting agricultural-related debt. However, agricultural borrowers who are more reliant on off-farm income sources may be more adversely impacted by a weakened general economy.

ECONOMIC CONDITIONS

Georgia Region

The agricultural sector within AgSouth's Georgia region experienced fairly good results considering the number of adverse weather events that occurred during 2016. Tropical Storm Bonnie in June and Hurricanes Hermine and Matthew in August and October impacted the Georgia region with high winds and flooding rains. While certain areas may have been severely impacted these weather events did not create widespread damage to major crops which were in production at the time and overall the area's major crops of corn, cotton, peanuts, and soybeans produced average yields.

Georgia corn production for 2016 totaled 56.1 million bushels, up 15 percent from 2015. Cotton acreage planted was up 4 percent over 2015; however, estimated production of 2.2

million bales will be a 2 percent decrease. Cotton quality and yield was hurt slightly by Hurricane Matthew. Peanut acreage planted was down 8 percent with the lowest total production since 2011 with 2.79 billion pounds produced, down 17 percent from 2015. Soybean production was down 46 percent from 2015 due to summer drought conditions. Tobacco production was down 13 percent with 28.4 million pounds produced. Hay and pasture production was down due to the dry conditions which dominated the northern and western portions of the state during most of 2016.

The blueberry crop experienced a fairly good year with average yields and prices, and the sweet onion crop had above average yields and profitable market prices. Overall it appears most producers' ability to meet debt obligations will be very high with less shortages than associated with the 2015 crop year.

Milk prices which were depressed most of 2016 began to see some improvement in the 4th quarter moving up from lows in May of approximately $15.00/cwt. to $18.00/cwt. Milk prices are forecasted stable and more positive for 2017. Low feed cost has helped lessen the margin lost due to lower milk prices.

The poultry industry remains Georgia's number one agriculture product and it continues to experience positive results both at the integrator and farm producer level. Profit margins for integrators remain strong with good meat prices and low feed cost. Expansion in most areas has slowed with modest increases in the number of new growers and houses being added.

Timber stumpage prices were down slightly in 2016 from the previous year due primarily to dry weather creating an abundant supply of logs. The average year ending stumpage prices for Georgia in 2016 were: pine pulpwood $11.41/ton, pine chip-n-saw $18.28/ton, pine saw-timber $24.97/ton, hardwood pulp $8.53/ton, and hardwood saw-timber $32.81/ton. Pine composite lumber prices increased from $375 per mbf in 2015 to $402 per mbf in 2016. Hardwood lumber prices also increased in 2016 over 2015 moving from $1,164 mbf to $1,251 mbf in 2016. The upward movement in lumber prices is attributed to improvements in the housing market. Housing starts in the United States are up approximately 6 percent year over year.

Georgia's general economy continues to improve as many new industries and businesses have elected to increase or open new facilities in Georgia. The Governor's office continues to announce many of these openings to be located within AgSouth's territory such as Jindal Films Company opening in Troup County bringing 240 new jobs and Aspen Aerogels opening in Bulloch County creating 100 new jobs and investing $70 million in Statesboro. Linzer Products Corporation will open in Candler County creating 200 jobs. The state's unemployment rate, which began the year at 5.4 percent dropped to 4.9 percent in June, had inched back up to 5.4 percent at year end.

Land value trend studies completed by Association staff indicate steady to increasing land prices across all types of land within our service area and the number of sales transactions is also on an increasing trend.

South Carolina Region

Like Georgia, the weather was an issue in 2016, but not as severe as the floods of 2015. Tropical Storm Bonnie, Hurricanes Hermine and Matthew resulted in both wind damage and flooding in some parts of the South Carolina region of AgSouth.

Crop harvest is considered complete across the state for corn, peanuts, cotton and soybeans. Corn for grain production for 2016 totaled 44.5 million bushels, up 84 percent from 2015's flood damaged crop. Cotton planting is down 19 percent from 2015 while production is up 68 percent at an estimated 260,000 bales. Peanut planted area is down 2 percent with production totaling 350 million pounds, up 33 percent from 2015. Soybean production is up 28 percent from last year. South Carolina winter wheat planted acres are estimated to be 75,000, an increase of 25 percent from last year.

Growing conditions within most of the South Carolina service area of AgSouth is considered good at this point in early 2017. Topsoil and subsoil moisture at the end of November was only rated 43 percent to 51 percent adequate or surplus. Additional rains, however, in December and early January have increased the moisture ratings including the northwest corner of the state which had been experiencing a severe drought.

Cattle production is considered 97 percent fair to excellent in the state. As of the end of November pasture was rated 61 percent fair to excellent. This was down from the September report of 75 percent. Hay stocks on farms as of the first of December increased from 360,000 tons to 380,000 tons from 2015 to 2016. Cattle profits are down as prices have contracted significantly from the highs experienced in the past 3 years.

United States domestic broiler sets placed 178.5 million chicks for meat production as of January 2017, which is up 1 percent from the comparable week a year earlier. South Carolina chick placements were 4.7 million which was down 1 percent from the same week in 2016. However, broiler eggs set were down 7 percent in South Carolina for this same time period. Communication with integrators has indicated profit margins remain favorable due to lower feed costs. The broiler concentration in South Carolina remains the highest commodity concentration repaid from agricultural income in the service area.

Nationally, housing starts rose 4.9 percent in 2016 to 1,166,000, up from a historical low of 478,000 in 2009. South Carolina saw housing starts rise 6.85 percent year over year from 2015 to 2016.

Total building permits from November to December declined less than 1 percent, but single family permits increased 4.7 percent. Considering the entire 2016 year, building permits increased slightly by less than 1 percent.

Average timber stumpage prices are trending slightly negative in South Carolina. Pine saw-timber is down 4.2 percent, pine chip-n-saw is down 4.2 percent, pine pulpwood is down 7.4 percent, mixed hardwood saw-timber is down 4.1 percent and hardwood pulpwood is down 7.9 percent from one year ago. On a positive note South Carolina stumpage prices are higher compared to average stumpage prices of other southern states.

The unemployment rate in the state is at 4.7 percent as of October 2016, down from 4.9 percent in September and better than the national unemployment rate of 4.9 percent. This was the sixth consecutive month that the unemployment rate has dropped in South Carolina and is the lowest level for the state since August 2001. Manufacturing remains an economic driver in South Carolina, and the expansion of many existing employers like Boeing and BMW accompanied by the attraction of new manufacturers like Volvo sets a positive tone for future employment prospects within the state.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short- and intermediate-term loans and long-term real estate mortgage loans through numerous product types.

The diversification of the Association loan volume by type for each of the past three years is shown in the table below. See Note 3, *Loans and Allowance for Loan Losses* in the Notes to the Financial Statements for information on these classification revisions.

	December 31,					
Loan Type	**2016**		**2015**		**2014**	
	(dollars in thousands)					
Real estate mortgage	$ 1,263,320	77.41%	$ 1,240,201	79.61%	$ 1,206,127	80.46%
Production and intermediate-term	288,968	17.71	253,321	16.26	233,409	15.57
Processing and marketing	10,168	.62	4,644	.30	4,932	.33
Farm-related business	12,706	.78	6,344	.40	5,875	.39
Rural residential real estate	55,432	3.40	50,996	3.28	44,112	2.94
Other	1,351	.08	2,375	.15	4,549	.31
Total	$ 1,631,945	100.00%	$ 1,557,881	100.00%	$ 1,499,004	100.00%

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified. The geographic distribution of the loan volume by branch for the past three years is as follows:

Branch	12/31/16	12/31/15	12/31/14
Aiken	2.03%	2.30%	2.39%
Allendale	2.96	3.40	3.57
Anderson	6.37	6.33	6.57
Batesburg	6.11	6.37	6.04
Baxley	3.96	4.00	3.61
Blackshear	5.01	5.14	5.44
Camden	3.24	3.12	3.32
Carrollton	2.42	2.31	2.27
Corporate	.81	.70	.53
Douglas	6.59	6.12	5.53
Greenville	4.66	4.74	4.75
Griffin	1.74	1.66	2.02
Jesup	1.73	1.59	1.68
Laurens	5.92	5.35	4.88
Madison	9.81	10.37	9.83
Orangeburg	3.96	3.56	3.40
Rock Hill	4.64	4.67	4.95
Spartanburg	3.99	4.01	3.93
St. Matthews	1.54	1.59	2.17
Statesboro	6.86	7.03	7.21
Summerville	3.83	3.42	3.86
Sylvania	1.57	1.36	1.42
Thomaston	3.14	2.75	2.67
Vidalia	3.08	3.25	3.38
Walterboro	2.89	3.24	3.20
SAM	1.14	1.62	1.38
	100.00%	100.00%	100.00%

Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer.

The major commodities in the Association loan portfolio are shown below. Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The predominant commodities are timber processing and related forest products; poultry including broilers, eggs, and turkeys; feed grains, soybeans and hay; horses; cotton; beef cattle and pasture; sod, nursery and horticulture; blueberries, fruits and nuts. These commodities constitute approximately 86 percent of the entire portfolio. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are diversified within their enterprise and/or with crop production which reduces overall risk exposure.

	December 31,					
Commodity Group	**2016**		**2015**		**2014**	
	(dollars in thousands)					
Timber, Forest Products	$ 607,249	37 %	$ 578,952	37 %	$ 580,277	39 %
Broilers	207,051	13	193,109	13	172,713	11
Beef Cattle, Pasture	132,248	8	125,445	8	116,625	8
Cotton	122,930	8	121,496	8	117,921	8
Feed Grains, Soybeans & Hay	114,319	7	115,104	7	113,133	8
Horses	72,066	5	66,879	4	65,472	4
Blueberries, Fruits & Nuts	60,325	4	57,723	4	55,307	4
Rural Home	53,902	3	48,117	3	40,795	3
Landlords	43,536	3	38,191	3	38,911	3
Other	36,354	2	32,056	2	34,247	2
Timber Processing & Harvesting	35,429	2	35,251	2	28,952	2
Peanuts	27,110	2	29,054	2	16,977	1
Dairy	22,443	1	22,635	1	23,044	1
Sod, Nursery, & Horticulture	22,097	1	19,767	1	23,710	2
Vegetables & Tomatoes	21,595	1	20,717	1	17,056	1
Onions	16,188	1	18,383	1	19,139	1
Turkeys	16,029	1	14,263	1	17,306	1
Tobacco	10,218	1	9,790	1	8,175	1
Eggs	7,073	–	6,784	1	5,487	–
Hogs	3,783	–	4,165	–	3,757	–
Total	$ 1,631,945	100 %	$ 1,557,881	100 %	$ 1,499,004	100 %

The Association holds a concentration of large loans, but the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diverse farming operations in the Association's territory.

Loan volume increased to $1,631,945 from $1,557,881 between December 31, 2015 and December 31, 2016. The increase of $74,064, or 4.75 percent, for the twelve months ended December 31, 2016, is primarily attributed to increased draws on operating funds and the closing of several large transactions during the year. Loan volume increased from $1,499,004 at December 31, 2014 to $1,557,881 at December 31, 2015. This was an increase of 3.93 percent or $58,877 between those two reporting periods.

The short-term portfolio, heavily influenced by operating-type loans, normally reaches a peak balance in August and rapidly declines into the first quarter of the next year as commodities are marketed and proceeds are applied to repay operating loans.

During 2016, the Association activity in the purchasing of loan participations both within and outside the System continued to decline. The purchase of participation loans decreased between the periods ended December 31, 2015 and December 31, 2016 by 19.38 percent. This includes purchases from both Farm Credit System (FCS) Institutions and Non-FCS Institutions. The decrease is attributed to normal payments and payoffs of participations purchased during the reporting period.

Loans sold increased 20.32 percent from $295,778 to $355,882 between the periods ended December 31, 2015 and December 31, 2016. The increase in sold loans is linked to several large participated transactions closing during the year. Selling participations in larger credits provides a means for the Association to spread credit risk, concentration risk and realize interest and fee income, which may strengthen the capital position. Between the same periods in 2014 and 2015, loans sold increased 68.55 percent.

	December 31,		
Loan Participations	**2016**	**2015**	**2014**
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 911	$ 1,137	$ 1,740
Participations Purchased – Non-FCS Institutions	1,781	2,202	1,436
Participations Sold	(355,882)	(295,778)	(175,482)
Total	$ (353,190)	$ (292,439)	$ (172,306)

The Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests for the period ended December 31, 2016.

The Association sells qualified long-term mortgage loans into the secondary market. For the period ended December 31, 2016, the Association originated loans for resale totaling $139,926, which were sold into the secondary market. For the years ended December 31, 2015 and 2014, loans sold into the secondary market totaled $132,398 and $88,167, respectively. At December 31, 2016, there was $2,860 classified as loans held for sale on the Association's balance sheet. The increase in loans sold from 2015 to 2016 is the result of a more favorable housing market within the Association's territory. The increase in loans sold between 2014 and 2015 was due to the lower interest rate environment and an increase in refinancing activity.

The Association also participates in the Farmer Mac Long - Term Stand By program. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2016, the Association had loans totaling $9,859 which were 100 percent guaranteed by Farmer Mac. The Association additionally originated and purchased portions of loans that are guaranteed by the United States Department of Agriculture. These loans are held for the purposes of reducing interest rate risk and managing surplus short-term funds as allowable under FCA regulations. During the years ended December 31, 2016, 2015, and 2014 the balance of these loans, including the unamortized premium, was $167,863, $162,383, and $154,641, respectively.

MISSION RELATED INVESTMENTS

During 2005, the FCA initiated an investment program to stimulate economic growth and development in rural areas. The FCA outlined a program to allow System institutions to hold such investments, subject to approval by the FCA on a case-by-case basis. FCA approved the Rural America Bonds pilot under the Mission Related Investments umbrella, as described below.

In October 2005, the FCA authorized AgFirst and the Associations to make investments in Rural America Bonds under a three-year pilot period and the program was extended. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing.

These bonds may be classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. As of December 31, 2016, 2015 and 2014 the Association had $7,917, $10,265 and, $12,723 respectively, in Rural America Bonds. At December 31, 2016, $7,057 of the $7,917 is presented on the Consolidated Balance Sheet as Investment Securities. The remaining bonds in the amount of $860 are classified as Loans on the Consolidated Balance Sheets.

Effective December 31, 2015, the FCA concluded each pilot program approved as part of the Investment in Rural America Bonds program. Institutions participating in such programs may continue to hold its investment through the maturity dates of the investments, provided the institution continues to meet all approval conditions. Although the pilot programs are concluding, the FCA can consider future requests on a case-by-case basis.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association continues to review the credit quality of the loan portfolio on an ongoing basis. With the approval of the Association Board of Directors, the Association establishes underwriting standards and lending policies that provide direction to loan officers. Underwriting standards include, among other things, an evaluation of:

- Character – borrower integrity and credit history
- Capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income
- Collateral – protection for the lender in the event of default and a potential secondary source of repayment
- Capital – ability of the operation to survive unanticipated risks
- Conditions – intended use of the loan funds

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loans of more than $250 thousand. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

The Association reviews the credit quality of the loan portfolio on an ongoing basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System, which is used by all Farm Credit System institutions. Below are the classification definitions.

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

The following table presents selected statistics related to the credit quality of loans including accrued interest at December 31:

Credit Quality	2016	2015	2014
Acceptable & OAEM	98.31%	98.19%	98.25%
Substandard/Doubtful/Loss	1.69%	1.81%	1.75%
Total	100.00%	100.00%	100.00%

The increase in Acceptable and OAEM percentage of volume can be linked to the continued workout of distressed assets and the growth in Acceptable and OAEM volume. Workouts can include payments and paydowns that result in moving the asset back to an acceptable quality or restructuring of the credit. The Association recognizes that there may be situations where borrowers need to sell assets to repay debt. While the underlying collateral may not be the sole repayment source, in some cases, borrowers have been attempting to sell collateral in order to pay down or liquidate their debt to the Association.

Nonperforming Assets

The Association's loan portfolio is divided into performing and high-risk categories. A Special Assets Management Department is responsible for servicing loans classified as high-risk. The high-risk assets, including accrued interest, are detailed below:

	Year Ended December 31,		
High-risk Assets	2016	2015	2014
	(dollars in thousands)		
Nonaccrual loans	$ 17,143	$ 10,693	$ 13,012
Restructured loans	7,910	9,659	9,947
Accruing loans 90 days past due	–	–	–
Total high-risk loans	25,053	20,352	22,959
Other property owned	3,289	5,425	4,189
Total high-risk assets	$ 28,342	$ 25,777	$ 27,148
Ratios			
Nonaccrual loans to total loans	1.05%	0.69%	0.87%
High-risk assets to total assets	1.64%	1.56%	1.70%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans increased $6,450 or 60.32 percent in 2016. This increase is the result of loans moving through the distressed collection process and includes several large accounts. Of the $17,143 in nonaccrual volume at December 31, 2016, $4,951 or 28.88 percent, compared to 43.15 percent and 34.23 percent at December 31, 2015 and 2014, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

Loan restructuring is available to financially distressed borrowers. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the Association and the borrower. Restructured loans decreased in 2016 from $9,659 at December 31, 2015 to $7,910 at December 31, 2016. The decrease is the result of fewer customers requiring formal restructure to satisfy debt payment and normal payments and payoffs of loans in restructured status.

The schedule below shows the number and book value of other property owned for the years ending December 31, 2016, 2015, and 2014.

	December 31,		
Other Property Owned	2016	2015	2014
	(dollars in thousands)		
Number of Properties	3	9	10
Book Value of Properties	$ 3,289	$ 5,425	$ 4,189

During the fiscal year, 6 properties with a book value of $565 were added to the portfolio and 12 dispositions, excluding partial sales, were processed through the normal course of business. Total book value of sales of other property owned was $2,009. The write-downs and losses on the sale of other property owned totaled $692 during the reporting period and expenses totaled $51. Total net loss realized for the period ending December 31, 2016 was $688. The decrease in the balance of other property owned from December 2015 to December 2016 is the result of sales and write-downs of real estate and other collateral during the collection process exceeding acquisitions. In some cases the acquisitions were through foreclosure and others through a deed in lieu of foreclosure process. The Association is currently marketing all other property owned for sale. Please see our website at ***www.agsouthfc.com*** and click on *Property For Sale*.

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio. The allowance for loan losses is prepared according to generally accepted accounting principles.

	Year Ended December 31,		
Allowance for Loan Losses Activity	2016	2015	2014
	(dollars in thousands)		
Balance at beginning of year	$ 13,099	$ 12,357	$ 11,648
Charge-offs:			
Real estate mortgage	(171)	(958)	(698)
Production and intermediate-term	(87)	(122)	(112)
Agribusiness	–	–	(1)
Rural residential real estate	(25)	(11)	(7)
Other	–	–	–
Total charge-offs	(283)	(1,091)	(818)
Recoveries:			
Real estate mortgage	150	485	990
Production and intermediate-term	122	89	68
Agribusiness	4	5	90
Rural residential real estate	–	1	45
Other	19	21	72
Total recoveries	295	601	1,265
Net (charge-offs) recoveries	12	(490)	447
Provision for (reversal of allowance for) loan losses	1,072	1,232	262
Balance at end of year	$ 14,183	$ 13,099	$ 12,357
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	0.001%	(0.032)%	0.030%

The net loan charge-offs and recoveries were primarily associated with real estate mortgage and production and intermediate term loans. There was no specific trend in the charge-offs or recoveries recognized.

The provision for loan losses increased the Allowance for Loan Losses account by $1,072 during 2016. Analysis of the Allowance account is completed on a quarterly basis and reviewed by the Association's Asset/Liability Committee which is comprised of members of Senior Management and other selected staff members. The increase was necessary to keep the Allowance for Loan Loss at a sufficient level to absorb any expected future losses. While the trend in reduction of high risk loans is positive, without further improvement in the general economy, additional losses are possible.

Allowance for Loan Losses by Type	December 31, 2016	2015	2014
	(dollars in thousands)		
Real estate mortgage	$ 11,297	$ 10,369	$ 9,916
Production and intermediate-term	2,271	2,177	1,957
Agribusiness	178	92	89
Rural residential real estate	426	423	358
Other	11	38	37
Total allowance	$ 14,183	$ 13,099	$ 12,357

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators is shown below:

Allowance for Loan Losses as a Percentage of	December 31, 2016	2015	2014
Total loans	.87%	.84%	.82%
Nonperforming loans	56.61%	64.36%	53.82%
Nonaccrual loans	82.73%	122.50%	94.97%

Given the possibility of portfolio growth and other potential losses, management has determined that the current level of allowance is adequate.

Please refer to Note 3, *Loans and Allowance for Loan Losses*, of the Notes to the Consolidated Financial Statements, for further information concerning the allowance for loan losses.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income before the provision for loan loss was $57,582, $56,473, and $57,568 in 2016, 2015 and 2014, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past two years are presented in the following table:

Change in Net Interest Income:

	Volume*	Rate	Total
	(dollars in thousands)		
12/31/16 - 12/31/15			
Interest income	$ 5,049	$ (1,242)	$ 3,807
Interest expense	1,937	761	2,698
Change in net interest income	$ 3,112	$ (2,003)	$ 1,109
12/31/15 - 12/31/14			
Interest income	$ 1,739	$ (1,978)	$ (239)
Interest expense	(343)	1,199	856
Change in net interest income	$ 2,082	$ (3,177)	$ (1,095)

* *Volume variances can be the result of increased/decreased loan volume or from changes in the percentage composition of assets and liabilities between periods.*

Noninterest Income

Noninterest income for each of the three years ended December 31 is shown in the following table:

Noninterest Income	For the Year Ended December 31, 2016	2015	2014	Percentage Increase/(Decrease) 2016/2015	2015/2014
	(dollars in thousands)				
Loan fees	$ 3,244	$ 3,070	$ 2,457	5.67%	24.95%
Fees for financially related services	1,908	1,767	1,447	7.98	22.11
Patronage refund from other Farm Credit Institutions	20,884	19,374	26,458	7.79	(26.77)
Gains (losses) on sales of rural home loans, net	2,013	1,843	1,088	9.22	69.39
Gains (losses) on sales of premises and equipment, net	287	228	67	25.88	240.30
Gains (losses) on other transactions	(149)	(88)	49	69.32	(279.59)
Other noninterest income	119	121	158	(1.65)	(23.42)
Total noninterest income	$ 28,306	$ 26,315	$ 31,724	7.57%	(17.05)%

Loan fees increased $174 or 5.67 percent when comparing the reporting periods 2016 to 2015. The increase is the result of fee collections on some large accounts and an increase in fees collected on both portfolio and loans sold in the secondary market. Loan fees increased 24.95 percent or $613 between the periods ending December 31, 2014 and December 31, 2015.

Fees for financially related services increased $141 or 7.98 percent from December 31, 2015 to December 31, 2016. Fees from financially related services includes fees from leasing, crop insurance and life insurance. Leasing transactions increased in 2016 and contributed to the higher balance. Additionally, commissions earned on the sale of crop insurance by Association staff increased in 2016. The Association also earns commission on the sale of some life insurance, but these amounts did not change materially between the two reporting periods. Between the reporting periods ended December 31, 2014 and December 31, 2015, fees for financially related services increased by $320 to $1,767 from $1,447.

There was a 7.79 percent or $1,510 increase in patronage refund from other Farm Credit Institutions between the periods ended December 31, 2015 and December 31, 2016. In 2016, the Association earned $11,775 in patronage refund and $8,178 in a special distribution from AgFirst. In 2015, the Association earned $10,577 in a patronage refund and $8,178 in a special distribution, compared to $10,512 and $14,896 in a special distribution for 2014. The amount of patronage refund is based upon the direct note balance with AgFirst. The amount of the special distribution, if any, is determined by the AgFirst Farm Credit Bank Board of Directors and may or may not reoccur in future years.

For the period ended December 31, 2016, the Association earned $931 in patronage refund from other Farm Credit Institutions other than AgFirst. This compares to $619 and $1,050 for the periods ended December 31, 2015 and December 31, 2014, respectively. The increase in patronage from other Farm Credit Institutions is partially attributable to increases in loans sold to other Farm Credit entities other than AgFirst who may or may not pay the same level of patronage received from AgFirst.

Gains on the sales of rural home loans in the secondary market totaled $2,013 for the period ended December 31, 2016. This was an increase of $170 or 9.22 percent from the period ended December 31, 2015. The increase is the result of an increase in loans closed in the secondary market between the two reporting periods due to a more favorable housing market within the Association's territory. For the period ended December 31, 2015, gains totaled $1,843. Gains increased between December 31, 2014 and December 31, 2015 by $755 or 69.39 percent.

Gains on the sales of premises and equipment increased $59 or 25.88 percent between December 31, 2015 and December 31, 2016. The Association sold an office building in Carrollton, Georgia in 2016 that resulted in the majority of the gain. The remaining gains were from the sale of excess automobiles and other miscellaneous furniture and equipment. Net gains on the sales of premises and equipment totaled $228 and $67 for the periods ending December 31, 2015 and 2014.

Losses on other transactions includes losses related to crop insurance offset by gains on Rabbi Trust plans held for certain retirees. Also included in this line item is the expense to fund the allowance for loan loss for unused commitments. The change from December 31, 2015 to December 31, 2016 was from a loss of $88 to a loss of $149. Between December 31, 2014 and December 31, 2015, the line item moved from a gain of $49 to a loss of $88.

Other noninterest income decreased $2 from $121 at December 31, 2015 to $119 at December 31, 2016. This line item includes recovery amounts from allocated surplus for some borrowers in default. Other noninterest income decreased from $158 in 2014 to $121 in 2015.

Noninterest Expense

Noninterest expense for each of the three years ended December 31 is shown in the following table:

Noninterest Expense	For the Year Ended December 31, 2016	2015	2014	Percentage Increase/(Decrease) 2016/2015	2015/2014
	(dollars in thousands)				
Salaries and employee benefits	$ 31,742	$ 30,749	$ 28,496	3.23 %	7.91 %
Occupancy and equipment	2,469	2,251	2,292	9.68	(1.79)
Insurance Fund premiums	2,024	1,458	1,370	38.82	6.42
(Gains) losses on other property owned, net	688	414	467	66.18	(11.35)
Other operating expenses	7,782	6,822	6,976	14.07	(2.21)
Total noninterest expense	$ 44,705	$ 41,694	$ 39,601	7.22 %	5.29 %

Salaries and employee benefits increased $993 or 3.23 percent in 2016, as compared with 2015, and increased $2,253 or 7.91 percent when comparing 2015 to 2014. The increase between the 2016 and 2015 reporting periods was primarily due to higher salary amounts paid to commissioned secondary market originators due to the increase in secondary market activity. The Association has a significant pool of employees who either currently qualify or will qualify for retirement within the next three years. Additionally, the Association has hired new staff and started the training process in anticipation of these retirements. The additional staff levels increases both salary and benefit expenses.

The Association has an incentive plan for full-time employees and the accruals for potential payout of incentive for 2016 were $757 more than 2015 accrued incentive. The incentive plan is comprehensive and requires for achievement in several key measures both at the individual and total Association level before participation.

The increase between the 2014 and 2015 reporting periods can also be tied to the increase in activity in the secondary market in 2015 and increased staff levels due to pending retirements.

Occupancy and equipment expense increased $218 between the reporting periods ended December 31, 2016 and December 31, 2015. The increase of 9.68 percent is the result of increased operating costs including additional space necessary in Statesboro, Georgia during the transition of all operations and human resource staff to Statesboro. The decrease of $41 between December 31, 2014 and December 31, 2015 is the result of the savings on general operating and maintenance expenses.

Insurance Fund premiums increased $566 or 38.82 percent for the twelve months ended December 31, 2016, compared to the same period of 2015. Between 2014 and 2015, the Insurance Fund premium increased 6.42 percent or $88. The Farm Credit System Insurance Corporation (Insurance Corporation) sets the premium and the Association's increase in loan volume and an increase in the premium resulted in an increase in the insurance expense. Nonaccrual loans and other-than-temporary impaired investments are assessed a higher rate.

The Association took in and disposed of several pieces of other property owned in 2016. Subsequently, the Association recorded $688 in net losses on other property owned. The losses recorded were from the need to write-down asset values to match new and more current appraisals and sales of the owned assets offset by minimal gains. This line item includes expenses on other property owned as well. This compares to losses of $414 for the period ended December 31, 2015. For the period ended December 31, 2014, the Association had recorded losses of $467.

Other operating expenses increased $960 or 14.07 percent between December 31, 2015 and December 31, 2016. Other operating expense includes purchased services, travel, training, advertising, public and member relations, communications, directors, supervisory and examination, and all other expenses not detailed above necessary to operate the Association. In 2016, the Association recognized its centennial year of service with increased advertising and public and member relation events. A portion of the increase is tied to the supervisory and examination expense which is set by the Farm Credit Administrative to cover their costs of routine examination and supervision. Comparing other operating expenses for the period ended December 31, 2015 to December 31, 2014, other operating expenses decreased $154 or 2.21 percent.

Income Taxes

The Association recorded a provision for income taxes of $10 for the year ended December 31, 2016, as compared to a provision of $0 for 2015 and a provision of $4 for 2014. Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

Key results of operations comparisons for each of the twelve months ended December 31 are shown in the following table:

Key Results of Operations	For the 12 Months Ended		
Comparisons	12/31/16	12/31/15	12/31/14
Return on average assets	2.40%	2.52%	3.14%
Return on average members' equity	12.21%	12.60%	16.82%
Net interest income as a percentage of average earning assets	3.58%	3.71%	3.81%
Net (charge-offs) recoveries to average loans	0.001%	(0.032)%	0.030%

The return on average assets and return on members' equity decreased in 2016 when compared to 2015. The increase in earnings over the larger asset base resulted in a lower return on average assets. The decrease in the return on members' equity ratio is the result of the increase in earnings over a higher balance of average members' equity.

The decrease in the percentage of net interest income to average earning assets is due to the change in interest rates between the two reporting periods and a higher balance of average earning assets. The average interest rate decreased to 5.71 percent from 5.77 percent between 2016 and 2015 as a result of market conditions.

The percentage of net charge-offs and recoveries to average loans was less than one percent in the 2016 reporting period and the Association's recoveries exceeded the total amount of charge-offs. The decision to take a charge-off for financial purposes is made by tenured staff that specializes in handling distressed loan situations.

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. To meet this goal, the agricultural economy must continue the improvement shown in recent years and the Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

Total notes payable to the Bank at December 31, 2016, was $1,342,601 as compared to $1,286,760 at December 31, 2015 and $1,243,701 at December 31, 2014. The increase of $55,841 or 4.34 percent comparing December 31, 2016 to December 31, 2015 was attributable to the higher balance of loans outstanding. When comparing December 31, 2015 to December 31, 2014, total notes payable increased $43,059 or 3.46 percent.

The average volume of outstanding notes payable to the Bank was $1,312,595 and $1,238,610 for the years ended December 31, 2016 and 2015, respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average

interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses, and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association's participation in the Farmer Mac, investments, and other secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association.

The Association had no lines of credit from third party financial institutions as of December 31, 2016, 2015 and 2014.

Funds Management

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable and rising earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 30-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

The majority of the interest rate risk in the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control risk associated with the loan portfolio.

Relationship with the Bank

The Association's statutory obligation to borrow only from the Bank is discussed in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements in this Annual Report.

The Bank's ability to access capital of the Association is discussed in Note 4, *Investment in Other Farm Credit Institutions*, of the Notes to the Consolidated Financial Statements.

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding Sources" section of this Management's Discussion and Analysis and in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, included in this Annual Report.

The Bank also provides key services related to payroll and human resource processing and accounting services. In the area of technology, the Bank provides the backroom services including mainframe and network server applications. These applications include network communications, loan origination, loan accounting and disaster recovery. Some services include a specific fee structure, while others are incorporated into the Bank's funding formula.

CAPITAL RESOURCES

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. The 2017 Capitalization Plan has been revised to include the new regulatory capital ratios as required by the FCA. There are no other changes that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2016, increased $14,081 or 4.34 percent to $338,700 from the December 31, 2015 total of $324,619. At December 31, 2015, total members' equity increased 5.86 percent from the December 31, 2014 total of $306,637. The increase was primarily attributed to earnings, both allocated and unallocated, in excess of revolvement of allocated earnings and the decision to retain a level of patronage source earnings to build capital.

Total capital stock and participation certificates were $8,495 on December 31, 2016, compared to $7,974 on December 31, 2015 and $7,530 on December 31, 2014. The increase was attributed to purchases of stock associated with new borrowing entities exceeding the liquidations of stock in the normal course of business.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk-adjusted asset base. Risk-adjusted assets mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded minimum regulatory standards for all the ratios.

The Association's capital ratios for the three years ending December 31 and the FCA minimum requirements follow:

	2016	2015	2014	Regulatory Minimum
Permanent capital ratio	20.55%	20.68%	20.00%	7.00%
Total surplus ratio	20.01%	20.23%	19.53%	7.00%
Core surplus ratio	16.11%	16.31%	15.86%	3.50%

The slight decrease in the Association's permanent capital, total surplus, and core surplus for December 31, 2016 compared to the ratios reported for December 31, 2015 was attributed to growth in the Association's risk weighted assets, primarily the Association's loan portfolio. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements. See Note 7, *Members' Equity*, of the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements for more information concerning the patronage distributions. The Association declared patronage distributions of $28,483 in 2016, $26,484 in 2015, and $29,921 in 2014.

The slightly higher total patronage distribution is tied to the higher earnings when comparing 2016 to 2015. The Association typically pays 30 percent in cash and the remainder in a combination of qualified and/or nonqualified allocated surplus. Payment of patronage is usually made in the first quarter of the following fiscal year. There were no significant changes to the Association's patronage policies and practices during 2016.

The Association closes the books with an estimated patronage distribution and then trues up the amount prior to actual payment. The true up entries are shown on the Member Equity Statement as a "Patronage Distribution Adjustment."

YOUNG, BEGINNING AND SMALL (YBS) FARMERS AND RANCHERS PROGRAM

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young*, Beginning**, and Small*** farmers.

Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit. The following chart reflects the Association's goals and progress toward those goals in each category.

Total Portfolio Goals and Progress
December 31, 2016

	Number of Loans	Number of Loans	Amount of Loans	Amount of Loans
	2016 Goal	2016 Actual	2016 Goal	2016 Actual
Young	2,471	2,531	$261,559	$271,778
Beginning	5,104	5,646	$617,451	$632,982
Small	9,624	9,168	$977,631	$915,049

New Loan Goals and Progress
December 31, 2016

	Number of New Loans	Number of New Loans	Amount of New Loans	Amount of New Loans
	2016 Goal	2016 Actual	2016 Goal	2016 Actual
Young	827	892	$116,728	$124,629
Beginning	1,550	1,874	$240,751	$262,497
Small	2,769	2,818	$379,365	$334,825

Note: For purposes of the above tables, a loan could be classified in more than one category, depending upon the characteristics of the underlying borrower.

The 2012 USDA Ag census data (latest data available) has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory (counties) there were 33,783 reported farmers of which by definition 1,442 or 4.27 percent were Young, 6,327 or 18.73 percent were Beginning, and 31,312 or 92.69 percent were Small. Comparatively, as of December 31, 2016, the demographics of the Association's agricultural portfolio contained 13,005 loans, of which by definition 2,531 or 19.46 percent were Young, 5,646 or 43.41 percent were Beginning and 9,168 or 70.50 percent were Small.

In 2016, the responsibilities of the Young, Beginning, and Small farmer program were moved to the Education, Outreach, and Special Programs Manager. It is an integral part of the Association's business plan. The following strategies have helped the Association work toward its goals and objectives relative to Young, Beginning, and Small farmer programs.

- Provide current and pertinent farm management and financial training to YBS customers and prospects in group settings through AGAware® program
- Provide current and pertinent farm management and financial training to YBS customers and prospects one-on-one
- Inform customers and prospects of available services through advertising and public relations
- Encourage young people to choose agriculture as a profession by supporting 4-H and FFA
- Encourage use of Student Agricultural Project loan program by visiting with 4-H representatives and FFA chapters in the service area
- Support Young Farmer Groups in the service area and at the state level
- Make customers and prospects aware of farm related services and encourage them to take advantage of beneficial programs
- Closely work with FSA personnel to meet the needs of YBS customers and prospects

Specific YBS activities in fiscal year 2016 include the following:

- Hosted Agribusiness Leadership Institute with Dr. Dave Kohl to provide farm management and financial training for young couples
- Sponsored couples attending the Georgia and South Carolina Couples Coop Conference
- Sponsored South Carolina Farm Bureau Ag in the Classroom
- Sponsored 21 AGAware® educational seminars in South Carolina and Georgia
- Presented the AGAware® speaker's bureau at 15 events
- Sponsored 4 AGAware® community outreach events
- Supported the South Carolina Agriculture Commissioners School Of Agriculture
- Supported the Georgia and South Carolina FFA and 4-H groups by providing financial assistance and sponsorships
- Provided scholarships at Clemson University, University of Georgia and Fort Valley State University
- Sponsored the Georgia and South Carolina Youth Farmer of the Year awards
- Sponsored Annie's Project
- Sponsored Team Agriculture Georgia (TAG) to provide educational workshops
- Sponsored Ag Educators reception during FFA week at Clemson University
- Sponsored the Young Farmer Dinner at the Sunbelt Ag Expo
- Sponsored South Carolina AgriBiz & Farm Expo
- Sponsored "Think Outside The Store" grant program for local farmer's markets awarding $25,000 in grants for local advertisings of markets and AgSouth

The Association is committed to the future success of young, beginning and small farmers.

*The Census shows young farmers in a group up to age 34, whereas the Association's YBS information defines Young Farmers as those farmers, ranchers, producers, or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.

**The Census shows years on present farm up to nine years, whereas the Association's YBS information defines Beginning Farmers as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.

***Small farmers are defined as those farmers, ranchers, producers, or harvesters of aquatic products who normally generate less than $250 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

Additionally, the Census data is based upon number of farms, whereas the Association's data is based on number of loans.

REGULATORY MATTERS

New regulatory capital requirements for System banks and associations became effective January 1, 2017 and were adopted to:

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

These new requirements replace the core surplus and total surplus requirements with Common Equity Tier 1 (CET1), Tier 1 and Total Capital risk-based capital ratio requirements. The new requirements also replace the existing net collateral ratio with a Tier 1 Leverage ratio which is applicable to all banks and associations. The Permanent Capital Ratio remains in effect.

The following sets forth the new regulatory capital ratios:

Ratio	Primary Components of Numerator	Denominator	Minimum Requirement	Minimum Requirement with Conservation Buffer
CET1 Capital	Unallocated retained earnings/surplus (URE), Common Stock (subject to certain conditions)	Risk-weighted assets	4.5%	7.0%
Tier 1 Capital	CET1 Capital, Non-cumulative perpetual preferred stock	Risk-weighted assets	6.0%	8.5%
Total Capital	Tier 1 Capital, Allowance for Loan Losses, other equity securities not included in Tier 1 Capital	Risk-weighted assets	8.0%	10.5%
Tier 1 Leverage	Tier 1 Capital (1.5% must be URE or URE equivalents)	Total assets	4.0%	5.0%

The new capital requirements have a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. Based on analysis, all District entities are positioned to be in compliance with the new requirements.

On November 30, 2015, the FCA, along with four other federal agencies, published in the Federal Register a final rule to establish capital and margin requirements for covered swap entities as required by the Dodd-Frank Act. See below for further information regarding the Dodd-Frank Act. This rule is not expected to have a material impact for District institutions.

On July 25, 2014, the FCA published a proposed rule in the Federal Register to revise the requirements governing the eligibility of investments for System banks and associations. The public comment period ended on October 23, 2014. The FCA expects to issue a final regulation in 2017. The proposed investment regulations are expected to have a minimal impact for District institutions. The stated objectives of the proposed rule are as follows:

- To strengthen the safety and soundness of System banks and associations,
- To ensure that System banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption,
- To enhance the ability of the System banks to supply credit to agricultural and aquatic producers,
- To comply with the requirements of section 939A of the Dodd-Frank Act,
- To modernize the investment eligibility criteria for System banks, and
- To revise the investment regulation for System associations to improve their investment management practices so they are more resilient to risk.

FINANCIAL REGULATORY REFORM

The Dodd-Frank Act was signed into law on July 21, 2010. While the Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial services industry, many of the statutory provisions of the Dodd-Frank Act are not applicable to the Farm Credit System.

The provisions of the Dodd-Frank Act pertaining to the regulation of derivatives transactions require, among other things, more of these transactions to be cleared through a third-party central clearinghouse and traded on regulated exchanges or other multilateral platforms. Margin is required for these transactions. Derivative transactions that are not subject to mandatory trading and clearing requirements may be subject to minimum margin and capital requirements. The Commodity Futures Trading Commission and other federal banking regulators have exempted System institutions from certain, but not all, of these new requirements, including, for swaps with members, mandatory clearing and minimum margin for noncleared swaps.

Notwithstanding the above-mentioned exemptions from clearing and margin requirements for System institutions, counterparties of System institutions may require margin or other forms of credit support as a condition to entering into noncleared transactions because such transactions may subject these counterparties to more onerous capital, liquidity and other requirements absent such margin or credit support. Alternatively, these counterparties may pass on the capital and other costs associated with entering into transactions if insufficient margin or if other credit support is not provided.

The Dodd-Frank Act also created a new federal agency called the Consumer Financial Protection Bureau (CFPB). The CFPB is responsible for regulating the offering of consumer financial products or services under federal consumer financial laws. The Farm Credit Administration retains the responsibility to oversee and enforce compliance by System institutions with relevant rules adopted by the CFPB.

In light of the foregoing, it is difficult to predict at this time the extent to which the Dodd-Frank Act or the forthcoming implementing rules and regulations will have an impact on the System. However, it is possible they could affect funding and hedging strategies and increase funding and hedging costs.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 2, *Summary of Significant Accounting Policies*, in the Notes to the Consolidated Financial Statements for recently issued accounting pronouncements.

DISCLOSURE REQUIRED BY FARM CREDIT ADMINISTRATION REGULATIONS

Description of Business

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations are incorporated herein by reference to Note 1, *Organization and Operations*, of the Consolidated Financial Statements included in this Annual Report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in *Management's Discussion and Analysis of Financial Condition and Results of Operations* included in this Annual Report.

The Association distributes its earnings in a Patronage Allocation program as described in *Management's Discussion and Analysis of Financial Condition and Results of Operations* included in this Annual Report. During 2016, there were no significant changes to existing patronage policies and practices.

The Association is also a member of an unincorporated business entity called CFB Holdings, LLC. CFB Holdings, LLC is a North Carolina Limited Liability Company and was organized to acquire, operate in an idle mode, market, and re-sell the Purchased Assets (an ethanol plant) and to engage in such activities as may be approved by the Majority Interest (collectively, the "Business"), in each case subject to any limitations of the Act or Applicable Laws of any jurisdiction in which the Company transacts business. The Company shall be authorized to engage in any and all other activities related to the foregoing.

Description of Property

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

Location	Description	Form of Ownership
26 South Main Street Statesboro, GA	Headquarters	Owned
1884 Joe S. Jeffords Highway Orangeburg, SC	Administrative	Owned
101 Northtown Drive Spartanburg, SC	Administrative	Owned
4 East Vine Street Statesboro, GA	Administrative	Owned
951 East Pine Log Road Aiken, SC	Branch	Owned
4930 Burton's Ferry Highway Allendale, SC	Branch	Owned
1325 Pearman Dairy Road Anderson, SC	Branch	Owned
109 East Church Street Batesburg-Leesville, SC	Branch	Owned
64 Heritage Street Baxley, GA	Branch	Owned
111 Carter Avenue Blackshear, GA	Branch	Owned
951 Highway 1 South Lugoff, SC	Branch	Owned
2520 Highway 27 South Carrollton, GA	Branch	Owned
204 Bowens Mill Road Douglas, GA	Branch	Owned
596 South Talbotton Street Greenville, GA	Branch	Owned
1298 Enterprise Way Griffin, GA	Branch	Owned
855 Odum Highway Jesup, GA	Branch	Owned
306 Hillcrest Drive Laurens, SC	Branch	Owned
1691 Lions Club Road Madison, GA	Branch	Owned
1880 Joe S. Jeffords Highway Orangeburg, SC	Branch	Owned
1321 Springdale Road Rock Hill, SC	Branch	Owned
1192 Asheville Highway Spartanburg, SC	Branch	Owned
2630 Colonel Thomson Highway St. Matthews, SC	Branch	Owned
40 South Main Street Statesboro, GA	Branch	Owned
702 Kate Lane Summerville, SC	Branch	Owned

Location	Description	Form of Ownership
620 North Church Street Thomaston, GA	Branch	Owned
314 Commerce Way Vidalia, GA	Branch	Owned
529 Bells Highway Walterboro, SC	Branch	Owned

The Association currently owns a 2 acre lot on Fairfax Highway in Allendale, South Carolina. The Association has this lot for sale in 2017.

The Association owns a building and lot on the Barnwell Highway in Allendale, South Carolina. It is currently listed for sale with a local realtor.

The Association purchased two pieces of real estate in Statesboro, Georgia in 2016 at 4 East Vine Street and 20 East Vine Street in 2016. The 4 East Vine Street location is being used to accommodate staff overflow. The intention is to construct a new operations center and meeting facility in this newly acquired space to accommodate staff due to the consolidation of all administrative functions in accounting and human resources to Statesboro, Georgia by 2018.

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 11, *Commitments and Contingencies*, of the Consolidated Financial Statements included in this Annual Report.

Description of Capital Structure

Information to be disclosed in this section is incorporated herein by reference to Note 7, *Members' Equity*, of the Consolidated Financial Statements included in this Annual Report.

Description of Liabilities

The description of liabilities, contingent liabilities and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 6, 9 and 11 of the Consolidated Financial Statements included in this Annual Report.

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 and is to be disclosed in this section, is incorporated herein by reference.

Senior Officers

The following represents certain information regarding the senior officers of the Association as of December 31, 2016:

Name	Current Position	Date Started in Current Position**	Previous Position(s)During Last Five Years
Pat Calhoun	Chief Executive Officer	September 2016	Director of Risk Management
William P. Spigener, Jr.	Past Chief Executive Officer	January 2004	Chief Executive Officer
Alisa D. Gunter	Chief Financial Officer	January 2004	
P. Craig Peebles	Chief Lending Officer	December 2016	Regional President – GA
Ronald L. Summers*	Regional President – SC	January 2004	
J. Stacy Anderson	Chief Credit Officer	October 2016	Regional Credit Administrator
A. Owen Smith	Association Credit Trainer	October 2016	Chief Credit Officer; Regional Lending Manager – SC
Wesley D. Sutton	General Counsel	October 2012	Assistant General Counsel, AgFirst Farm Credit Bank
W. Van McCall*	Education, Outreach & Special Program Manager	January 2015	Regional Lending Manager – GA
J. Theron Anderson	Director of Financially Related Services	January 2004	

**Mr. Summers and Mr. McCall retired effective December 31, 2016.*
***The January 2004 reflects the date of the merger of Palmetto Farm Credit, ACA and AgSouth Farm Credit, ACA. For those senior officers reflecting a date of January 2004, they held the position reflected or a similar position prior to January 2004.*

The primary business experience for the past five years for the senior officers is with the Farm Credit System. Other business or organizational interests are as follows:

- **Ronald L. Summers** is a partner in the Colleton Investment Association (investment club) and Colleton Realty Investments, LLC (real estate investment). He was chairman of the Palmetto Agribusiness Council (promotes agriculture in South Carolina) and president of South Carolina Advocates for Agriculture (promotes agriculture in South Carolina). He also serves as a board member of Clemson Timberlands Legacy Program Advisory Committee (promotes real estate philanthropy to the University), the Clemson 4-H Foundation (education) and the South Carolina State Business College Advisory Committee (education). Mr. Summers also works a limited amount on the family farm. Mr. Summers retired effective December 31, 2016.

- **A. Owen Smith** serves on the board of the South Carolina Poultry Federation (promotes poultry industry).

- **W. Van McCall** is the owner of McCall Ministries and God In The Hunt (evangelistic ministry, motivational speaking and Christian-based personal finance). He serves on the AgFirst Farm Credit University Advisory Board

(agriculture education), the University of Georgia College of Agriculture & Environmental Science Dean's Advisory Board (promotes agriculture), the co-chair of Development and Finance Committee of the University of Georgia Ag Alumni Association Board (promotes agriculture education), and the University of Georgia Advancing Georgia Leaders Advisory Board (leadership training program). Mr. McCall also serves on the Finance Review Board of the South Georgia Church of God and farms timber and straw on his personal and family farms on a part-time basis. Mr. McCall retired effective December 31, 2016.

- **J. Theron Anderson** is owner of Plan C Investments, LLC (real estate rental and investment properties) and is owner of LKP Investments, LLC (real estate investment) and farms pecans and timber.

The total amount of compensation earned by all senior officers and other highly compensated employees as a group during the years ended December 31, 2016, 2015 and 2014, is as follows:

Name of Individual or Number in Group	Year	Annual Salary	Annual Bonus	Deferred Comp.	Change in Pension Value[(a)]	Perq./ Other[(b)]	Total
Pat Calhoun	2016	$ 212,632	$ 89,336	$ 11,500	$ 332,555	$ –	$ 646,023
William P. Spigener, Jr.	2016	450,018	175,700	5,436	406,053	11,499	1,048,706
William P. Spigener, Jr.	2015	420,054	126,000	5,975	37,595	10,828	600,452
William P. Spigener, Jr.	2014	392,407	174,109	5,969	728,342	11,136	1,311,963
10	2016	1,475,872	983,182	19,000	1,187,941	88,681	3,754,676
9	2015	1,465,351	601,707	36,500	121,954	12,905	2,238,417
8	2014	1,386,186	478,321	48,500	2,303,661	5,378	4,222,046

(a) The changes in pension values in 2014 as reflected in the table above resulted primarily from changes in the actuarial assumptions for mortality and discount rate. See further discussion in Note 9, Employee Benefit Plans, of the Financial Statements.

(b) The Perquisites/Other amount disclosed in the above chart includes club memberships, automobile allowance, relocation reimbursement and life insurance.

The disclosure of information on the total compensation paid during 2016 to any senior officer or to any other employee included in the aggregate group total as reported in the table above is available and will be disclosed to the shareholders of the institution upon request.

All employees including the CEO and senior officers have defined duty statements and standards of performance. These standards are reviewed at least annually and graded on a one to five scale, with five indicating "Performance over a sustained period consistently far exceeds standards and expectations for all position responsibilities." Annually, supervisors evaluate performance and a merit increase is rewarded, if performance score warrants.

In addition to a base salary, deferred compensation and perquisites/other, senior officers earn additional compensation under an annual incentive plan. The Association's annual incentive plan is designed to motivate employees to exceed the business plan goals during the fiscal year. These goals include Association income, credit quality, credit administration, loan volume, delinquencies, and other key success measurements. Income to pay the incentive payments is derived from profits over and above those budgeted in the board-approved business plan for 2016. Full-time employees are covered by the annual incentive plan which runs for the full calendar year and employees can earn between 0 and 30 percent of base salary. An estimated incentive was accrued prior to December 31, 2016 and final calculations and payment were made in January 2017. Employees that are not eligible for merit increases based upon individual performance are not eligible for incentive. A copy of the incentive plan is available to stockholders upon request.

Certain additional bonuses have been approved by the board based on either the overall performance of the Association, or particular ideas or performance leading to sustained increases in profits to the stockholders. Bonuses are shown in the year earned, which may be different than the year of payment.

Selected staff members participate in a long-term incentive program. The long-term incentive program was established by the board in fiscal year 2006 and measures performance at the end of each three (3) year period. Goals are set annually by the Executive and Compensation Committee. Payments under the long-term incentive program can range from 0 to 15 percent. Goals include reaching key financial ratios and building and maintaining the Association's patronage program. Estimated long-term incentive payments were accrued in December 2016. The final calculation and payment were made in January 2017. The purpose of the long-term incentive program is to retain key staff and reward them for reaching established goals.

Selected staff members may also participate in a defined contribution benefit plan separate from the Association's existing 401k plan. The defined contribution plan has requirements for vesting and is reflected in the Deferred Compensation column above.

The overall compensation program of the Association is designed to reward performance that exceeds expectations set by both managers and by the Board of Directors. The results outlined in the compensation table reflect the success the Association had in 2016 in increasing loan volume, generating significant earnings and maintaining a strong, consistent patronage program.

Additional Compensation Information

On February 4, 2015, the FCA Board approved the final rule, "Disclosure to Shareholders, Pension Benefit Disclosures". The rule amends FCA Regulations to exclude employee compensation from being reported in the Summary Compensation Table if the employee would be considered a "highly compensated employee" solely because of payments related to or change(s) in value of the employee's qualified pension plan provided that the plan was available to all similarly situated employees on the same basis at the time the employee joined the plan. The rule was effective 30 days after publication in the Federal Register. System banks and associations must comply with the rule for compensation reported in the table for the fiscal year ending 2015 and may implement the rule retroactively for the fiscal years 2014 and 2013. The Association applied the rule for 2014.

The chart below details the value of accumulated benefits on a present value basis for the CEO and senior officers and other highly compensated employees under the two retirement plans offered by the Association. Reference Note 2, *Summary of Significant Accounting Policies,* for additional information about these multi-employer pension plans.

Pension Benefits Table
As of December 31, 2016

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2016
CEO:					
Pat Calhoun	2016	AgFirst Retirement Plan	29.33	$ 1,743,147	$
PAST CEO:					
William P. Spigener, Jr.	2016	AgFirst Retirement Plan	30.92	$ 2,912,341	$ –
William P. Spigener, Jr.	2016	Supplemental Executive Retirement Plan	30.92	1,092,821	–
				$ 5,748,309	$ –
Senior Officers and Highly Compensated Employees:					
10*	2016		30.20*	$ 12,710,186	$ –
				$ 12,710,186	$ –

**Represents the number and the average years of credited service for those eligible to participate in the AgFirst Retirement Plan*

The present value of pension benefits is the value at a specific date of the expected future benefit payment stream based on actuarial assumptions, chiefly the discount rate. Other assumptions are also used, such as expected retirement age and life expectancy. Changes in the actuarial assumptions can increase or decrease the pension values.

The discount rate, which is derived using an AA corporate bond yield curve, is updated every year based on the interest rate environment at December 31. A decrease in the discount rate will normally increase the present values and vice versa.

The life expectancy actuarial assumption was updated at December 31, 2014 to reflect recent mortality studies indicating longer life spans. This change further increased pension values as the benefit payments are expected to be made for a longer time span.

There was an increase in the discount rate assumption from December 31, 2014 to December 31, 2015. The change in discount rate and a change in mortality assumptions led to a decrease in projected benefit obligations at December 31, 2015.

In addition, the assumptions used for the Cash Balance Plan values were updated to reflect expected payouts in conjunction with the upcoming plan termination. See Note 9, *Employee Benefit Plans*, for further information. The acceleration of expected payments significantly increased the pension values for those individuals in the Cash Balance Plan.

All employees are eligible to receive awards based on years of service on five year, or multiple of five year anniversaries. A copy of this plan is available to stockholders upon request.

Directors

Directors and senior officers are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include internet access, transportation, lodging, meals, tips, tolls, parking, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to stockholders upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $274,134 for 2016, $301,655 for 2015, and $260,858 for 2014.

The Association provides iPads to directors for data and information access to Association financial reports and other material through a secure portal. The expense for the iPads and network access is included in the other related expenses amount above.

Subject to approval by the board, the Association may allow directors honoraria of $600 for attendance at meetings, committee meetings, or special assignments. Directors are also allowed travel honorarium of $300 depending upon meeting location relative to their headquarters. Directors are paid a monthly retainer fee of $600 each. The retainer for the chairman, vice-chairman, and chairman of the Audit Committee was $930 per month.

There was no noncash compensation paid to directors in 2016.

The following chart details the year the director began serving on the board and the current term expiration.

Director	Original Year of Election or Appointment	Current Term Expiration	Days in Board Meetings	Comp. for Board Meetings & Retainer	Days in Committee Meetings	Days in Other Activities	Comp. for Committee and other Activities	Total All Compensation
William T. Robinson	2011	2020	15	16,560	22	20	18,000	34,560
James C. Carter, JR	1979	2017	15	15,960	28	16	15,900	31,860
H. Frank Ables, Jr.	2015	2019	14	12,000	12	18	17,400	29,400
Arthur Q. Black	1995	2017	14	12,000	19	16	22,800	34,800
Thomas H. Coward	1986	2019	15	12,000	7	16	16,500	28,500
Loy D. Cowart	1968	2018	14	12,000	7	12	13,200	25,200
Lee H. DeLoach	2002	2020	15	12,000	7	17	19,200	31,200
Walter W. Douglas*	2012	2018	13	11,400	6	17	16,500	27,900
A. Harvey Lemmon++	1979	2018	15	12,600	12	9	14,100	26,700
Phillip E. Love, Jr.*	2014	2017	14	12,000	13	12	16,500	28,500
Jimmy B. Metts	1978	2020	12	12,600	7	18	18,000	30,600
Jerome G. Parker	1987	2018	15	12,000	7	19	20,700	32,700
J. Jay Peay	2015	2019	12	11,400	13	15	15,000	26,400
Charles C. Rucks	1988	2017	14	12.330	18	15	21,300	33,630
Hugh E. Weathers	1998	2019	12	12,000	15	15	18,300	30,300
David H. Womack*	1991	2019	15	12,000	23	16	19,800	31,800
TOTAL COMPENSATION				**$200,850**			**$283,200**	**$484,050**

******Serve as Outside Directors*

++***Mr. A. Harvey Lemmon passed away in January 2017.***

Days in Board Meetings and Days in Committee meetings may include participation in conference calls. There is no specified reimbursement for conference calls.

Days in Other Activities includes partial days traveling and days spent attending other Farm Credit related functions or special assignments.

The following represents certain information regarding the directors of the Association. Unless specifically listed, the principal occupation of the board member for the past five years has been as a self-employed farmer.

William T. Robinson, Board Chairman, is a row crop, hay, cattle and timber farmer. He retired from Santee Cooper (utility provider) in the Treasury and Corporate Planning Department in early 2015. He is now employed by The SEFA Group (engineering and construction). Mr. Robinson serves on the board of directors of the AgFirst Farm Credit Bank (agricultural lending) and the AgFirst Farm Credit Bank/Farm Credit Bank of Texas Benefits Plan Sponsor Committee (agricultural lending). He is a member of the Orangeburg Area Cattlemen's Association (beef cattle production), South Carolina Farm Bureau (agricultural organization) and the Parents Advisory Council for Wofford College (education). Mr. Robinson served on the Executive Search Committee, chairs the Executive and Compensation Committee and is an ad hoc member of all other board committees.

James C. Carter, Jr., Vice-Chairman, is a blueberry, blackberry and strawberry farmer and is owner and secretary of Southern Belle Farms (farming, agritourism, and educational field trips). He is owner and operator of Southern Belle Farm, Feed Division (mineral supplements for beef and dairy cattle), owner of JC Carter Family Farm, LLC (general farming), and is an independent sales representative for ABS Global, which provides artificial insemination services for cattle. Mr. Carter is the vice president of the Henry County Farm Bureau (agricultural organization), the board chairman of the Henry County Water Authority (water supply and distribution organization), and serves on the board of the Henry County Cattlemen's Association (beef cattle production). He also serves on the board of directors of the AgFirst Farm Credit Bank (agricultural lending) and serves on the board of directors for Farm Credit Council (legislative support for agriculture). Mr. Carter served on the Executive Search Committee, chairs the Audit Committee and is a member of the Executive and Compensation Committee.

H. Frank Ables, Jr. is a poultry and beef producer and grows wheat, corn and soybeans. He is on the Oconee County Conservation Bank board (conservation organization). Mr. Ables serves on the Audit Committee.

Arthur Q. Black is a peach, strawberry, hay and produce farmer. He operates a retail roadside market and bakery with his wife and daughter. He is president of York County Farm Bureau (agricultural organization) and serves on the board of the Fruit Advisory Committee of the South Carolina Farm Bureau (agricultural organization). Mr. Black also serves as president on the board of Farmers Mutual Insurance (insurance) and is a member of the York Investment Association (investment club). Mr. Black is the board's representative on the AgFirst District Advisory Council (agricultural organization). He served on the Executive Search Committee, chairs the Governance and Ethics Committee and is a member of the Executive and Compensation Committee.

Thomas H. Coward boards horses and is a real estate developer. Mr. Coward is the board's representative to the AgFirst Farm Credit Bank Nominating Committee and is the vice-chairman of the Risk Management Committee.

Loy D. Cowart, Jr. is a landlord and a retired timber and row crop farmer. He is Vice President of Emanuel County Farm Bureau (agricultural organization) and he serves on the board of Durden Banking Company (banking). Mr. Cowart is a member of the Governance and Ethics Committee.

Lee H. DeLoach served as Bulloch County's Probate Judge and is a timber farmer and landlord. He is a member of Georgia Farm Bureau (agricultural organization), Bulloch County Cattlemen's Association (beef cattle production) and Ogeechee River Soil and Water Association (water conservation). Mr. DeLoach serves as the alternate representative to the AgFirst Farm Credit Bank Nominating Committee and is the vice-chairman of the Governance and Ethics Committee.

Walter W. Douglas is currently serving as a professional consultant for agricultural related projects. In the past five years, Mr. Douglas has served as the South Carolina State Conservationist with the USDA, Special Assistant to the Chief of USDA - Natural Resources Conservation Services, and Acting Director of the Office of Advocacy and Outreach - USDA. Mr. Douglas serves as an outside director and on the Risk Management Committee.

A. Harvey Lemmon was a commercial and purebred cattle producer. He served as chairman of the Georgia Beef Board (promote beef and research); president of the Meriwether County Cattlemen's Association (beef cattle production); chairman of Southern Rivers Energy EMC (cooperative utilities); and Ex-Officio member of the Executive Committee of the Georgia Cattlemen's Association (beef cattle production). Mr. Lemmon served as the alternate board representative to the AgFirst Farm Credit Bank District Advisory Council (agricultural organization) and served on the Audit Committee. *Mr. Lemmon passed away in January 2017.*

Phillip E. Love, Jr. worked for 38 years with the South Carolina Farm Bureau Mutual Insurance Company (insurance), retiring as CEO in 2013. Mr. Love is the chairman of the board of directors of Amerisure Mutual Insurance Company (insurance) where he serves on the Compensation and Governance and Audit Committees. Mr. Love is also a member of the board of directors of the South Carolina Medical Malpractice Liability Insurance Joint Underwriting Association (insurance), where he serves on the Executive Committee. He is the vice-chair of South Carolina Property and Casualty Guaranty Fund (insurance); vice-chair of South Carolina Windstorm and Hail Underwriting Association (insurance) where he also serves on the Long Range Planning and Reinsurance Committees; and chairman for Agency Business Solutions, LLC (insurance). Mr. Love serves as an outside director, was the chairman of the Executive Search Committee and is a member of the Risk Management Committee.

Jimmy B. Metts is a cattle, row crop, hay, and tree farmer. Mr. Metts is president of Land Services, Inc. (land clearing) and he serves on the Risk Management Committee.

Jerome G. Parker is a pecan farmer and he also operates a refrigeration business. He serves on the board of Tattnall County Farm Bureau (agricultural organization) and on the Vidalia Onion Committee (agricultural organization). Mr. Parker serves on the Governance and Ethics Committee.

J. Jay Peay is a Certified Public Accountant for SwaimBrown, PA (accounting firm) and a Registered Investment Advisor, president and owner of SwaimBrown Wealth Management, LLC (investment consulting and advising). For the past five years, Mr. Peay has been employed as a CPA. Mr. Peay manages personal and family property that produces hay, timber and row crops. Mr. Peay is a partner in Enoree Holdings, LLC (investment holding company); Bush River Realty, LLC (real estate); 308 Dirt Farmers, LLC (land acquisition); serves as a board member for Laurens County Healthcare Systems (medical); and serves on the board of the Laurens County Cancer Association (non-profit organization). Mr. Peay is a member of the Audit Committee.

Charles C. Rucks is a retired dairy farmer. He now grows hay and raises beef cattle. He is president of the Spalding County Farm Bureau (agricultural organization) and serves as a board member for the Upper Flint Water Council (water conservation). Mr. Rucks served on the Executive Search Committee and presently serves on the Governance and Ethics and Executive and Compensation Committees.

Hugh E. Weathers is a dairy and row crop farmer, a farm property landlord, and is employed by the state of South Carolina as the Commissioner of Agriculture. Mr. Weathers is a director and secretary of Weathers Farms, Inc. (row crops and farm property landlord); director of Weathers Trucking, Inc. (bulk milk delivery); partner in Circle W. Farms (row crops); and partner of WB Bowman, LLC. (land holdings). He serves on the boards of Southern United States Trade Association (agricultural exporting); South Carolina Poultry Federation (promotes poultry industry); the Southern Association of State Departments of Agriculture (agricultural organization); and the South Carolina Department of Commerce Coordinating Council (commerce enhancement). Mr. Weathers served on the Executive Search Committee, is chairman of the Risk Management Committee and is a member of the Executive and Compensation Committee.

David H. Womack is a Certified Public Accountant and President in the firm of David H. Womack, PC, CPA (accounting firm). His principal occupation and employment for the past five years has been as a CPA. Mr. Womack also serves as chairman of the Board of Trustees for Brewton Cemetery, Inc. (perpetual care, non-profit). Mr. Womack is serving as an outside director and served on the Executive Search Committee and is the vice-chairman of the Audit Committee.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 10, *Related Party Transactions*, of the Consolidated Financial Statements included in this Annual Report. There have been no transactions between the Association and senior officers or directors which require reporting per FCA regulations except those discussed in Note 10, *Related Party Transactions*.

Involvement in Certain Legal Proceedings

From time to time, the Association may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, the Association is not aware of any such actions that would have a material impact on our financial condition and there were no matters which came to the attention of management or the board of directors regarding involvement of current directors or senior officers in specified legal

proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

Relationship with Independent Certified Public Accountants

There were no changes in or material disagreements with our independent certified public accountant on any matter of accounting principles or financial statement disclosure during this period.

Aggregate fees paid by the Association for services rendered by its independent certified public accountant for the year ended December 31, 2016 were as follows:

Independent Certified Public Accountant	**2016**
PricewaterhouseCoopers, LLP	
Audit services	$ 70,600
Total	$ 70,600

Audit services were for the annual audit of the Consolidated Financial Statements.

Consolidated Financial Statements

The Consolidated Financial Statements, together with the report thereon of PricewaterhouseCoopers, LLP dated March 13, 2017 and the report of management, which appear in this Annual Report, are incorporated herein by reference.

Copies of the Association's quarterly reports are available upon request free of charge by calling 1-912-489-4842, ext. 2663, or writing Alisa D. Gunter, AgSouth Farm Credit, ACA, P.O. 718 Statesboro, GA 30459 or accessing the website, ***www.agsouthfc.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's website within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

Since 1972, Farm Credit Administration (FCA) regulations have required that borrower information be held in strict confidence by Farm Credit System (FCS) institutions, their directors, officers and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA Board adopted a policy that requires FCS institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the Annual Report. The implementation of these measures ensure that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

Credit and Services to Young, Beginning, and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products

Information to be disclosed in this section is incorporated herein by reference to the similarly named section in the *Management's Discussion and Analysis of Financial Condition and Results of Operations* section included in this Annual Report to the shareholders.

Shareholder Investment

Shareholder investment in the Association could be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's website at ***www.agfirst.com***. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Reports of suspected or actual wrongdoings involving the Association, its employees and/or Directors, can be made anonymously and confidentially through the Association's Whistleblower Hotline (Speak Up) at 1-844-850-6496 or www.speakupAgSouthFC.intercedeservices.com.

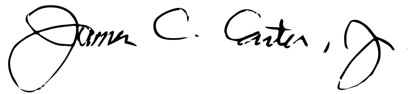
REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of AgSouth Farm Credit, ACA (Association), and in the opinion of the Board of Directors, each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

The Committee has adopted a written charter that has been approved by the Board of Directors. The Committee has reviewed and discussed the Association's audited financial statements with management, which has primary responsibility for the financial statements.

PricewaterhouseCoopers LLP (PwC), the Association's independent certified public accountants for 2016, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance)*. The Committee discussed with PwC its independence from AgSouth Farm Credit, ACA. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Association's Annual Report for 2016. The foregoing report is provided by the following independent directors, who constitute the Committee:



James C. Carter, Jr.
Chairman of the Audit Committee

Members of Audit Committee

H. Frank Ables, Jr.
J. Jay Peay
David H. Womack

March 13, 2017

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Certified Public Accountants

To the Board of Directors and Members of
AgSouth Farm Credit, ACA

We have audited the accompanying consolidated financial statements of AgSouth Farm Credit, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2016, 2015 and 2014, and the related consolidated statements of income, comprehensive 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.

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

PricewaterhouseCoopers LLP

March 13, 2017

PricewaterhouseCoopers LLP, 333 SE 2nd Avenue, Suite 3000, Miami, FL 33131
T: (305) 375 7400, F:(305) 375 6221, www.pwc.com/us

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)	2016	December 31, 2015	2014
Assets			
Cash	**$ 5,160**	$ 4,191	$ 4,976
Investment securities:			
Held to maturity (fair value of $6,820, $8,265, and $8,876, respectively)	**7,057**	8,395	8,713
Loans	**1,631,945**	1,557,881	1,499,004
Allowance for loan losses	**(14,183)**	(13,099)	(12,357)
Net loans	**1,617,762**	1,544,782	1,486,647
Loans held for sale	**2,860**	3,302	942
Accrued interest receivable	**14,538**	15,437	14,271
Investments in other Farm Credit institutions	**22,847**	22,145	22,537
Premises and equipment, net	**18,753**	16,339	15,800
Other property owned	**3,289**	5,425	4,189
Accounts receivable	**20,956**	19,565	26,115
Other assets	**9,761**	11,599	10,743
Total assets	**$ 1,722,983**	$ 1,651,180	$ 1,594,933
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 1,342,601**	$ 1,286,760	$ 1,243,701
Accrued interest payable	**3,025**	2,870	2,685
Patronage refunds payable	**8,673**	8,144	9,154
Accounts payable	**2,470**	2,008	1,690
Other liabilities	**27,514**	26,779	31,066
Total liabilities	**1,384,283**	1,326,561	1,288,296
Commitments and contingencies (Note 11)			
Members' Equity			
Protected borrower stock	**2**	2	3
Capital stock and participation certificates	**8,493**	7,972	7,527
Retained earnings			
Allocated	**118,570**	116,777	112,635
Unallocated	**212,028**	200,380	187,002
Accumulated other comprehensive income (loss)	**(393)**	(512)	(530)
Total members' equity	**338,700**	324,619	306,637
Total liabilities and members' equity	**$ 1,722,983**	$ 1,651,180	$ 1,594,933

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

CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands)	For the year ended December 31, 2016	2015	2014
Interest Income			
Loans	**$ 92,191**	$ 88,348	$ 88,449
Investments	**518**	554	692
Total interest income	**92,709**	88,902	89,141
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**35,002**	32,183	31,513
Other	**125**	246	60
Total interest expense	**35,127**	32,429	31,573
Net interest income	**57,582**	56,473	57,568
Provision for loan losses	**1,072**	1,232	262
Net interest income after provision for loan losses	**56,510**	55,241	57,306
Noninterest Income			
Loan fees	**3,244**	3,070	2,457
Fees for financially related services	**1,908**	1,767	1,447
Patronage refunds from other Farm Credit institutions	**20,884**	19,374	26,458
Gains (losses) on sales of rural home loans, net	**2,013**	1,843	1,088
Gains (losses) on sales of premises and equipment, net	**287**	228	67
Gains (losses) on other transactions	**(149)**	(88)	49
Other noninterest income	**119**	121	158
Total noninterest income	**28,306**	26,315	31,724
Noninterest Expense			
Salaries and employee benefits	**31,742**	30,749	28,496
Occupancy and equipment	**2,469**	2,251	2,292
Insurance Fund premiums	**2,024**	1,458	1,370
(Gains) losses on other property owned, net	**688**	414	467
Other operating expenses	**7,782**	6,822	6,976
Total noninterest expense	**44,705**	41,694	39,601
Income before income taxes	**40,111**	39,862	49,429
Provision for income taxes	**10**	—	4
Net income	**$ 40,101**	$ 39,862	$ 49,425

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)	For the year ended December 31, 2016	2015	2014
Net income	**$ 40,101**	$ 39,862	$ 49,425
Other comprehensive income net of tax			
Employee benefit plans adjustments	**119**	18	(306)
Comprehensive income	**$ 40,220**	$ 39,880	$ 49,119

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2013	$ 16	$ 7,192	$ 110,391	$ 168,402	$ (224)	$ 285,777
Comprehensive income				49,425	(306)	49,119
Protected borrower stock issued/(retired), net	(13)					(13)
Capital stock/participation certificates issued/(retired), net		335				335
Patronage distribution						
Cash				(8,976)		(8,976)
Qualified allocated retained earnings			533	(533)		—
Nonqualified allocated retained earnings			20,412	(20,412)		—
Retained earnings retired			(19,334)			(19,334)
Patronage distribution adjustment			633	(904)		(271)
Balance at December 31, 2014	$ 3	$ 7,527	$ 112,635	$ 187,002	$ (530)	$ 306,637
Comprehensive income				39,862	18	39,880
Protected borrower stock issued/(retired), net	(1)					(1)
Capital stock/participation certificates issued/(retired), net		445				445
Patronage distribution						
Cash				(7,945)		(7,945)
Qualified allocated retained earnings			515	(515)		—
Nonqualified allocated retained earnings			18,024	(18,024)		—
Retained earnings retired			(14,397)			(14,397)
Balance at December 31, 2015	$ 2	$ 7,972	$ 116,777	$ 200,380	$ (512)	$ 324,619
Comprehensive income				**40,101**	**119**	**40,220**
Capital stock/participation certificates issued/(retired), net		**521**				**521**
Patronage distribution						
Cash				**(8,545)**		**(8,545)**
Qualified allocated retained earnings			**1,339**	**(1,339)**		**—**
Nonqualified allocated retained earnings			**18,599**	**(18,599)**		**—**
Retained earnings retired			**(18,124)**			**(18,124)**
Patronage distribution adjustment			**(21)**	**30**		**9**
Balance at December 31, 2016	**$ 2**	**$ 8,493**	**$ 118,570**	**$ 212,028**	**$ (393)**	**$ 338,700**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)	For the year ended December 31, 2016	2015	2014
Cash flows from operating activities:			
Net income	**$ 40,101**	$ 39,862	$ 49,425
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**1,240**	1,268	1,263
Amortization (accretion) of net deferred loan costs (fees)	**669**	828	936
Premium amortization (discount accretion) on investments	**(1)**	(1)	(11)
Provision for loan losses	**1,072**	1,232	262
(Gains) losses on other property owned	**637**	342	202
(Gains) losses on sales of premises and equipment, net	**(287)**	(228)	(67)
(Gains) losses on sales of rural home loans, net	**(2,013)**	(1,843)	(1,088)
(Gains) losses on other transactions	**149**	88	(49)
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(139,926)**	(132,398)	(88,167)
Proceeds from sales of loans held for sale, net	**142,381**	131,881	88,848
(Increase) decrease in accrued interest receivable	**899**	(1,166)	(123)
(Increase) decrease in accounts receivable	**(1,391)**	6,550	1,893
(Increase) decrease in other assets	**1,838**	(856)	1,332
Increase (decrease) in accrued interest payable	**155**	185	(116)
Increase (decrease) in accounts payable	**462**	318	16
Increase (decrease) in other liabilities	**705**	(4,357)	7,035
Total adjustments	**6,589**	1,843	12,166
Net cash provided by (used in) operating activities	**46,690**	41,705	61,591
Cash flows from investing activities:			
Purchases of investment securities, held to maturity	**—**	—	(4,972)
Proceeds from maturities of or principal payments received on investment securities, held to maturity	**1,339**	319	3,463
Net (increase) decrease in loans	**(74,789)**	(62,176)	(7,163)
(Increase) decrease in investment in other Farm Credit institutions	**(702)**	392	49
Purchases of premises and equipment	**(3,711)**	(1,844)	(1,182)
Proceeds from sales of premises and equipment	**344**	265	80
Proceeds from sales of other property owned	**1,567**	403	1,563
Net cash provided by (used in) investing activities	**(75,952)**	(62,641)	(8,162)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**55,841**	43,059	(27,610)
Protected borrower stock retired	**—**	(1)	(13)
Capital stock and participation certificates issued/(retired), net	**521**	445	335
Patronage refunds and dividends paid	**(8,007)**	(8,955)	(8,892)
Retained earnings retired	**(18,124)**	(14,397)	(19,334)
Net cash provided by (used in) financing activities	**30,231**	20,151	(55,514)
Net increase (decrease) in cash	**969**	(785)	(2,085)
Cash, beginning of period	**4,191**	4,976	7,061
Cash, end of period	**$ 5,160**	$ 4,191	$ 4,976
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	**$ 497**	$ 128	$ 199
Receipt of property in settlement of loans	**565**	2,109	4,422
Estimated cash dividends or patronage distributions declared or payable	**8,545**	7,945	8,976
Employee benefit plans adjustments (Note 9)	**(119)**	(18)	306
Supplemental information:			
Interest paid	**34,972**	32,244	31,689
Taxes (refunded) paid, net	**—**	4	6

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

Note 1 — Organization and Operations

A. **Organization:** AgSouth Farm Credit, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the states of Georgia and South Carolina in the following counties:

Georgia: Counties of Appling, Atkinson, Bacon, Brantley, Bryan, Bulloch, Butts, Camden, Candler, Carroll, Charlton, Chatham, Clayton, Clinch, Coffee, Coweta, DeKalb, Douglas, Effingham, Emanuel, Evans, Fayette, Fulton, Glynn, Greene, Gwinnett, Haralson, Harris, Heard, Henry, Jasper, Jeff Davis, Jenkins, Lamar, Liberty, Long, McIntosh, Meriwether, Monroe, Montgomery, Morgan, Muscogee, Newton, Oconee, Pierce, Pike, Putnam, Rockdale, Screven, Spalding, Talbot, Tattnall, Toombs, Troup, Upson, Walton, Ware, Wayne, and Wheeler.

South Carolina: Counties of Abbeville, Aiken, Allendale, Anderson, Bamberg, Barnwell, Beaufort, Berkeley, Calhoun, Charleston, Cherokee, Chester, Colleton, Dorchester, Edgefield, Fairfield, Greenville, Greenwood, Hampton, Jasper, Kershaw, Lancaster, Laurens, Lexington, McCormick, Newberry, Oconee, Orangeburg, Pickens, Richland, Saluda, Spartanburg, Union, and York.

The Association is a lending institution in the Farm Credit System (System), a nationwide network of cooperatively owned banks and associations. It was established by Acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The System specializes in providing financing and related services to qualified borrowers for agricultural and rural purposes.

The nation is served by three Farm Credit Banks (FCBs) and one Agricultural Credit Bank (ACB), (collectively, the System Banks) each of which has specific lending authorities within its chartered territory. The ACB also has additional specific nationwide lending authorities.

Each System Bank serves one or more Agricultural Credit Associations (ACAs) that originate long-term, short-term and intermediate-term loans, Production Credit Associations (PCAs) that originate and service short- and intermediate-term loans, and/or Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans. These associations borrow a majority of the funds for their lending activities from their related bank. System Banks are also responsible for supervising the activities of associations within their districts. AgFirst and its related Associations (Associations or District Associations) are collectively referred to as the AgFirst District. The District Associations jointly own substantially all of AgFirst's voting stock. As of year end, the District consisted of the Bank and nineteen District Associations. All nineteen were structured as ACA holding companies, with PCA and FLCA subsidiaries. FLCAs are tax-exempt while ACAs and PCAs are taxable.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System Banks and Associations. The FCA examines the activities of the Associations and certain actions by the Associations are subject to the prior approval of the FCA and the supervising bank.

The Farm Credit Act also established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured Debt), (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary uses by the Insurance Corporation to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank has been required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its annual average adjusted outstanding Insured Debt until the assets in the Insurance Fund reach the "secure base amount." The secure base amount is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of the aggregate obligations as the Insurance Corporation at its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums and may return excess funds above the secure base amount to System institutions. However, it must still ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

B. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity and financial services that can be offered by the Association, and the persons eligible to borrow.

The Associations borrow from the Bank and in turn may originate and service short- and intermediate-term loans to their members, as well as, long-term real estate mortgage loans.

The Bank primarily lends to the District Associations in the form of a line of credit to fund the Associations' earning assets. These lines of credit (or Direct Notes) are collateralized by a pledge of substantially all of each Association's assets. The terms of the Direct Notes are governed by a General Financing Agreement (GFA) between the Bank and Association. Each advance is structured such that the principal cash flow, repricing

characteristics, and underlying index (if any) of the advance match those of the assets being funded. By match-funding the Association loans, the Associations' exposure to interest rate risk is minimized.

In addition to providing funding for earning assets, the Bank provides District Associations with banking and support services such as: accounting, human resources, information systems, and marketing. The costs of these support services are included in the cost of the Direct Note, or in some cases billed directly to certain Associations that use a specific service.

The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments, and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses.

The Association may sell to any System borrowing member, on an optional basis, credit or term life insurance appropriate to protect the loan commitment in the event of death of the debtor(s). The sale of other insurance necessary to protect a member's farm or aquatic unit is permitted, but limited to hail and multi-peril crop insurance, and insurance necessary to protect the facilities and equipment of aquatic borrowers.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Association conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results may differ from these estimates.

The accompanying consolidated financial statements include the accounts of the ACA, PCA and FLCA.

Certain amounts in the prior year financial statements have been reclassified to conform to the current period presentation. Such reclassifications had no effect on net income or total members' equity of prior years.

A. **Cash:** Cash represents cash on hand and on deposit at banks.

B. **Loans and Allowance for Loan Losses:** The Association is authorized to make long-term real estate loans with maturities of 5 to 40 years and certain short- and intermediate-term loans for agricultural production or operating purposes with maturities of not more than 10 years.

Loans are carried at their principal amount outstanding adjusted for charge-offs, premiums, discounts, deferred loan fees or costs, and derivative instruments and hedging valuation adjustments, if any. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. The difference in the total investment in a loan and its principal amount may be deferred as part of the carrying amount of the loan and the net difference amortized over the life of the related loan as an adjustment to interest income using the effective interest method.

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

Loans are generally classified as nonaccrual when principal or interest is delinquent for 90 days (unless adequately collateralized and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in the prior year).

When loans are in nonaccrual status, the interest portion of payments received in cash is recognized as interest income if collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it. Otherwise, loan payments are applied against the recorded investment in the loan. 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 "doubtful" or "loss."

Loans are charged off, wholly or partially, as appropriate, at the time they are determined to be uncollectible.

In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. A restructured loan constitutes a troubled debt restructuring (TDR) if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and

allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified. The allowance for loan losses is a valuation account used to reasonably estimate loan losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss.

The Association considers the following factors, among others, when determining the allowance for loan losses:

- Changes in credit risk classifications
- Changes in collateral values
- Changes in risk concentrations
- Changes in weather related conditions
- Changes in economic conditions

A specific allowance may be established for impaired loans under Financial Accounting Standards Board (FASB) guidance on accounting by creditors for impairment of a loan. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

A general allowance may also be established under FASB guidance on accounting for contingencies, to reflect estimated probable credit losses inherent in the remainder of the loan portfolio which excludes impaired loans considered under the specific allowance discussed above. A general allowance can be evaluated on a pool basis for those loans with similar characteristics. The level of the general allowance may be based on management's best estimate of the likelihood of default adjusted for other relevant factors reflecting the current environment.

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

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

C. **Loans Held for Sale:** Loans are classified as held for sale when there is intent to sell the loans within a reasonable period of time. Loans intended for sale are carried at the lower of cost or fair value.

D. **Other Property Owned:** Other property owned, consisting of real estate, personal property, and other assets acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income, expenses, and carrying value adjustments related to other property owned are included in Gains (Losses) from Other Property Owned, Net in the Consolidated Statements of Income.

E. **Premises and Equipment:** Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized. Premises and equipment are evaluated for impairment whenever events or circumstances indicate that the carrying value of the asset may not be recoverable.

From time to time, assets classified as premises and equipment are transferred to held for sale for various reasons. These assets are carried in Other Assets at the lower of the recorded investment in the asset or fair value less estimated cost to sell based upon the property's appraised value at the date of transfer. Any write-downs of property held for sale are recorded as other non-interest expense.

F. **Investments:** The Association may hold investments as described below.

Investment Securities

The Association holds certain investment securities, as permitted under the FCA regulations. These investments are classified based on management's intention on the date of purchase and are generally recorded in the Balance Sheets as securities on the trade date.

Securities for which the Association has the intent and ability to hold to maturity are classified as held-to-maturity (HTM) and carried at amortized cost. Investment securities classified as available-for-sale (AFS) are carried at fair value with net unrealized gains and losses included as a component of Other Comprehensive Income (OCI). Premiums and discounts are amortized or accreted ratably over the term of the respective security using the interest method.

The Association reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. As mentioned above, changes in the fair value of AFS investments are reflected in OCI, unless the investment is deemed to be other-than-temporarily impaired (OTTI). Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If the Association intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but the Association does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and is separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is charged to current earnings, with the remainder of the loss amount recognized in other comprehensive income.

In subsequent periods, if the present value of cash flows expected to be collected is less than the amortized cost basis, the Association will record additional OTTI and adjust the yield of the security prospectively. The amount of total OTTI for an AFS security that previously was impaired is determined as the difference between its carrying amount prior to the determination of OTTI and its fair value.

Interest on investment securities, including amortization of premiums and accretion of discounts, is included in Interest Income. Realized gains and losses from the sales of investment securities are recognized in current earnings using the specific identification method.

Other Investments
As discussed in Note 8, certain investments, consisting primarily of mutual funds, are held in trust and investment accounts and are reported at fair value. Holding period gains and losses are included within other noninterest income on the Consolidated Statements of Income and the balance of these investments, totaling $1,660, is included in Other Assets on the accompanying Consolidated Balance Sheet as of December 31, 2016.

Investment in Other Farm Credit Institutions
The Association is required to maintain ownership in the Bank in the form of Class B and Class C stock, as presented on the Consolidated Balance Sheet as Investments in Other Farm Credit Institutions. Accounting for this investment is on the cost plus allocated equities basis.

G. **Voluntary Advance Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as other liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.

H. **Employee Benefit Plans:** The Association participates in District and multi-District sponsored benefit plans. These plans include a defined benefit final average pay retirement plan, a defined benefit cash balance retirement plan, a defined benefit other postretirement benefits plan, and a defined contribution 401(k) plan.

Defined Contribution Plans
Substantially all employees are eligible to participate in the defined contribution Farm Credit Benefit Alliance (FCBA) 401(k) Plan, subsequently referred to as the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. Company contributions to the 401(k) Plan are expensed as funded.

Additional information for the above may be found in Note 9 and the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' Annual Report.

Multi-Employer Defined Benefit Plans
Substantially all employees hired before November 4, 2014 may participate in either the AgFirst Farm Credit Retirement Plan or the AgFirst Farm Credit Cash Balance Retirement Plan (collectively referred to as the "Plans"), which are defined benefit plans and considered multi-employer under FASB accounting guidance. The Plans are noncontributory and include eligible Association and District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. The actuarially-determined costs of the Plans are allocated to each participating entity by multiplying the Plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all Plan participants. The cumulative excess of amounts funded by the Association over the cost allocated to the Association is reflected as prepaid retirement expense, a component of Other Assets in the Association's Consolidated Balance Sheets.

In addition to pension benefits, the Association provides certain health care and life insurance benefits for retired employees (other postretirement benefits) through a multi-District sponsored retiree healthcare plan. Substantially all employees are eligible for those benefits when they reach early retirement age while working for the Association. Certain charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability. Authoritative accounting guidance requires the accrual of the expected cost of providing these benefits to an employee, their beneficiaries and covered dependents during the years the employee renders service necessary to become eligible for benefits. The cumulative excess of cost allocated to the Association

over the amounts funded by the Association is reflected as postretirement benefits other than pensions, a component of Other Liabilities in the Association's Consolidated Balance Sheets.

Since the foregoing plans are multi-employer, the Association does not apply the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements. Rather, the effects of this guidance are reflected in the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations.

Additional information for the above may be found in Note 9 and the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' Annual Report.

Single Employer Defined Benefit Plans
The Association also sponsors a single employer defined benefit supplemental retirement plan and offers a FCBA supplemental 401(k) plan for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the Association's Consolidated Balance Sheets in Other Liabilities.

The foregoing defined benefit plan is considered single employer, therefore the Association applies the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements. See Note 9 for additional information.

I. **Income Taxes:** The Association evaluates tax positions taken in previous and current years according to FASB guidance. A tax position can result in a permanent reduction of income taxes payable, a deferral of income taxes otherwise currently payable to future years, or a change in the expected realizability of deferred tax assets. The term tax position also encompasses, but is not limited to, an entity's status, including its status as a pass-through entity or tax-exempt entity.

The Association is generally subject to Federal and certain other income taxes. As previously described, the ACA holding company has two wholly-owned subsidiaries, a PCA and a FLCA. The FLCA subsidiary is exempt from federal and state income taxes as provided in the Farm Credit Act. The ACA holding company and the PCA subsidiary are subject to federal, state and certain other income taxes.

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income.

The Association accounts for income taxes under the asset and liability method, recognizing deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

The Association records a valuation allowance at the balance sheet dates against that portion of the Association's deferred tax assets that, based on management's best estimates of future events and circumstances, more likely than not (a likelihood of more than 50 percent) will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of our expected patronage program, which reduces taxable earnings.

J. **Due from AgFirst Farm Credit Bank:** The Association records patronage refunds from the Bank and certain District Associations on an accrual basis.

K. **Valuation Methodologies:** FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. This guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It prescribes three levels of inputs that may be used to measure fair value.

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability.

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than a third-party valuation or internal model pricing.

The Association may use the Bank, internal resources or third parties to obtain fair value prices. Quoted market prices are generally used when estimating fair values of any assets or liabilities for which observable, active markets exist.

A number of methodologies may be employed to value items for which an observable active market does not exist. Examples of these items include: impaired loans, other property owned, and certain derivatives, investment securities and other financial instruments. Inputs to these valuations can involve estimates and assumptions that

require a substantial degree of judgment. Some of the assumptions used include, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing, and liquidation values. The use of different assumptions could produce significantly different asset or liability values, which could have material positive or negative effects on results of operations.

Please see further discussion in Note 8.

L. **Off-Balance-Sheet Credit Exposures:** The credit risk associated with commitments to extend credit and letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee.

Letters of credit are commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party.

M. **Revenue Recognition:** The largest source of revenue for the Association is interest income. Interest income is recognized on an accrual basis driven by nondiscretionary formulas based on written contracts, such as loan agreements or securities contracts. Credit-related fees, including letter of credit fees, finance charges and other fees are recognized in non-interest income when earned. Other types of non-interest revenues, such as service charges, professional services and broker fees, are accrued and recognized into income as services are provided and the amount of fees earned is reasonably determinable.

N. **Accounting Standards Updates (ASUs):** In January 2017, the FASB issued ASU 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments provide a more robust framework to use in determining when a set of assets and activities is a business. They also support more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable. For public business entities, the ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The amendments should be applied prospectively. Application of this guidance is not expected to have a material impact on the Association's financial condition or results of operations.

In November 2016, the FASB issued ASU 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash. The Update clarifies that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted using a retrospective transition method to each period presented. Application of this guidance is not expected to have a material impact on the Association's financial condition or results of operations.

In October, 2016, the FASB issued ASU 2016-17 Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control. If a reporting entity satisfies the first characteristic of a primary beneficiary of a variable interest entity (VIE), the amendments in this Update require that reporting entity, in determining whether it satisfies the second characteristic of a primary beneficiary, to include all of its direct variable interests in a VIE and, on a proportionate basis, its indirect variable interests in a VIE held through related parties, including related parties that are under common control with the reporting entity. That is, a single decision maker is not required to consider indirect interests held through related parties that are under common control with the single decision maker to be the equivalent of direct interests in their entirety. Instead, a single decision maker is required to include those interests on a proportionate basis consistent with indirect interests held through other related parties. The amendments are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Application of this guidance is not expected to have a material impact on the Association's financial condition or results of operations.

In October 2016, the FASB issued ASU 2016-16 Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. The Update requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Consequently, the amendments in this Update eliminate the exception for an intra-entity transfer of an asset other than inventory. The amendments in this update align the recognition of income tax consequences for intra-entity transfers of assets other than inventory with International Financial Reporting Standards (IFRS). For public business entities, the amendments are effective, on a modified retrospective basis, for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Application of this guidance is not expected to have a material impact on the Association's financial condition or results of operations.

In August 2016, the FASB issued ASU 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). Stakeholders had indicated there was diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The Update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an

interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments are to be applied using a retrospective transition method to each period presented. Application of this guidance is not expected to have a material impact on the Association's financial condition or results of operations.

In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The Update improves financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to better estimate their credit losses. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The Update will take effect for U.S. Securities and Exchange Commission (SEC) filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. For public business entities that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. For all other organizations, the ASU will take effect for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Association will apply the ASU guidance as a public business entity that is not a SEC filer. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

In March 2016, the FASB issued ASU 2016-07 Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. To simplify the accounting for equity method investments, the amendments in the Update eliminate the requirement that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Earlier application is permitted. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Application of this guidance is not expected to have a material impact on the Association's financial condition or results of operations.

In March 2016, the FASB issued ASU 2016-06 Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments. Topic 815 requires that embedded derivatives be separated from the host contract and accounted for separately as derivatives if certain criteria are met, including the "clearly and closely related" criterion. The amendments in this Update clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendments is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. The amendments apply to all entities that are issuers of or investors in debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded call (put) options. For public business entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The amendments are to be applied on a modified retrospective basis to existing debt instruments as of the beginning of the fiscal year for which the amendments are effective. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. Application of this guidance is not expected to have a material impact on the Association's financial condition or results of operations.

In February 2016, the FASB issued ASU 2016-02 Leases (Topic 842). The Update is intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, airplanes, and manufacturing equipment. The ASU will require organizations that lease assets—referred to as "lessees"—to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. A lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current guidance, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, the new ASU will require both types of leases to be recognized on the balance sheet. The Update also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The accounting by organizations that own the assets leased by the lessee—also known as lessor accounting—will remain largely unchanged from current guidance. However, the ASU contains some targeted improvements that are

intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in 2014. The amendments are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early application will be permitted for all organizations. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

In January 2016, the FASB issued Accounting Standards Update (ASU) 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments are intended to improve the recognition and measurement of financial instruments. The Update affects public and private companies, not-for-profit organizations, and employee benefit plans that hold financial assets or owe financial liabilities. The new guidance makes targeted improvements to existing GAAP by requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements, eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities, eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, and requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as “own credit”) when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The ASU is effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

In September 2015, the FASB issued ASU 2015-16 Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. The amendments in this Update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined and to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, the amendments were effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. Adoption of this guidance was applied prospectively and did not have an impact on the Association’s financial condition or results of operations.

In May 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). Topic 820 permits a reporting entity, as a practical expedient, to measure the fair value of certain investments using the net asset value per share of the investment. Investments valued using the practical expedient were categorized within the fair value hierarchy on the basis of whether the investment was redeemable with the investee at net asset value on the measurement date, never redeemable with the investee at net asset value, or redeemable with the investee at net asset value at a future date. To address diversity in practice related to how certain investments measured at net asset value with future redemption dates were categorized, the amendments in this Update removed the requirement to categorize investments for which fair values are measured using the net asset value per share practical expedient. It also limited disclosures to investments for which the entity has elected to measure the fair value using the practical expedient. For public business entities, the guidance was effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Adoption of this guidance was applied retrospectively to all periods presented and did not have an impact on the Association’s financial condition or results of operations.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The amendments affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments modify the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities, eliminate the presumption that a general partner should consolidate a limited partnership, affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships, and provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The amendments in this Update were effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Adoption of this guidance was applied on a modified retrospective basis and did not have an impact on the Association’s financial condition or results of operations.

In November 2014, the FASB issued ASU 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial

Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity. Under GAAP, features such as conversion rights, redemption rights, dividend payment preferences, and others that are included in instruments issued in the form of shares may qualify as derivatives. If so, the shares issued are considered hybrid financial instruments. To determine the proper accounting for hybrid financial instruments, investors and issuers in the instruments must determine whether the nature of the host contract containing the feature is more akin to debt or equity as well as whether the economic characteristics and risks of the embedded derivative feature are clearly and closely related to the host contract. The purpose of the Update is to eliminate diversity in accounting for hybrid financial instruments by both issuers and investors. When evaluating the host contract to determine whether it is more akin to debt or equity, the reporting entity should consider all relevant terms and features of the contract, including the embedded derivative feature that is being evaluated for separation. The amendments in this Update were effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Adoption of this guidance was applied on a modified retrospective basis and did not have a material impact on the Association's financial condition or results of operations.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The Update is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Under GAAP, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. Financial reporting under this presumption is commonly referred to as the going concern basis of accounting. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. Currently, GAAP lacks guidance about management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern or to provide related footnote disclosures. The Update provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The amendments in this Update apply to all companies and not-for-profit organizations and became effective in the annual period ended after December 15, 2016, with early application permitted. Adoption of this guidance was applied prospectively and did not have a material impact on the Association's financial condition or results of operations.

In May 2014, the FASB, responsible for U.S. Generally Accepted Accounting Principles (U.S. GAAP), and the International Accounting Standards Board (IASB), responsible for International Financial Reporting Standards (IFRS), jointly issued converged standards on the recognition of revenue from contracts with customers. ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and IFRS 15 "Revenue from Contracts with Customers" are intended to improve the financial reporting of revenue and comparability of the top line in financial statements globally and supersede substantially all previous revenue recognition guidance. The core principle of the new standards is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standards also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. Because of the pervasive nature of the new guidance, the boards have established a joint transition resource group (TRG) in order to aid transition to the new standard. Based on input received from its stakeholders and Revenue Recognition TRG, the FASB has issued five Updates related to this ASU. The Updates generally provided clarifying guidance where there was the potential for diversity in practice, or to address the cost and complexity of applying Topic 606. Collectively, the Updates are not expected to have a significant effect on implementation of the guidance. For public business entities, the amendments in the Update are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is not permitted. The amendments are to be applied retrospectively. The Association has identified ancillary revenues that will be affected by this Update. However, because financial instruments are not within the scope of the guidance, it is expected that adoption will not have a material impact on the Association's financial condition or results of operations, but may result in additional disclosures.

Note 3 — Loans and Allowance for Loan Losses

For a description of the Association's accounting for loans, including impaired loans, and the allowance for loan losses, see Note 2 subsection B above.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation which exists in outstanding loans. The Association manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the board of directors.

The credit risk management process begins with an analysis of the obligor's credit history, repayment capacity and financial position. Repayment capacity focuses on the obligor's ability to repay the obligation based on cash flows from operations or other sources of income, including non-farm income. Real estate mortgage loans must be secured by first liens on the real estate collateral. As required by FCA regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures.

The credit risk rating process for loans uses a two-dimensional structure, incorporating a 14-point probability of default scale (see further discussion in Note 2 subsection B above) and a separate scale addressing estimated percentage loss in the event of default. The loan rating structure incorporates borrower risk and transaction risk. Borrower risk is the risk of loss driven by factors intrinsic to the borrower. The transaction risk or facility risk is related to the structure of a credit (tenor, terms, and collateral).

The Association's loan portfolio, which includes purchased interests in loans, has been segmented by the following loan types as defined by the FCA:

- Real estate mortgage loans — loans made to full-time or part-time farmers secured by first lien real estate mortgages with maturities from five to thirty years. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.

- Production and intermediate-term loans — loans to full-time or part-time farmers that are not real estate mortgage loans. These loans fund eligible financing needs including operating inputs (such as labor, feed, fertilizer, and repairs), livestock, living expenses, income taxes, machinery or equipment, farm buildings, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically one year or less. Intermediate-term loans are made for a specific term, generally greater than one year and less than or equal to ten years.

- Loans to cooperatives — loans for any cooperative purpose other than for communication, power, and water and waste disposal.

- Processing and marketing loans — loans for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.

- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.

- Rural residential real estate loans — loans made to individuals, who are not farmers, to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans are generally secured by a first lien on the property.

- Communication loans — loans primarily to finance rural communication providers.

- Power loans — loans primarily to finance electric generation, transmission and distribution systems serving rural areas.

- Water and waste disposal loans — loans primarily to finance water and waste disposal systems serving rural areas.

- International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.

- Lease receivables — the net investment for all finance leases such as direct financing leases, leveraged leases, and sales-type leases.

- Other (including Mission Related) — additional investments in rural America approved by the FCA on a program or a case-by-case basis. Examples of such investments include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding at period end follows:

	December 31,		
	2016	2015	2014
Real estate mortgage	$ 1,263,320	$ 1,240,201	$ 1,206,127
Production and intermediate-term	288,968	253,321	233,409
Processing and marketing	10,168	4,644	4,932
Farm-related business	12,706	6,344	5,875
Rural residential real estate	55,432	50,996	44,112
Other (including Mission Related)	1,351	2,375	4,549
Total Loans	$ 1,631,945	$ 1,557,881	$ 1,499,004

A substantial portion of the Association's lending activities is collateralized and the Association's exposure to credit loss associated with lending activities is reduced accordingly.

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are collateralized by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in loan to value ratios in excess of the regulatory maximum.

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. The following tables present the principal balance of participation loans at periods ended:

December 31, 2016	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ 193,381	$ –	$ 19,432	$ –	$ –	$ –	$ 212,813
Production and intermediate-term	–	87,233	911	–	1,781	–	2,692	87,233
Processing and marketing	–	7,066	–	41,395	–	–	–	48,461
Farm-related business	–	6,250	–	1,125	–	–	–	7,375
Total	$ –	$ 293,930	$ 911	$ 61,952	$ 1,781	$ –	$ 2,692	$ 355,882

December 31, 2015	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ 213,860	$ –	$ 12,453	$ –	$ –	$ –	$ 226,313
Production and intermediate-term	–	28,463	1,137	3,446	2,202	–	3,339	31,909
Processing and marketing	–	9,463	–	14,243	–	–	–	23,706
Farm-related business	–	6,875	–	6,975	–	–	–	13,850
Total	$ –	$ 258,661	$ 1,137	$ 37,117	$ 2,202	$ –	$ 3,339	$ 295,778

December 31, 2014	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 415	$ 121,690	$ –	$ 10,823	$ –	$ –	$ 415	$ 132,513
Production and intermediate-term	–	19,501	1,325	776	1,436	–	2,761	20,277
Processing and marketing	–	8,017	–	6,967	–	–	–	14,984
Farm-related business	–	7,708	–	–	–	–	–	7,708
Total	$ 415	$ 156,916	$ 1,325	$ 18,566	$ 1,436	$ –	$ 3,176	$ 175,482

A significant source of liquidity for the Association is the repayments of loans. The following table presents the contractual maturity distribution of loans by loan type at the latest period end:

December 31, 2016	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 52,805	$ 220,226	$ 990,289	$ 1,263,320
Production and intermediate term	145,890	102,189	40,889	288,968
Processing and marketing	2,048	3,652	4,468	10,168
Farm-related business	811	8,054	3,841	12,706
Rural residential real estate	5,359	2,019	48,054	55,432
Other (including Mission Related)	858	–	493	1,351
Total Loans	$ 207,771	$ 336,140	$ 1,088,034	$ 1,631,945
Percentage	12.73%	20.60%	66.67%	100.00%

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

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

	December 31, 2016	2015	2014
Real estate mortgage:			
Acceptable	96.82%	95.76%	95.12%
OAEM	1.35	2.25	2.92
Substandard/doubtful/loss	1.83	1.99	1.96
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	95.76%	97.66%	97.44%
OAEM	2.85	1.23	1.68
Substandard/doubtful/loss	1.39	1.11	0.88
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	93.12%	100.00%	100.00%
OAEM	6.88	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%

	December 31, 2016	2015	2014
Farm-related business:			
Acceptable	98.35%	100.00%	100.00%
OAEM	1.62	–	–
Substandard/doubtful/loss	0.03	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	98.26%	96.49%	97.62%
OAEM	1.09	1.92	1.29
Substandard/doubtful/loss	0.65	1.59	1.09
	100.00%	100.00%	100.00%
Other (including Mission Related):			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Total Loans:			
Acceptable	96.67%	96.13%	95.61%
OAEM	1.64	2.06	2.64
Substandard/doubtful/loss	1.69	1.81	1.75
	100.00%	100.00%	100.00%

The following tables provide an age analysis of past due loans and related accrued interest as of:

December 31, 2016

	30 Through 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	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 7,598	$ 7,996	$ 15,594	$ 1,257,983	$ 1,273,577	$ –
Production and intermediate-term	1,874	1,460	3,334	289,533	292,867	–
Processing and marketing	–	–	–	10,261	10,261	–
Farm-related business	46	4	50	12,705	12,755	–
Rural residential real estate	1,016	149	1,165	54,458	55,623	–
Other (including Mission Related)	–	–	–	1,363	1,363	–
Total	$ 10,534	$ 9,609	$ 20,143	$ 1,626,303	$ 1,646,446	$ –

December 31, 2015

	30 Through 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	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 8,106	$ 3,995	$ 12,101	$ 1,239,130	$ 1,251,231	$ –
Production and intermediate-term	1,534	621	2,155	255,306	257,461	–
Processing and marketing	–	–	–	4,657	4,657	–
Farm-related business	–	–	–	6,360	6,360	–
Rural residential real estate	492	131	623	50,546	51,169	–
Other (including Mission Related)	–	–	–	2,394	2,394	–
Total	$ 10,132	$ 4,747	$ 14,879	$ 1,558,393	$ 1,573,272	$ –

December 31, 2014

	30 Through 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	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 10,918	$ 3,400	$ 14,318	$ 1,201,991	$ 1,216,309	$ –
Production and intermediate-term	963	281	1,244	235,999	237,243	–
Processing and marketing	–	–	–	4,943	4,943	–
Farm-related business	–	–	–	5,895	5,895	–
Rural residential real estate	466	33	499	43,767	44,266	–
Other (including Mission Related)	–	–	–	4,572	4,572	–
Total	$ 12,347	$ 3,714	$ 16,061	$ 1,497,167	$ 1,513,228	$ –

Nonperforming assets (including related accrued interest) and related credit quality statistics were as follows:

	December 31,		
	2016	2015	2014
Nonaccrual loans:			
Real estate mortgage	$ 12,842	$ 8,266	$ 12,119
Production and intermediate-term	4,023	2,048	593
Farm-related business	4	–	–
Rural residential real estate	274	379	300
Total	$ 17,143	$ 10,693	$ 13,012
Accruing restructured loans:			
Real estate mortgage	$ 7,380	$ 8,164	$ 8,327
Production and intermediate-term	318	1,049	1,409
Farm-related business	–	–	–
Rural residential real estate	212	446	211
Total	$ 7,910	$ 9,659	$ 9,947
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 25,053	$ 20,352	$ 22,959
Other property owned	3,289	5,425	4,189
Total nonperforming assets	$ 28,342	$ 25,777	$ 27,148
Nonaccrual loans as a percentage of total loans	1.05%	0.69%	0.87%
Nonperforming assets as a percentage of total loans and other property owned	1.73%	1.65%	1.81%
Nonperforming assets as a percentage of capital	8.37%	7.94%	8.85%

The following table presents information relating to impaired loans (including accrued interest) as defined in Note 2:

	December 31,		
	2016	2015	2014
Impaired nonaccrual loans:			
Current as to principal and interest	$ 4,951	$ 4,614	$ 4,455
Past due	12,192	6,079	8,557
Total	17,143	10,693	13,012
Impaired accrual loans:			
Restructured	7,910	9,659	9,947
90 days or more past due	–	–	–
Total	7,910	9,659	9,947
Total impaired loans	$ 25,053	$ 20,352	$ 22,959
Additional commitments to lend	$ 1	$ –	$ –

The following tables present additional impaired loan information at period end. Unpaid principal balance represents the contractual principal balance of the loan.

	December 31, 2016			Year Ended December 31, 2016	
Impaired Loans	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 4,086	$ 4,104	$ 1,612	$ 3,876	$ 217
Production and intermediate-term	428	474	41	406	23
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 4,514	$ 4,578	$ 1,653	$ 4,282	$ 240
With no related allowance for credit losses:					
Real estate mortgage	$ 16,136	$ 17,782	$ –	$ 15,307	$ 858
Production and intermediate-term	3,913	5,339	–	3,712	208
Farm-related business	4	92	–	4	–
Rural residential real estate	486	542	–	462	26
Total	$ 20,539	$ 23,755	$ –	$ 19,485	$ 1,092
Total:					
Real estate mortgage	$ 20,222	$ 21,886	$ 1,612	$ 19,183	$ 1,075
Production and intermediate-term	4,341	5,813	41	4,118	231
Farm-related business	4	92	–	4	–
Rural residential real estate	486	542	–	462	26
Total	$ 25,053	$ 28,333	$ 1,653	$ 23,767	$ 1,332

Impaired Loans	December 31, 2015 Recorded Investment	December 31, 2015 Unpaid Principal Balance	December 31, 2015 Related Allowance	Year Ended December 31, 2015 Average Impaired Loans	Year Ended December 31, 2015 Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	15	16	1	16	1
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 15	$ 16	$ 1	$ 16	$ 1
With no related allowance for credit losses:					
Real estate mortgage	$ 16,431	$ 19,314	$ –	$ 17,814	$ 940
Production and intermediate-term	3,082	3,533	–	3,341	176
Farm-related business	–	–	–	–	–
Rural residential real estate	824	976	–	895	47
Total	$ 20,337	$ 23,823	$ –	$ 22,050	$ 1,163
Total:					
Real estate mortgage	$ 16,431	$ 19,314	$ –	$ 17,814	$ 940
Production and intermediate-term	3,097	3,549	1	3,357	177
Farm-related business	–	–	–	–	–
Rural residential real estate	824	976	–	895	47
Total	$ 20,352	$ 23,839	$ 1	$ 22,066	$ 1,164

Impaired Loans	December 31, 2014 Recorded Investment	December 31, 2014 Unpaid Principal Balance	December 31, 2014 Related Allowance	Year Ended December 31, 2014 Average Impaired Loans	Year Ended December 31, 2014 Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 692	$ 707	$ 67	$ 864	$ 43
Production and intermediate-term	78	78	39	97	5
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 770	$ 785	$ 106	$ 961	$ 48
With no related allowance for credit losses:					
Real estate mortgage	$ 19,754	$ 23,178	$ –	$ 24,673	$ 1,236
Production and intermediate-term	1,923	2,358	–	2,403	120
Farm-related business	–	–	–	–	–
Rural residential real estate	512	665	–	639	32
Total	$ 22,189	$ 26,201	$ –	$ 27,715	$ 1,388
Total:					
Real estate mortgage	$ 20,446	$ 23,885	$ 67	$ 25,537	$ 1,279
Production and intermediate-term	2,001	2,436	39	2,500	125
Farm-related business	–	–	–	–	–
Rural residential real estate	512	665	–	639	32
Total	$ 22,959	$ 26,986	$ 106	$ 28,676	$ 1,436

The following table summarizes interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans:

	Year Ended December 31, 2016	2015	2014
Interest income which would have been recognized under the original loan terms	$ 2,254	$ 2,008	$ 2,357
Less: interest income recognized	1,328	1,162	1,436
Foregone interest income	$ 926	$ 846	$ 921

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Rural Residential Real Estate	Other	Total
Activity related to the allowance for credit losses:						
Balance at December 31, 2015	$ 10,369	$ 2,177	$ 92	$ 423	$ 38	$ 13,099
Charge-offs	(171)	(87)	–	(25)	–	(283)
Recoveries	150	122	4	–	19	295
Provision for loan losses	949	59	82	28	(46)	1,072
Balance at December 31, 2016	$ 11,297	$ 2,271	$ 178	$ 426	$ 11	$ 14,183
Balance at December 31, 2014	$ 9,916	$ 1,957	$ 89	$ 358	$ 37	$ 12,357
Charge-offs	(958)	(122)	–	(11)	–	(1,091)
Recoveries	485	89	5	1	21	601
Provision for loan losses	926	253	(2)	75	(20)	1,232
Balance at December 31, 2015	$ 10,369	$ 2,177	$ 92	$ 423	$ 38	$ 13,099
Balance at December 31, 2013	$ 9,556	$ 1,656	$ 80	$ 318	$ 38	$ 11,648
Charge-offs	(698)	(112)	(1)	(7)	–	(818)
Recoveries	990	68	90	45	72	1,265
Provision for loan losses	68	345	(80)	2	(73)	262
Balance at December 31, 2014	$ 9,916	$ 1,957	$ 89	$ 358	$ 37	$ 12,357
Allowance on loans evaluated for impairment:						
Individually	$ 1,612	$ 41	$ –	$ –	$ –	$ 1,653
Collectively	9,685	2,230	178	426	11	12,530
Balance at December 31, 2016	$ 11,297	$ 2,271	$ 178	$ 426	$ 11	$ 14,183
Individually	$ –	$ 1	$ –	$ –	$ –	$ 1
Collectively	10,369	2,176	92	423	38	13,098
Balance at December 31, 2015	$ 10,369	$ 2,177	$ 92	$ 423	$ 38	$ 13,099
Individually	$ 67	$ 39	$ –	$ –	$ –	$ 106
Collectively	9,849	1,918	89	358	37	12,251
Balance at December 31, 2014	$ 9,916	$ 1,957	$ 89	$ 358	$ 37	$ 12,357
Recorded investment in loans evaluated for impairment:						
Individually	$ 20,166	$ 4,353	$ 4	$ 487	$ –	$ 25,010
Collectively	1,253,411	288,514	23,012	55,136	1,363	1,621,436
Balance at December 31, 2016	$ 1,273,577	$ 292,867	$ 23,016	$ 55,623	$ 1,363	$ 1,646,446
Individually	$ 15,101	$ 2,266	$ 181	$ 791	$ –	$ 18,339
Collectively	1,236,130	255,195	10,836	50,378	2,394	1,554,933
Balance at December 31, 2015	$ 1,251,231	$ 257,461	$ 11,017	$ 51,169	$ 2,394	$ 1,573,272
Individually	$ 10,734	$ 1,806	$ 3	$ 431	$ –	$ 12,974
Collectively	1,205,575	235,437	10,835	43,835	4,572	1,500,254
Balance at December 31, 2014	$ 1,216,309	$ 237,243	$ 10,838	$ 44,266	$ 4,572	$ 1,513,228

** Includes the loan types: Loans to cooperatives, Processing and Marketing, and Farm-related business.*

To mitigate risk of loan losses, the Association may enter into guarantee arrangements with certain Government-Sponsored Enterprises (GSEs), including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was $158,676, $157,006, and $155,943 at December 31, 2016, 2015, and 2014, respectively. Fees paid for such guarantee commitments totaled $162, $205, and $230 for 2016, 2015, and 2014, respectively. These amounts are classified as noninterest expense.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented.

	Year Ended December 31, 2016				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 5,012	$ 2,092	$ –	$ 7,104	
Production and intermediate-term	1,338	1,676	–	3,014	
Farm-related business	–	29	–	29	
Total	$ 6,350	$ 3,797	$ –	$ 10,147	
Post-modification:					
Real estate mortgage	$ 4,936	$ 2,106	$ –	$ 7,042	$ (19)
Production and intermediate-term	1,330	1,351	–	2,681	–
Farm-related business	–	29	–	29	–
Total	$ 6,266	$ 3,486	$ –	$ 9,752	$ (19)

	Year Ended December 31, 2015				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 922	$ 3,961	$ –	$ 4,883	
Production and intermediate-term	26	224	105	355	
Rural residential real estate	42	–	–	42	
Total	$ 990	$ 4,185	$ 105	$ 5,280	
Post-modification:					
Real estate mortgage	$ 943	$ 4,040	$ –	$ 4,983	$ (43)
Production and intermediate-term	26	226	105	357	–
Rural residential real estate	43	–	–	43	–
Total	$ 1,012	$ 4,266	$ 105	$ 5,383	$ (43)

	Year Ended December 31, 2014				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 1,917	$ 914	$ –	$ 2,831	
Production and intermediate-term	–	964	–	964	
Rural residential real estate	71	–	93	164	
Total	$ 1,988	$ 1,878	$ 93	$ 3,959	
Post-modification:					
Real estate mortgage	$ 1,937	$ 818	$ –	$ 2,755	$ –
Production and intermediate-term	–	832	–	832	–
Rural residential real estate	71	–	93	164	(4)
Total	$ 2,008	$ 1,650	$ 93	$ 3,751	$ (4)

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets.

The following table presents outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

	Year Ended December 31,		
Defaulted troubled debt restructurings	2016	2015	2014
Real estate mortgage	$ 1,063	$ 2,378	$ 1,142
Production and intermediate-term	486	244	531
Farm-related business	3	–	–
Total	$ 1,552	$ 2,622	$ 1,673

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

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2016	2015	2014	2016	2015	2014
Real estate mortgage	$ 12,525	$ 12,689	$ 12,841	$ 5,145	$ 4,525	$ 4,514
Production and intermediate-term	1,534	1,868	1,709	1,216	819	301
Farm-related business	4	–	–	4	–	–
Rural residential real estate	370	614	392	158	168	180
Total Loans	$ 14,433	$ 15,171	$ 14,942	$ 6,523	$ 5,512	$ 4,995
Additional commitments to lend	$ –	$ –	$ –			

The following table presents information as of period end:

	December 31, 2016
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	$ –
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ 153

Note 4 — Investments

Investment Securities

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment program approved by the FCA. In its Conditions of Approval for the program, the FCA considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. At December 31, 2016, the Association held no Rural America Bonds whose credit quality had deteriorated beyond the program limits.

A summary of the amortized cost and fair value of investment securities held-to-maturity follows:

	December 31, 2016				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 7,057	$ 34	$ (271)	$ 6,820	5.75 %

	December 31, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 8,395	$ 41	$ (171)	$ 8,265	6.27 %

	December 31, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 8,713	$ 163	$ –	$ 8,876	6.38 %

A summary of the contractual maturity, amortized cost and estimated fair value of investment securities held-to-maturity follows:

	December 31, 2016		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	–	–	–
After five years through ten years	–	–	–
After ten years	7,057	6,820	5.75
Total	$ 7,057	$ 6,820	5.75%

All of these investments have contractual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. A continuous unrealized loss position for an investment is based on the date the impairment was first identified. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category. The Association had no investments that were in a continuous unrealized loss position at December 31, 2014.

	December 31, 2016			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ 2,179	$ (271)	$ –	$ –

	December 31, 2015			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ 3,480	$ (171)	$ –	$ –

The recording of an impairment loss is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others: (1) the length of time and the extent to which the fair value is less than cost, (2) adverse conditions specifically related to the industry, (3) geographic area and the condition of the underlying collateral, (4) payment structure of the security, (5) ratings by rating agencies, (6) the credit worthiness of bond insurers, and (7) volatility of the fair value changes.

The Association uses the present value of cash flows expected to be collected from each debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, amount and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics, and collateral type.

Significant inputs used to estimate the amount of credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The Association may obtain assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party, or generate the assumptions internally.

The Association has not recognized any credit losses as any impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

Investments in Other Farm Credit Institutions
Investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. Accounting for this investment is on the cost plus allocated equities basis.

The Association's investment in the Bank totaled $18,085 for 2016, $17,277 for 2015 and $17,511 for 2014. The Association owns 7.15 percent of the issued stock of the Bank as of December 31, 2016 net of any reciprocal investment. As of that date, the Bank's assets totaled $32.1 billion and shareholders' equity totaled $2.2 billion. The Bank's earnings were $342 million for 2016. In addition, the Association had an investment of $4,762 related to other Farm Credit institutions at December 31, 2016.

Note 5 — Real Estate and Other Property

Premises and Equipment
Premises and equipment consists of the following:

	December 31,		
	2016	2015	2014
Land	$ 5,096	$ 4,069	$ 3,937
Buildings and improvements	18,677	16,661	15,723
Furniture and equipment	6,510	6,611	6,645
	30,283	27,341	26,305
Less: accumulated depreciation	11,530	11,002	10,505
Total	$ 18,753	$ 16,339	$ 15,800

Other Property Owned
Net (gains) losses on other property owned consist of the following:

	December 31,		
	2016	2015	2014
(Gains) losses on sale, net	$ 240	$ 33	$ 75
Carrying value unrealized (gains) losses	397	309	127
Operating (income) expense, net	51	72	265
(Gains) losses on other property owned, net	$ 688	$ 414	$ 467

Gains on sales of other property owned were deferred if the sales involved financing from the Association and did not meet the criteria for immediate recognition. There were no deferred gains at December 31, 2016, 2015, and 2014.

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank
Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The borrowing relationship is established with the Bank through a GFA. The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The GFA has a one year term which expires on December 31 and is renewable each year. The Association has no reason to believe the GFA will not be renewed upon expiration. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At

December 31, 2016, the Association's notes payable were within the specified limitations.

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving lines of credit are governed by the GFA. Interest rates on both variable and fixed rate advances are generally established loan-by-loan based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. In the event of prepayment of any portion of a fixed rate advance, the Association may incur a prepayment penalty in accordance with the terms of the GFA and which will be included in interest expense. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and the Association.

The weighted average interest rates on the variable rate advances were 1.90 percent for LIBOR-based loans and 1.95 percent for Prime-based loans, and the weighted average remaining maturities were 2.1 years and 0.8 years, respectively, at December 31, 2016. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 2.77 percent, and the weighted average remaining maturity was 9.8 years at December 31, 2016. The weighted-average interest rate on all interest-bearing notes payable was 2.69 percent and the weighted-average remaining maturity was 8.9 years at December 31, 2016. Over 90.24 percent of the Association's loan portfolio is match funded at the Bank as a fixed rate note. The remainder of the loan portfolio is funded through a variable rate note or free cash. The weighted average maturities described above are related to matched-funded loans. The direct note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

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

B. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm-related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to the lesser of $1,000 or 2 percent of the amount of the loan. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

   The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

C. **Regulatory Capitalization Requirements and Restrictions:** FCA regulations require that certain minimum standards for capital be achieved and maintained. These standards are measured based on capital as a percentage of risk-adjusted assets and off-balance-sheet commitments and surplus levels as a percentage of risk-adjusted assets.

   Failure to meet the capital requirements can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met.

   The Association's capital ratios as of December 31 and the FCA minimum requirements follow:

	2016	2015	2014	Regulatory Minimum
Permanent capital ratio	20.55%	20.68%	20.00%	7.00%
Total surplus ratio	20.01%	20.23%	19.53%	7.00%
Core surplus ratio	16.11%	16.31%	15.86%	3.50%

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

   There are currently no prohibitions in place that would prevent the Association from retiring stock, distributing earnings, or paying dividends per the statutory and regulatory restrictions, and the Association has no reason to believe any such restrictions may apply in the future.

D. **Description of Equities:** The Association is authorized to issue or have outstanding Classes A and D Preferred Stock, Classes A, B, and C Common Stock, Classes B and C Participation Certificates, and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the

Association's business. All stock and participation certificates have a par or face value of five dollars ($5.00) per share.

The Association had the following shares outstanding at December 31, 2016:

		Shares Outstanding	
Class	Protected	Number	Aggregate Par Value
B Common/Nonvoting	Yes	214	$ 1
C Common/Voting	No	1,514,401	7,572
B Participation Certificates/Nonvoting	Yes	158	1
C Participation Certificates/Nonvoting	No	184,299	921
Total Capital Stock and Participation Certificates		1,699,072	$ 8,495

Protected common stock and participation certificates are retired at par or face value in the normal course of business. At-risk common stock and participation certificates are retired at the sole discretion of the Board at book value not to exceed par or face amounts, provided the minimum capital adequacy standards established by the Board are met.

Retained Earnings

The Association maintains an unallocated retained earnings account and an allocated retained earnings account. The minimum aggregate amount of these two accounts is determined by the Board. At the end of any fiscal year, if the retained earnings accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board. Unallocated retained earnings are maintained for each borrower to permit liquidation on a patronage basis.

The Association maintains an allocated retained earnings account consisting of earnings held and allocated to borrowers on a patronage basis. In the event of a net loss for any fiscal year, such allocated retained earnings account will be subject to full impairment in the order specified in the bylaws beginning with the most recent allocation.

The Association has a first lien and security interest on all retained earnings account allocations owned by any borrowers, and all distributions thereof, as additional collateral for their indebtedness to the Association. When the debt of a borrower is in default or is in the process of final liquidation by payment or otherwise, the Association, upon approval of the Board, may order any and all retained earnings account allocations owned by such borrower to be applied on the indebtedness.

Allocated equities shall be retired solely at the discretion of the Board, provided that minimum capital standards established by the FCA and the Board are met. Nonqualified retained surplus is considered to be permanently invested in the Association and as such, there is no plan to revolve or retire this surplus. All nonqualified distributions are tax deductible only when redeemed. At December 31, 2016, allocated members' equity consisted of $5,003 of qualified surplus and $113,567 of nonqualified allocated surplus.

Patronage Distributions

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patronage distributions are based on the proportion of the borrower's interest to the amount of interest earned by the Association on its total loans unless another proportionate patronage basis is approved by the Board.

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members' equity account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash.

Dividends

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 20 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Classes A and D Preferred Stock or on all classes of stock and participation certificates.

The rate of dividends paid on Class A Preferred Stock for any fiscal year may not be less than the rate of dividends paid on Classes A, B, or C Common Stock or participation certificates for such year. The rate of dividends on Classes A, B, or C Common Stock and participation certificates shall be at the same rate per share.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. No dividends were declared by the Association for any of the periods included in these Consolidated Financial Statements.

Transfer

Classes A and D Preferred, Classes A, B, and C Common Stock, and Classes B and C Participation Certificates may be transferred to persons or entities eligible to purchase or hold such equities.

Impairment

Any net losses recorded by the Association shall first be applied against unallocated members' equity. To the

extent that such losses would exceed unallocated members' equity, such losses would be applied consistent with the Association's bylaws and distributed pro rata to each share and/or unit outstanding in the class, in the following order:

1. Allocated Surplus
2. Class C Common Stock and Class C Participation Certificates
3. Classes A and B Common Stock and Class B Participation Certificates
4. Classes A and D Preferred Stock

Liquidation

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities should be distributed to the holders of the outstanding stock and participation certificates in the following order:

1. Classes A and D Preferred Stock
2. Classes A and B Common Stock and Class B Participation Certificates
3. Class C Common Stock and Class C Participation Certificates
4. Allocated Surplus
5. Unallocated Surplus issued after January 1, 1996 shall be distributed to all holders of Class C Common Stock and Class C Participation Certificates from January 1, 1996
6. Remaining Assets shall be distributed ratably to the holders of all classes of Stock and Participation Certificates

E. **Accumulated Other Comprehensive Income (AOCI):**

Changes in Accumulated Other Comprehensive Income by Component *(a)*

	For the years ended December 31,		
	2016	2015	2014
Employee Benefit Plans:			
Balance at beginning of period	$ (512)	$ (530)	$ (224)
Other comprehensive income before reclassifications	(29)	(91)	(328)
Amounts reclassified from AOCI	148	109	22
Net current period OCI	119	18	(306)
Balance at end of period	$ (393)	$ (512)	$ (530)

Reclassifications Out of Accumulated Other Comprehensive Income *(b)*

	2016	2015	2014	Income Statement Line Item
Defined Benefit Pension Plans:				
Periodic pension costs	$ (148)	$ (109)	$ (22)	See Note 9.
Amounts reclassified	$ (148)	$ (109)	$ (22)	

(a) Amounts in parentheses indicate reductions to AOCI.
(b) Amounts in parentheses indicate reductions to profit/loss.

Note 8 — Fair Value Measurement

Fair value is defined 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.

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities.

The classifications within the fair value hierarchy (See Note 2) are as follows:

Level 1
Assets held in trust funds, related to deferred compensation plans, and assets held in mutual funds, related to the Association's Corporate Giving Fund, are classified as Level 1. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2
The Association had no Level 2 assets and liabilities measured at fair value on a recurring basis.

Level 3
Because no active market exists for the Association's accruing loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans currently would be made to borrowers with similar credit risk. The loan portfolio is segregated into pools of loans with homogeneous characteristics based upon

repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves. Certain loans evaluated for impairment under FASB guidance have fair values based upon the underlying collateral, as the loans were collateral-dependent. Specific reserves were established for these loans when the value of the collateral, less estimated cost to sell, was less than the principal balance of the loan. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters.

Notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

Other property owned is classified as a Level 3 asset. The fair value is generally determined using formal appraisals of each individual property. These assets are held for sale. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Other property owned consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure and is carried as an asset held for sale, which is generally not its highest and best use. These properties are part of the Association's credit risk mitigation efforts, not its ongoing business. In addition, FCA regulations require that these types of property be disposed of within a reasonable period of time.

For commitments to extend credit, the estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics; therefore, the related credit risk is not significant.

The fair value of investment securities is estimated by discounting expected future cash flows using prevailing rates for similar instruments at the measurement date.

There were no Level 3 assets and liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

Fair values are estimated at each period end date for assets and liabilities measured at fair value on a recurring basis. Fair values are estimated at least annually, or when information suggests a significant change in value, for assets measured at fair value on a nonrecurring basis. Other Financial Instruments are not measured at fair value in the statement of financial position, but their fair values are estimated as of each period end date. The following tables summarize the carrying amounts of these assets and liabilities at period end, and their related fair values.

	At or for the Year ended December 31, 2016					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 1,660	$ 1,660	$ –	$ –	$ 1,660	
Recurring Assets	$ 1,660	$ 1,660	$ –	$ –	$ 1,660	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 23,400	$ –	$ –	$ 23,400	$ 23,400	$ (1,641)
Other property owned	3,289	–	–	3,335	3,335	(637)
Nonrecurring Assets	$ 26,689	$ –	$ –	$ 26,735	$ 26,735	$ (2,278)
Other Financial Instruments						
Assets:						
Cash	$ 5,160	$ 5,160	$ –	$ –	$ 5,160	
Investment securities, held-to-maturity	7,057	–	–	6,820	6,820	
Loans	1,597,222	–	–	1,593,332	1,593,332	
Other Financial Assets	$ 1,609,439	$ 5,160	$ –	$ 1,600,152	$ 1,605,312	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,342,601	$ –	$ –	$ 1,324,126	$ 1,324,126	
Other Financial Liabilities	$ 1,342,601	$ –	$ –	$ 1,324,126	$ 1,324,126	

	At or for the Year ended December 31, 2015					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 1,410	$ 1,410	$ –	$ –	$ 1,410	
Recurring Assets	$ 1,410	$ 1,410	$ –	$ –	$ 1,410	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 20,351	$ –	$ –	$ 20,351	$ 20,351	$ (384)
Other property owned	5,425	–	–	5,667	5,667	(342)
Nonrecurring Assets	$ 25,776	$ –	$ –	$ 26,018	$ 26,018	$ (726)
Other Financial Instruments						
Assets:						
Cash	$ 4,191	$ 4,191	$ –	$ –	$ 4,191	
Investment securities, held-to-maturity	8,395	–	–	8,265	8,265	
Loans	1,527,732	–	–	1,544,279	1,544,279	
Other Financial Assets	$ 1,540,318	$ 4,191	$ –	$ 1,552,544	$ 1,556,735	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,286,760	$ –	$ –	$ 1,283,141	$ 1,283,141	
Other Financial Liabilities	$ 1,286,760	$ –	$ –	$ 1,283,141	$ 1,283,141	

	At or for the Year ended December 31, 2014					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 1,236	$ 1,236	$ –	$ –	$ 1,236	
Recurring Assets	$ 1,236	$ 1,236	$ –	$ –	$ 1,236	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 22,853	$ –	$ –	$ 22,853	$ 22,853	$ (692)
Other property owned	4,189	–	–	4,500	4,500	(202)
Nonrecurring Assets	$ 27,042	$ –	$ –	$ 27,353	$ 27,353	$ (894)
Other Financial Instruments						
Assets:						
Cash	$ 4,976	$ 4,976	$ –	$ –	$ 4,976	
Investment securities, held-to-maturity	8,713	–	–	8,876	8,876	
Loans	1,464,736	–	–	1,473,039	1,473,039	
Other Financial Assets	$ 1,478,425	$ 4,976	$ –	$ 1,481,915	$ 1,486,891	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,243,701	$ –	$ –	$ 1,234,106	$ 1,234,106	
Other Financial Liabilities	$ 1,243,701	$ –	$ –	$ 1,234,106	$ 1,234,106	

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Investment Securities

The fair values of predominantly all Level 3 investment securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk

premiums, prepayment estimates, default estimates and loss severities.

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these Level 3 assets.

Inputs to Valuation Techniques

Management determines the Association's valuation policies and procedures. The Bank performs the majority of the Association's valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

Quoted market prices are generally not available for the instruments, presented below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 26,735	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

** Ranges for this type of input are not useful because each collateral property is unique.*

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Investment securities, held-to-maturity	Discounted cash flow	Prepayment rates Risk adjusted discount rate
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

Note 9 — Employee Benefit Plans

The Association participates in four District sponsored benefit plans. These plans include two multi-employer defined benefit pension plans, the AgFirst Farm Credit Retirement Plan which is a final average pay plan (FAP Plan) and the AgFirst Farm Credit Cash Balance Retirement Plan which is a cash balance plan (CB Plan). In addition, the Association participates in a multi-employer defined benefit other postretirement benefits plan (OPEB Plan), the Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plan, and a defined contribution 401(k) plan. The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

1. Assets contributed to multi-employer plans by one employer may be used to provide benefits to employees of other participating employers.

2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

3. If the Association chooses to stop participating in some of its multi-employer plans, the Association may be required to contribute to eliminate the underfunded status of the plan.

In November 2014, the AgFirst Plan Sponsor Committee approved and executed amendments to the CB Plan that included the following changes:

1. The CB Plan was closed to new participants effective as of December 31, 2014. Based on the plan's eligibility provisions, this change affected employees hired on or after November 4, 2014.

2. Employer contributions were discontinued effective as of January 1, 2015.

3. All participants who were not already fully vested in the CB Plan became fully vested as of December 31, 2014.

4. The CB Plan was terminated effective as of December 31, 2016.

A favorable determination letter was received from the Internal Revenue Service, and as a result of the termination of the CB Plan, vested benefits will be distributed to participants in 2017. Participants will continue to receive interest credits to their hypothetical cash balance accounts following the termination of the plan through the month immediately preceding the month in which the vested benefits are distributed from the plan.

Curtailment accounting, as prescribed in ASC 715 “Compensation – Retirement Benefits”, was initiated upon execution of the plan amendments and did not have a material impact on the Association’s financial condition or results of operations.

Beginning on January 1, 2015, for participants in the CB Plan and eligible employees hired on or after November 4, 2014, additional employer contributions are made to the 401(k) Plan equal to 3.00 percent of the participants’ eligible compensation.

The Association’s participation in the multi-employer defined benefit plans for the annual periods ended December 31, is outlined in the table below. The “Percentage Funded to Projected Benefit Obligation” or “Percentage Funded to Accumulated Postretirement Benefit Obligation” represents the funded amount for the entire plan and the “Contributions” and “Percentage of Total Contributions” columns represent the Association’s respective amounts.

Pension Plan	Percentage Funded to Projected Benefit Obligation			Contributions			Percentage of Total Contributions		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
AgFirst Farm Credit Retirement Plan	86.96%	85.73%	84.56%	$3,732	$6,600	$4,313	13.09%	11.42%	11.36%
AgFirst Farm Credit Cash Balance Retirement Plan	100.21%	102.72%	100.07%	$–	$–	$384	0.00%	0.00%	7.72%

Other Postretirement Benefit Plan	Percentage Funded to Accumulated Postretirement Benefit Obligation			Contributions			Percentage of Total Contribution		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plans	0.00%	0.00%	0.00%	$788	$754	$855	10.95%	11.08%	11.06%

The District’s multi-employer plans are not subject to Employee Retirement Income Security Act (ERISA) and no Form 5500 is required. As such, the following information is neither available for nor applicable to the plans:

1. The Employee Identification Number (EIN) and three-digit Pension Plan Number

2. The most recent Pension Protection Act (PPA) zone status. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.

3. The "FIP/RP Status" indicating whether a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.

4. The expiration date(s) of collective-bargaining agreement(s).

Substantially all employees of the Association hired before November 4, 2014 are eligible to participate in either the FAP Plan or the CB Plan. These two plans are noncontributory and include eligible Association and other District employees. For participants hired prior to January 1, 2003, benefits are provided under the FAP Plan and are based on eligible compensation and years of service. For participants hired on or after January 1, 2003 through November 3, 2014, benefits are provided under the CB Plan and are determined using a percent of eligible compensation formula. Prior to January 1, 2015, when employer contributions were discontinued as discussed above, the employer contribution into the CB Plan was based on a formula of 3.00-5.00 percent of eligible compensation (depending on years of service) and interest credits as allocated to an employee’s theoretical account balance. The actuarially-determined costs of these plans are allocated to each participating entity, including the Association, by multiplying the plans’ net pension expense by each institution’s eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all plan participants. Plan expenses included in employee benefit costs were $5,801 for 2016, $5,875 for 2015, and $6,245 for 2014. The cumulative excess of amounts funded by the Association over the cost allocated to the Association is reflected as prepaid retirement expense, a component of Other Assets in the Consolidated Balance Sheets.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. Certain Association charges related to this plan are an allocation of District charges based on the Association’s proportional share of the plan liability. This plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs were $1,360 for 2016, $1,780 for 2015, and $1,060 for 2014. The cumulative excess of cost allocated to the Association over

the amounts funded by the Association is reflected as postretirement benefits other than pensions, a component of Other Liabilities in the Association's Consolidated Balance Sheets.

The Association also participates in a defined contribution Farm Credit Benefits Alliance (FCBA) 401(k) Plan (401(k) Plan), which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $989, $975, and $651 for the years ended December 31, 2016, 2015, and 2014, respectively. Beginning in 2016, contributions include additional amounts related to the discontinuation of the CB Plan as discussed above.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2016, 2015, and 2014, $119, $18, and ($306) have been recognized as net credits, and a net debit, respectively, to AOCI to reflect these elements.

In addition to the multi-employer plans described above, the Association sponsors nonqualified supplemental retirement and 401(k) plans. The supplemental retirement plan is unfunded and had a projected benefit obligation of $2,342 and a net under-funded status of $2,342 at December 31, 2016. Assumptions used to determine the projected benefit obligation as of December 31, 2016 included a discount rate of 4.35 percent and a rate of compensation increase of 0.00 percent. The expenses of these nonqualified plans included in employee benefit costs were $300, $240, and $145 for 2016, 2015, and 2014, respectively.

Additional information can be found in Note 9 of the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' Annual Report.

Note 10 — Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with related parties, which include officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedule and collateral, as those prevailing at the time for comparable transactions with unaffiliated borrowers.

Total loans to such persons at December 31, 2016 amounted to $6,691. During 2016, $4,056 of new loans were made and repayments totaled $4,878. In the opinion of management, none of these loans outstanding at December 31, 2016 involved more than a normal risk of collectability.

Loan fee income and income from the sale of crop insurance to senior officers and directors totaled $6 and $6, respectively, for the year ending December 31, 2016.

Note 11 — Commitments and Contingencies

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

In the normal course of business, the Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers. These financial instruments may include commitments to extend credit or letters of credit.

The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2016, $150,917 of commitments to extend credit and no commercial letters of credit were outstanding.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2016, standby letters of credit outstanding totaled $102 with an

expiration date of October 31, 2018. The maximum potential amount of future payments that may be required under these guarantees was $102.

The total amount of reserve for unfunded commitments, which is classified in Other Liabilities in the Consolidated Balance Sheets, was $558 at December 31, 2016. During 2016, the Association recorded a provision for unfunded commitments totaling $133.

Note 12 — Income Taxes

The provision for income taxes follows:

	Year Ended December 31,		
	2016	2015	2014
Current:			
Federal	$ 7	$ 5	$ 3
State	3	(5)	1
	10	–	4
Deferred:			
Federal	–	–	–
State	–	–	–
	–	–	–
Total provision for income taxes	$ 10	$ –	$ 4

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

	December 31,		
	2016	2015	2014
Federal tax at statutory rate	$ 14,039	$ 13,951	$ 17,393
State tax, net	3	–	1
Patronage distributions	(3,459)	(2,961)	(3,328)
Tax-exempt FLCA earnings	(10,883)	(12,171)	(13,995)
Change in valuation allowance	345	1,018	(930)
Other	(35)	163	863
Provision (benefit) for income taxes	$ 10	$ –	$ 4

Deferred tax assets and liabilities are comprised of the following at:

	December 31,		
	2016	2015	2014
Deferred income tax assets:			
Allowance for loan losses	$ 1,153	$ 957	$ 937
Annual leave	339	332	328
Nonaccrual loan interest	684	680	741
Loan Fees	–	–	–
Pensions and other postretirement benefits	2,436	2,344	2,181
Loss Carryforward	623	945	–
Other Property Owned	83	82	6
Gross deferred tax assets	5,318	5,340	4,193
Less: valuation allowance	(3,529)	(3,184)	(2,166)
Gross deferred tax assets, net of valuation allowance	1,789	2,156	2,027
Deferred income tax liabilities:			
Loan fees	(239)	(242)	(232)
Pensions and other postretirement benefits	(1,533)	(1,860)	(1,745)
Depreciation	(17)	(54)	(50)
Gross deferred tax liability	(1,789)	(2,156)	(2,027)
Net deferred tax asset (liability)	$ -	$ –	$ –

At December 31, 2016, deferred income taxes have not been provided by the Association on approximately $7,400 of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of ($3,529), ($3,184), and ($2,166) as of December 31, 2016, 2015 and 2014, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2016 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense.

The tax years that remain open for federal and major state income tax jurisdictions are 2013 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2016				
	First	Second	Third	Fourth	Total
Net interest income	$ 14,056	$ 14,193	$ 14,629	$ 14,704	$ 57,582
Provision for (reversal of allowance for) loan losses	(94)	435	197	534	1,072
Noninterest income (expense), net	(5,390)	(8,004)	(5,580)	2,565	(16,409)
Net income	$ 8,760	$ 5,754	$ 8,852	$ 16,735	$ 40,101

	2015				
	First	Second	Third	Fourth	Total
Net interest income	$ 13,835	$ 14,249	$ 14,170	$ 14,219	$ 56,473
Provision for (reversal of allowance for) loan losses	(6)	(112)	675	675	1,232
Noninterest income (expense), net	(5,993)	(6,319)	(4,933)	1,866	(15,379)
Net income	$ 7,848	$ 8,042	$ 8,562	$ 15,410	$ 39,862

	2014				
	First	Second	Third	Fourth	Total
Net interest income	$ 14,409	$ 14,311	$ 14,573	$ 14,275	$ 57,568
Provision for (reversal of allowance for) loan losses	–	–	–	262	262
Noninterest income (expense), net	(5,575)	(5,771)	(4,867)	8,332	(7,881)
Net income	$ 8,834	$ 8,540	$ 9,706	$ 22,345	$ 49,425

Note 14 — Subsequent Events

The Association evaluated subsequent events and determined that the following requires disclosure through March 13, 2017, which was the date the financial statements were issued.

From time to time, the Association is involved in various legal actions, claims, and proceedings in the ordinary course of its business, including claims for damages. In February 2017, the Association agreed to resolve a group of disputed claims by way of settlement in the aggregate amount of $2.1 million. These settlements will be reflected as noninterest expense in the first quarter of 2017 and did not individually or in the aggregate have a material impact on the Association's financial condition or operating results.

FOR MORE INFORMATION ABOUT AGSOUTH'S FINANCIALS,
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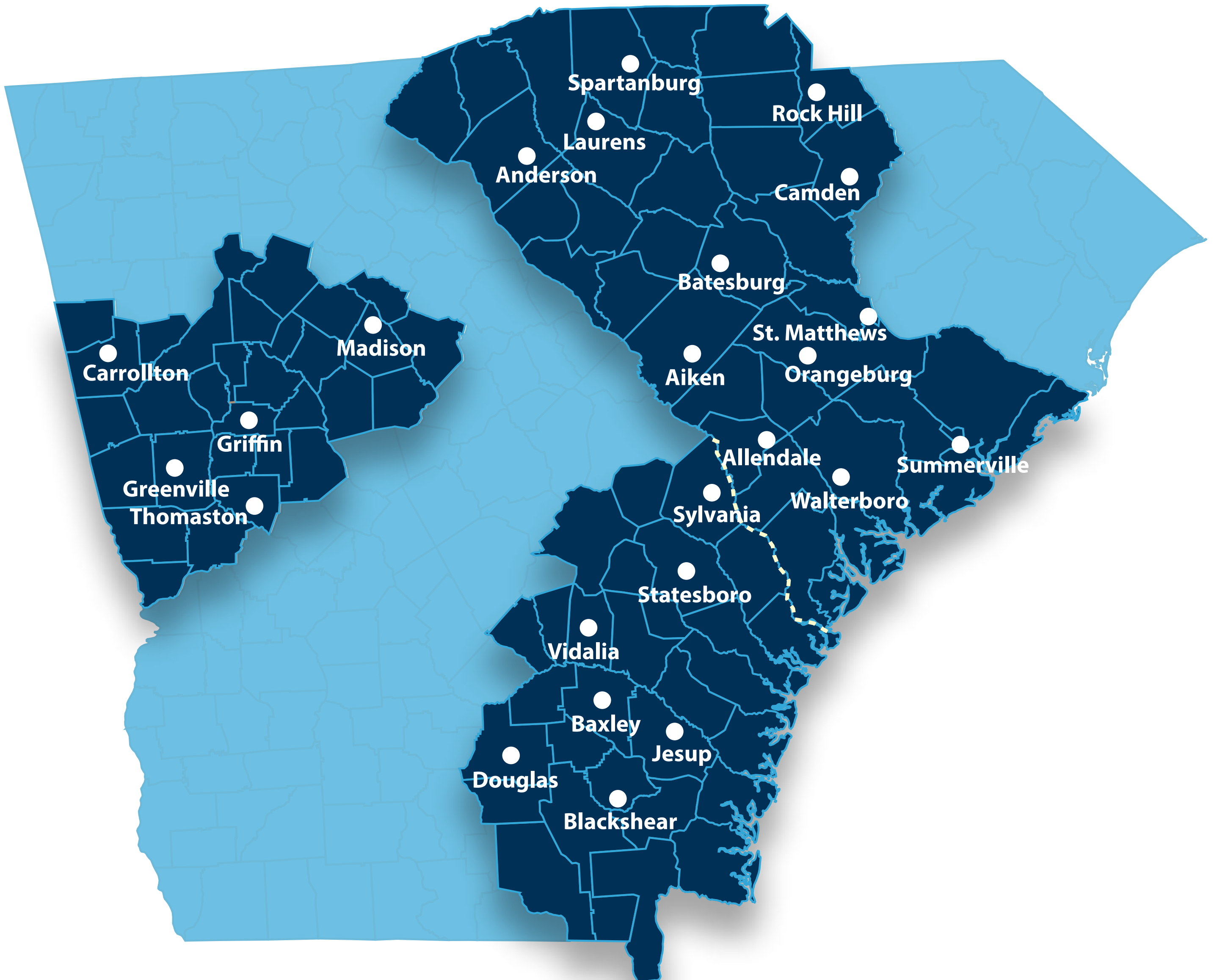

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