AgSouth Farm Credit, ACA

FIRST QUARTER 2017

TABLE OF CONTENTS

Report on Internal Control Over Financial Reporting 2

Management's Discussion and Analysis of

Financial Condition and Results of Operations 3

Consolidated Financial Statements

Consolidated Balance Sheets 10

Consolidated Statements of Income 11

Consolidated Statements of Comprehensive Income 12

Consolidated Statements of Changes in Members' Equity 13

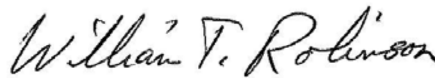
Notes to the Consolidated Financial Statements 14

CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2017 quarterly 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.

Pat Calhoun
Chief Executive Officer

Alisa D. Gunter
Chief Financial Officer



William T. Robinson
Chairman of the Board

May 8, 2017

AgSouth Farm Credit, ACA

Report on Internal Control Over Financial Reporting

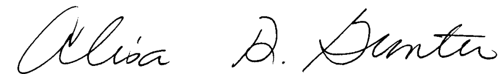
The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal 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 affected by its Board of Directors, management and other personnel. This process provides 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.

Internal control over financial reporting 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 March 31, 2017. 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 March 31, 2017, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2017.

Pat Calhoun
Chief Executive Officer



Alisa D. Gunter
Chief Financial Officer

May 8, 2017

AgSouth Farm Credit, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of AgSouth Farm Credit, ACA (Association) for the period ended March 31, 2017. This information should be read in conjunction with the accompanying financial statements, notes to the financial statements, and the 2016 Annual Report of AgSouth Farm Credit, ACA. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

FORWARD LOOKING INFORMATION

This quarterly report 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
- actions taken by the Federal Reserve System in implementing monetary policy.

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. The Association's loan portfolio is diversified over a wide range of agricultural commodities produced in our region, including poultry (broilers, turkeys and eggs), timber, sod and nursery, field grains, soybeans and hay, cotton, horses, blueberries, fruits, nuts and beef cattle. Loans to producers of these commodities total $1,400,406 or 85.41 percent of the Association's portfolio. Farm size varies, and many of the Association customers have diversified farming operations. These factors, along with the numerous opportunities for non-farm income in the area, reduce to some degree the level of income dependency on any given commodity.

AGRICULTURE OVERVIEW

The weather during the first quarter in both the South Carolina and Georgia regions had initially presented fairly favorable growing conditions with mild to warm temperatures and adequate rainfall. The mild conditions created earlier than normal blooming and budding of peaches and blueberries. A hard freeze in mid-March damaged a large percentage of both fruit crops. South Carolina's peach crop was damaged to a greater extent than Georgia's with USDA rating the South Carolina crop 88 percent very poor to poor and only 12 percent fair as of the April 9 report. The Georgia peach crop was rated by USDA as 76 percent fair to good and 24 percent poor. Blueberries, which are concentrated primarily in the Georgia region, are rated as 73 percent poor and 27 percent fair to good. Both crops are covered by crop insurance which is expected to cover all variable costs associated with each crop. There may be some shortages on meeting all term payments by some growers, but that is unknown at this point.

The winter wheat crop in both states is fairly good with USDA rating it 77 to 80 percent fair to good as of the April 9 report. Sweet onions were not damaged to any measurable extent by the freeze and USDA is rating the crop 24 percent excellent and 76 percent fair to good. Initial pricing of Vidalia sweet onions appears to be favorable and in the range of $18.00 per 40lb. container. Given the expected yields and favorable pricing the Vidalia sweet onion season is off to a good start.

Corn in both states is approximately 70 percent planted as of the first week in April. No cotton, peanuts or soybeans have been planted as of this report.

The USDA 2017 Prospective Planting Report revealed national estimated soybean plantings of 89.5 million acres, which is up

7 percent from last year. Corn plantings are estimated at 90 million acres, down 4 percent from 2016. Cotton planted area is estimated at 12.2 million acres, up 21 percent from last year. Peanuts to be planted are estimated at 1.75 million acres, up 5 percent nationally from last year. Peanuts are expected to be up 23 percent in South Carolina and 9 percent in Georgia, both higher than the national average. Cotton is expected to be up 21 percent in South Carolina and 10 percent in Georgia. Soybean plantings in both states are expected to remain relatively unchanged from 2016 at approximately 420,000 acres in South Carolina and 250,000 acres in Georgia. South Carolina generally has adequate top soil moisture at this time however; Georgia is ranked as only having 57 percent adequate top soil moisture as much of the northern and western areas of the state has been in drought conditions over the past year. Recent rains have improved conditions slightly; but, 34 percent of Georgia remains short of adequate soil moisture.

The livestock sector is moving into a period of improving prices in cattle, broilers, pork, and turkeys as the second quarter of 2017 begins. All cattle and calves inventory rose 1.85 percent nationally from 91.9 million head to 93.6 million head from 2016 to 2017. Nationally broiler, turkey, and egg production is expected to expand in 2017 through 2018.

Milk prices improved over the last several quarters from lows in the first quarter of 2016; however, prices may moderate somewhat during the second quarter of 2017. Lower feed costs helped improve margins within the dairy industry but stronger export demand is needed to increase prices much above current levels.

Nationally, housing starts rose 3 percent from January to February 2017 beating the market expectations of a 1.4 percent rise and single family housing starts rose 6.5 percent. Compared to last year, housing starts are up 6.2 percent and building permits rose 4.4 percent. Single family housing starts are expected to continue rising throughout much of our service area in the second and third quarters.

Average timber stumpage prices were mixed in the first quarter 2017 compared to fourth quarter 2016. Pine sawtimber is down from $25.96 to $25.56 per ton. Pine chip-n-saw is up from $18.00 to $18.14. Pine pulpwood is down from $10.76 to $10.69 per ton. Mixed hardwood sawtimber was up from $25.76 to $26.98 per ton. Hardwood pulpwood was down from $8.63 to $7.96. All five stumpage categories are down slightly when comparing 2017 to 2016. A warm, dry winter and spring have provided excellent weather to harvest timber which has led to some limits as to how much mills are willing to buy.

The United States Consumer Confidence Index rose from 109.4 in November 2016 to 114.8 in February 2017, which is the highest it has been in 15 years.

The unemployment rate in South Carolina is at 4.4 percent as of February 2017 and at 5.3 percent in Georgia. The rate in Georgia has been improving and is expected to continue to improve through much of 2017.

ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of March 31, 2017, was $1,639,702, an increase of $7,757 or less than 1 percent as compared to $1,631,945 at December 31, 2016. Net loans outstanding at March 31, 2017 were $1,625,729 as compared to $1,617,762 at December 31, 2016. Net loans accounted for 95.21 percent of total assets at March 31, 2017, as compared to 93.89 percent of total assets at December 31, 2016.

The increase in gross loan volume during the reporting period is attributed to new term loans and several large loans, as well as advances on operating lines of credit made during the reporting period. Competition for good, quality loans remains strong from some commercial banks, but the Association has remained competitive.

The Association typically structures loans to meet the needs of the borrower. Many term loans are made for ten years or less allowing the borrower to build equity faster and thus reducing the risk in the loan portfolio.

At December 31, 2016, the Association held Investment securities totaling $7,057. These investments are Rural America Bonds made under the authority for Mission Related Investments granted by the Farm Credit Administration. At March 31, 2017, investment securities totaled $5,714, a decrease of $1,343 from December 31, 2016. The 19.03 percent decrease is from payments and payoffs made year to date in 2017.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans increased from $17,143 at December 31, 2016, to $19,623 at March 31, 2017. The balance of nonaccrual loans is increased by transfers to nonaccrual status offset by liquidations, loans returning to accrual status, or transfer of assets to other property owned. Transfers to nonaccrual thus far in 2017 included several large accounts which had deteriorated. Association staff is working diligently to work out all nonaccrual debt situations, and additional transfers may occur due to the sluggish economy.

As of the end of the first quarter of 2017 the Association had originated $36,864 in loans for the secondary market. Originations for the same period 2016 were $28,893. The 27.59 percent increase is the result of increased activity in purchase market and construction loans which are typically larger loans than refinance transactions, and an increase in staff over the past year that are now adding to production. As of March 31, 2017, the Association held $2,614 in qualifying loans for sale. At December 31, 2016, loans held for sale totaled $2,860.

Other property owned increased to $3,473 at March 31, 2017 from $3,289 at December 31, 2016. The increase of $184 or 5.59 percent in other property owned is the result of transfers to

other property owned exceeding sales and write-downs of existing other property owned during the reporting period. The Association is actively marketing all properties for sale. For details, please visit our website at ***www.agsouthfc.com*** and click on *Property For Sale*.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2017, was $13,973 compared to $14,183 at December 31, 2016, and was considered by management to be adequate to cover possible losses. The decrease in the allowance account is the result of an entry to move a portion of the general allowance to an other liability reserve for unfunded commitments. The Asset/Liability Committee (ALCO) of the Association, which is comprised of members of senior management and staff assigned to special assets management, met in February to review the allowance account. The ALCO determined that while the amount of total allowance was adequate, the composition between the allowance for loan losses on the outstanding portfolio and the reserve required for unfunded commitments needed to be adjusted. The ALCO considered the general economic conditions, the potential for deterioration in the existing portfolio, the loan growth in the portfolio, and the amount of outstanding loan commitments in determining the level of allowance.

Investments in other Farm Credit institutions increased from $22,847 at December 31, 2016 to $23,134 at March 31, 2017. The increase of $287 or 1.26 percent is the result of a slightly higher balance of investment in other Farm Credit institutions related to participations sold on a patronage basis.

Premises and equipment net increased $56 from $18,753 at December 31, 2016 to $18,809 at March 31, 2017. The increase of less than one percent is the result of the increase in the construction in progress account. In Statesboro, plans to consolidate all Administrative staff into one location are well underway. A building adjacent to the current branch office was purchased to allow for some temporary offices while a new building is constructed. This project will take through the majority of 2017 to complete. The Association has a renovation project underway in Spartanburg, South Carolina and also recently completed a renovation of the Anderson, South Carolina branch office to accommodate a growing staff in that area.

Accounts receivable decreased $17,146 from $20,956 at December 31, 2016 to $3,810 at March 31, 2017. The decrease is the result of the patronage distribution receivable at December 31, 2016 from AgFirst, which totaled $11,775 in regular distribution and $8,178 in a special distribution. As of March 31, 2017, this line item included only one quarter of accrual of patronage from AgFirst totaling $2,844.

Other assets decreased $851 from $9,761 at December 31, 2016 to $8,910 at March 31, 2017. The majority of other assets is made up of prepaid retirement expense which decreased $1,074 between December 31, 2016 and March 31, 2017. This decrease was offset slightly by an increase in the asset held by the Association for the Nonqualified Deferred Benefit Plans.

On the liability side of the balance sheet, Notes payable to AgFirst Farm Credit Bank decreased from $1,342,601 at December 31, 2016 to $1,329,955 at March 31, 2017. The $12,646 decrease, or less than one percent, is tied to the paydown of the direct note with the cash from the 2016 AgFirst patronage distribution.

Accrued interest payable increased $13 or less than one percent from $3,025 to $3,038. The increase is tied to the interest rate on the notes payable balance outstanding. The weighted average rate on outstanding notes payable increased from 2.689 percent at December 31, 2016 to 2.782 percent at March 31, 2017.

Patronage refunds payable decreased $7,937 from $8,673 at December 31, 2016 to $736 at March 31, 2017. The decrease is the result of the cash portion of the 2016 Patronage distribution on the Association's records at December 31, 2016 moving from Patronage refund payable to Other liabilities. This amount totaled $8,545 at December 31, 2016. At March 31, 2017, the estimated cash portion of the 2016 patronage distribution was $0 as no patronage distribution for 2017 has been declared.

Accounts payable decreased $1,527 from $2,470 at December 31, 2016 to $943 at March 31, 2017. The 61.82 percent decrease is due to the payable established to pay the insurance premiums on loans to the FCSIC. At December 31, 2016 the payable related to the FCSIC totaled $2,024, and at March 31, 2017 the payable was $438.

Other liabilities increased $17,904 from $27,514 at December 31, 2016 to $45,418 at March 31, 2017. The 65.07 percent increase is due to the payable established for the revolvement of the 2011 Allocated Surplus distribution and the cash portion of the 2016 Patronage distribution. These liabilities will decrease as checks are presented for payment at the commercial bank.

Protected borrower stock did not change between the two reporting periods and remained at $2.

Unprotected borrower stock increased from $8,493 at December 31, 2016 to $8,632 at March 31, 2017. The increase of $139 or 1.64 percent is due to new borrowers purchasing stock during the reporting period in excess of liquidations of stock when loans pay out.

Allocated surplus decreased from $118,570 at December 31, 2016 to $99,220 at March 31, 2017. This is a decrease of $19,350 or 16.32 percent. The reduction is from the decision made by the Board of Directors to revolve the 2011 series of Allocated Surplus in late February 2017. This revolvement totaled $19,350. The checks and notices for this revolvement were generated and mailed in early March 2017.

Unallocated surplus increased $7,960 or 3.75 percent from the December 31, 2016 balance of $212,028. The balance of $219,988 at March 31, 2017 includes the retention of a portion of 2016 fiscal year end earnings and earnings year to date in 2017.

RESULTS OF OPERATIONS

For the three months ended March 31, 2017

Net income for the three months ended March 31, 2017, totaled $7,957 as compared to $8,760 for the same period in 2016. This is a decrease of $803 or 9.17 percent. The following commentary explains the variance.

At March 31, 2017, interest income increased $706 from $22,499 at March 31, 2016 to $23,205. This increase of 3.14 percent is primarily due to the increase in interest earning assets between the two reporting periods. Nonaccrual income, which is included in interest income, was $301 for the three months ended March 31, 2017, as compared to $204 for the same period in 2016.

For the three months ending March 31, 2016, interest income on investments totaled $135 compared to $97 for the three months ended March 31, 2017. Investment income declined $38 or 28.15 percent due to the payments and payoff of investments during the reporting period.

Interest expense for the three months ended March 31, 2017 increased $418 from $8,443 at March 31, 2016 to $8,861 at March 31, 2017. The variance is 4.95 percent and is tied to the increase in the weighted average direct note rate between the two reporting periods. As of March 31, 2016, the weighted average direct note rate was 2.689 percent compared to a weighted average direct note rate of 2.782 percent as of March 31, 2017.

Net interest income before the provision for loan loss increased $288 for the three months ended March 31, 2017, as compared to the same period in 2016 due primarily to the increased earnings on a higher balance of average earning assets.

Net interest income after the provision for loan losses increased $420 during the quarter ending March 31, 2017. A net provision reversal of $226 was made in the quarter ending March 31, 2017. The provision reversal was necessary to decrease the general allowance and to increase the reserve on unfunded loan commitments which is booked to Other Liabilities. In the same period in 2016 a provision reversal of $94 was necessary.

Noninterest income decreased $1,863 over the same period last year. Loan fees increased $165 or 22.51 percent. The loan fee variance can be tied to an increase in fees earned on loans sold on the secondary market and portfolio fee income.

Fees for financially related services decreased $79 from $284 at March 31, 2016 compared to $205 at March 31, 2017. The decrease of 27.82 percent is due to a decrease in commissions earned on the sale of crop insurance during the reporting period.

Patronage refunds from other Farm Credit institutions decreased $374 from $3,479 at March 31, 2016 to $3,105 at March 31, 2017. The decrease of 10.75 percent is the result of the decrease in loans sold to CoBank and AgFirst on a patronage basis.

Gains on the sale of rural home loans increased $54 from $431 at March 31, 2016 compared to $485 at March 31, 2017. Increased originations between the two reporting periods generated a portion of the gain. Additionally, an increase in the number of originators between the two reporting periods has generated a higher level of loan originations.

Gains on the sale of premises and equipment for the period ending March 31, 2017 totaled $23 compared to $14 for the period ending March 31, 2016. During the 2017 reporting period, the Association recorded gains on the sale of excess Association automobiles.

Losses on the sale of other transactions totaled $1,757 at March 31, 2017. This is an increase in net losses of $1,640 over the same period in 2016. The majority of the loss is tied to the settlement of a group of lawsuits and other claims brought by former borrowers and related parties. As of the date of this report, all of the claims have been settled.

Other noninterest income was $24 during the three months ended March 31, 2017, compared to $22 for the three months ending March 31, 2016. This line item captures the volume premium paid by AgFirst for secondary market loans sold to AgFirst. The volume premiums were slightly higher in 2017 when compared to 2016.

Noninterest expense for the three months ended March 31, 2017, decreased $635 or 6.21 percent when compared to the same period of 2016. Salaries and employee benefits expense decreased $341 between the two reporting periods. The decrease of 4.90 percent is tied to a decrease in expense related to the pension plan between the reporting periods.

Occupancy and equipment expense at March 31, 2017 was $701 compared to $693 for the same period in 2016. This is an increase of $8 or 1.15 percent. The increase is tied to items expensed rather than depreciated over the life of the assets and expenditures necessary for the additional space needs in Statesboro, Georgia.

The Insurance Fund premiums decreased $11 from $449 at March 31, 2016 to $438 at March 31, 2017. The variance is due to the slightly lower premium on accruing loans assessed in 2017 by the Insurance Fund. The FCSIC board decreased the premium from 16 basis points to 15 basis points between the reporting periods.

In the three months ending March 31, 2017, the Association experienced gains offset by losses and expenses on the sale of

Other Property Owned in the amount of $6. During the same period of 2016, the Association booked losses and expenses on the sale of Other Property Owned of $40. The net gain in the 2017 reporting period was the result of the sale of Other Property Owned offset by other losses and expenses recorded during the reporting period.

Other operating expenses decreased $245 from $2,093 at March 31, 2016, compared to $1,848 at March 31, 2017. The decrease of 11.71 percent is attributed to a decrease in travel, advertising and public and member relations expenses between the reporting periods. The Farm Credit System celebrated its 100th year in 2016 and the Association actively promoted the centennial through advertising and public and member relations events. Other operating expenses also include communications, data processing, and all other expenses necessary to run the business.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement 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 in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. 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. The total notes payable to the Bank at March 31, 2017 was $1,329,955 as compared to $1,342,601 at December 31, 2016. The $12,646 decrease, or less than one percent, is tied to the paydown of the direct note with the cash from the 2016 AgFirst patronage distribution.

CAPITAL RESOURCES

Total members' equity at December 31, 2016 totaled $338,700. At March 31, 2017 total members' equity had decreased by $11,212 to $327,488. The decrease in total members' equity is due to the decrease in allocated retained earnings offset by an increase in unallocated retained earnings between the two reporting periods. At December 31, 2016, allocated retained earnings totaled $118,570 compared to $99,220 at March 31, 2017. The decrease is due to the revolvement of the 2011 series of allocated surplus in the first quarter of 2017. At December 31, 2016, unallocated retained earnings totaled $212,028. At March 31, 2017, the unallocated retained earnings had increased to $219,988. The increase in unallocated retained earnings is due to the decision to retain a portion of the 2016 earnings for capital purposes and year to date 2017 earnings.

Total capital stock and participation certificates were $8,634 on March 31, 2017, compared to $8,495 on December 31, 2016. The increase is attributed to the purchase of new stock and participation certificates for new borrowing entities offset by the retirement of stock and participation certificates on loans liquidated in the normal course of business.

REGULATORY MATTERS

Capital

Effective January 1, 2017, the regulatory capital requirements for System Banks and Associations were modified. The new regulations 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. New regulations replaced existing core surplus and total surplus ratios with common equity tier 1 (CET1), tier 1 capital, and total capital risk-based capital ratios. The new regulations also replaced the existing net collateral ratio with a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The current permanent capital ratio (PCR) remains in effect.

Risk-adjusted assets have been defined by FCA Regulations as the Balance Sheet assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the effect of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

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

Calculation of PCR risk-adjusted assets includes the allowance for loan losses as a deduction from risk-adjusted assets. This differs from the other risk-based capital calculations.

The ratios are calculated using three-month average daily balances, in accordance with FCA regulations, as follows:

- The CET1 ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.

  The total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater

than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The tier 1 leverage ratio is tier 1 capital, divided by average assets less regulatory deductions to tier 1 capital.
- The UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions to tier 1 capital.

The following sets forth the regulatory capital ratios, which were effective January 1, 2017:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of March 31, 2017
Risk-adjusted ratios:				
CET1 Capital	4.5%	0.625%	5.125%	13.02%
Tier 1 Capital	6.0%	0.625%	6.625%	13.02%
Total Capital	8.0%	0.625%	8.625%	21.04%
Permanent Capital Ratio	7.0%	0.0%	7.0%	20.28%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	12.28%
UREE Leverage Ratio	1.5%	0.0%	1.5%	12.11%

** - The capital conservation buffers have a 3 year phase-in period and will become fully effective January 1, 2020. Risk-adjusted ratio minimums will increase 0.625% each year until fully phased in. There is no phase-in period for the tier 1 leverage ratio.*

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

Other Regulatory Matters

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 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.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *"Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements"*, in the Notes to the Financial Statements, and the 2016 Annual Report to Shareholders for recently issued accounting pronouncements.

____

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, ***www.agfirst.com***. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-633-9091, ext. 2663, writing Alisa D. Gunter, CFO, AgSouth Farm Credit, ACA, PO Box 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 web site within 75 days after the end of the fiscal year and distributes the Annual report 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.

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*.

AgSouth Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	March 31, 2017	December 31, 2016
	(unaudited)	*(audited)*
Assets		
Cash	**$ 1,760**	$ 5,160
Investment securities:		
Held to maturity (fair value of $5,642 and $6,820, respectively)	**5,714**	7,057
Loans	**1,639,702**	1,631,945
Allowance for loan losses	**(13,973)**	(14,183)
Net loans	**1,625,729**	1,617,762
Loans held for sale	**2,614**	2,860
Accrued interest receivable	**13,625**	14,538
Investments in other Farm Credit institutions	**23,134**	22,847
Premises and equipment, net	**18,809**	18,753
Other property owned	**3,473**	3,289
Accounts receivable	**3,810**	20,956
Other assets	**8,910**	9,761
Total assets	**$ 1,707,578**	$ 1,722,983
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 1,329,955**	$ 1,342,601
Accrued interest payable	**3,038**	3,025
Patronage refunds payable	**736**	8,673
Accounts payable	**943**	2,470
Other liabilities	**45,418**	27,514
Total liabilities	**1,380,090**	1,384,283
Commitments and contingencies (Note 8)		
Members' Equity		
Protected borrower stock	**2**	2
Capital stock and participation certificates	**8,632**	8,493
Retained earnings		
Allocated	**99,220**	118,570
Unallocated	**219,988**	212,028
Accumulated other comprehensive income (loss)	**(354)**	(393)
Total members' equity	**327,488**	338,700
Total liabilities and members' equity	**$ 1,707,578**	$ 1,722,983

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

AgSouth Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2017	2016
Interest Income		
Loans	**$ 23,108**	$ 22,364
Investments	**97**	135
Total interest income	**23,205**	22,499
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	**8,836**	8,364
Other	**25**	79
Total interest expense	**8,861**	8,443
Net interest income	**14,344**	14,056
Provision for (reversal of allowance for) loan losses	**(226)**	(94)
Net interest income after provision for (reversal of allowance for) loan losses	**14,570**	14,150
Noninterest Income		
Loan fees	**898**	733
Fees for financially related services	**205**	284
Patronage refunds from other Farm Credit institutions	**3,105**	3,479
Gains (losses) on sales of rural home loans, net	**485**	431
Gains (losses) on sales of premises and equipment, net	**23**	14
Gains (losses) on other transactions	**(1,757)**	(117)
Other noninterest income	**24**	22
Total noninterest income	**2,983**	4,846
Noninterest Expense		
Salaries and employee benefits	**6,615**	6,956
Occupancy and equipment	**701**	693
Insurance Fund premiums	**438**	449
(Gains) losses on other property owned, net	**(6)**	40
Other operating expenses	**1,848**	2,093
Total noninterest expense	**9,596**	10,231
Income before income taxes	**7,957**	8,765
Provision for income taxes	**—**	5
Net income	**$ 7,957**	$ 8,760

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

AgSouth Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2017	2016
Net income	**$ 7,957**	$ 8,760
Other comprehensive income net of tax		
Employee benefit plans adjustments	**39**	37
Comprehensive income	**$ 7,996**	$ 8,797

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

AgSouth Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2015	$ 2	$ 7,972	$ 116,777	$ 200,380	$ (512)	$ 324,619
Comprehensive income				8,760	37	8,797
Capital stock/participation certificates issued/(retired), net		89				89
Retained earnings retired			(18,037)			(18,037)
Patronage distribution adjustment			(20)	29		9
Balance at March 31, 2016	$ 2	$ 8,061	$ 98,720	$ 209,169	$ (475)	$ 315,477
Balance at December 31, 2016	**$ 2**	**$ 8,493**	**$ 118,570**	**$ 212,028**	**$ (393)**	**$ 338,700**
Comprehensive income				**7,957**	**39**	**7,996**
Capital stock/participation certificates issued/(retired), net		**139**				**139**
Retained earnings retired			**(19,349)**			**(19,349)**
Patronage distribution adjustment			**(1)**	**3**		**2**
Balance at March 31, 2017	**$ 2**	**$ 8,632**	**$ 99,220**	**$ 219,988**	**$ (354)**	**$ 327,488**

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

AgSouth Farm Credit, ACA

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements

Organization
The accompanying financial statements include the accounts of AgSouth Farm Credit, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2016, are contained in the 2016 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation
In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair statement of results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The results of any interim period are not necessarily indicative of those to be expected for a full year.

Significant Accounting Policies
The Association's accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the financial statements, income and expenses during the reporting period, and the related disclosures. Although these estimates contemplate current conditions and expectations of change in the future, it is reasonably possible that actual conditions may be different than anticipated, which could materially affect results of operations and financial condition.

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

For further details of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, from the latest Annual Report.

Accounting Standards Updates (ASUs) Issued During the Period
The following ASUs were issued by the Financial Accounting Standards Board (FASB) since the most recent Annual Report:

- In March 2017, the FASB issued ASU 2017-08 Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The guidance relates to certain callable debt securities and shortens the amortization period for any premium to the earliest call date. The Update will be effective for interim and annual periods beginning after December 15, 2018 for public business entities. Early adoption is permitted. 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 February 2017, the FASB issued ASU 2017-05 Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The Update clarifies whether certain transactions are within the scope of the guidance on derecognition and the accounting for partial sales of nonfinancial assets, and defines the term in substance nonfinancial asset. The amendments conform the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue recognition standard. The amendments will be effective for reporting periods beginning after December 15, 2017 for public business entities. 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 2017, the FASB issued ASU 2017-04 Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The Update simplifies the accounting for goodwill impairment for public business entities and other entities that have goodwill reported in their financial statements and have not elected the private company alternative for the subsequent measurement of

goodwill. The amendment removes Step 2 of the goodwill impairment test. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The effective date and transition requirements for the technical corrections will be effective for reporting periods beginning after December 15, 2020 for public business entities that are not SEC filers. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. 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 2017, the FASB issued ASU 2017-03 Accounting Changes and Error Corrections (Topic 250) and Investments—Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings (SEC Update). The ASU incorporates recent SEC guidance about disclosing, under SEC SAB Topic 11.M, the effect on financial statements of adopting the revenue, leases, and credit losses standards. The Update was effective upon issuance. Application of this guidance is not expected to have a material impact on the Association's financial condition or results of operations.

ASUs Pending Effective Date

For a detailed description of the ASUs below, see the latest Annual Report.

Potential effects of ASUs issued in previous periods:

- 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business. In January, 2017, the FASB issued this update to provide a more robust framework to use in determining when a set of assets and activities is a business. It supports more consistency in applying the guidance, reduces the costs of application, and makes 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. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2016-16 Income Taxes (Topic 740) - Intra-Entity Transfers of Assets Other Than Inventory: In October, 2016, the FASB issued this Update that requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. 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. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments: In June, 2016, the FASB issued this Update to improve 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. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. 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 is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2016-02 Leases (Topic 842): In February, 2016, the FASB issued this Update which requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. The amendments will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities. Early adoption is permitted. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2016-01 Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities: In January, 2016, the FASB issued this Update which is intended to improve the recognition and measurement of financial instruments. The new guidance makes targeted improvements to existing GAAP. The ASU will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years for public business entities. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2014-09 Revenue from Contracts with Customers (Topic 606): In May 2014, the FASB issued this guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the

consideration the entity receives or expects to receive. This guidance also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Based on input received from stakeholders, the FASB has issued several additional Updates that generally provide clarifying guidance where there was the potential for diversity in practice, or address the cost and complexity of applying Topic 606. The guidance and all related updates will be effective for reporting periods beginning after December 15, 2017 for public business entities. 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.

Accounting Standards Effective During the Period

There were no changes in the accounting principles applied from the latest Annual Report, other than any discussed below.

No recently adopted accounting guidance issued by the FASB had a significant effect on the current period reporting. See the most recent Annual Report for a detailed description of each of the standards below:

- 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash. In November, 2016, the FASB issued this Update to clarify 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. The Association elected retrospective early adoption of this guidance. The criteria of the standard were not significantly different from the Association's policy in place at adoption. Application of the guidance had no impact on the Association's Statements of Cash Flows.

- 2016-17 Consolidation (Topic 810) - Interests Held through Related Parties That Are under Common Control: In October, 2016, the FASB issued this Update to amend the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity (VIE) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. 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 the guidance had no impact on the Association's financial statements.

- 2016-15 Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force): In August, 2016, the FASB issued this Update to eliminate 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 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. The Association elected retrospective early adoption of this guidance. The criteria of the standard were not significantly different from the Association's policy in place at adoption. Application of the guidance had no impact on the Association's Statements of Cash Flows.

Note 2 — Loans and Allowance for Loan Losses

The Association maintains an allowance for loan losses 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. See Note 3, *Loans and Allowance for Loan Losses*, from the latest Annual Report for further discussion.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. 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.

A summary of loans outstanding at period end follows:

	March 31, 2017	December 31, 2016
Real estate mortgage	$ 1,279,422	$ 1,263,320
Production and intermediate-term	282,300	288,968
Processing and marketing	10,267	10,168
Farm-related business	12,526	12,706
Rural residential real estate	53,864	55,432
Other (including Mission Related)	1,323	1,351
Total Loans	$ 1,639,702	$ 1,631,945

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

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

March 31, 2017	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	$ –	$ 139,557	$ –	$ 19,170	$ –	$ –	$ –	$ 158,727
Production and intermediate-term	–	64,409	848	–	1,737	–	2,585	64,409
Processing and marketing	–	11,523	–	2,638	–	–	–	14,161
Farm-related business	–	–	–	10,125	–	–	–	10,125
Total	$ –	$ 215,489	$ 848	$ 31,933	$ 1,737	$ –	$ 2,585	$ 247,422

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

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:

March 31, 2017	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 46,585	$ 225,815	$ 1,007,022	$ 1,279,422
Production and intermediate-term	135,954	104,178	42,168	282,300
Processing and marketing	1,795	2,798	5,674	10,267
Farm-related business	840	7,612	4,074	12,526
Rural residential real estate	4,410	2,096	47,358	53,864
Other (including Mission Related)	–	838	485	1,323
Total Loans	$ 189,584	$ 343,337	$ 1,106,781	$ 1,639,702
Percentage	11.56%	20.94%	67.50%	100.00%

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

The following table shows the recorded investment of loans, classified under the FCA Uniform Loan Classification System, as a percentage of the recorded investment of total loans by loan type as of:

	March 31, 2017	December 31, 2016
Real estate mortgage:		
Acceptable	96.53%	96.82%
OAEM	1.77	1.35
Substandard/doubtful/loss	1.70	1.83
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	95.07%	95.76%
OAEM	3.48	2.85
Substandard/doubtful/loss	1.45	1.39
	100.00%	100.00%
Processing and marketing:		
Acceptable	93.35%	93.12%
OAEM	6.65	6.88
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	98.34%	98.35%
OAEM	1.63	1.62
Substandard/doubtful/loss	0.03	0.03
	100.00%	100.00%

	March 31, 2017	December 31, 2016
Rural residential real estate:		
Acceptable	98.27%	98.26%
OAEM	0.68	1.09
Substandard/doubtful/loss	1.05	0.65
	100.00%	100.00%
Other (including Mission Related):		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total Loans:		
Acceptable	96.33%	96.67%
OAEM	2.06	1.64
Substandard/doubtful/loss	1.61	1.69
	100.00%	100.00%

The following tables provide an aging analysis of the recorded investment of past due loans as of:

March 31, 2017	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	$ 4,622	$ 10,309	$ 14,931	$ 1,274,603	$ 1,289,534	$ –
Production and intermediate-term	4,247	2,447	6,694	278,717	285,411	–
Processing and marketing	–	–	–	10,346	10,346	–
Farm-related business	–	4	4	12,571	12,575	–
Rural residential real estate	311	260	571	53,526	54,097	–
Other (including Mission Related)	–	–	–	1,332	1,332	–
Total	$ 9,180	$ 13,020	$ 22,200	$ 1,631,095	$ 1,653,295	$ –

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	$ –

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

	March 31, 2017	December 31, 2016
Nonaccrual loans:		
Real estate mortgage	$ 14,888	$ 12,842
Production and intermediate-term	4,288	4,023
Farm-related business	4	4
Rural residential real estate	443	274
Total	$ 19,623	$ 17,143
Accruing restructured loans:		
Real estate mortgage	$ 7,249	$ 7,380
Production and intermediate-term	311	318
Rural residential real estate	210	212
Total	$ 7,770	$ 7,910
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 27,393	$ 25,053
Other property owned	3,473	3,289
Total	$ 30,866	$ 28,342
Nonaccrual loans as a percentage of total loans	1.20%	1.05%
Nonperforming assets as a percentage of total loans and other property owned	1.88%	1.73%
Nonperforming assets as a percentage of capital	9.43%	8.37%

The following table presents information related to the recorded investment of impaired loans at period end. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

	March 31, 2017	December 31, 2016
Impaired nonaccrual loans:		
Current as to principal and interest	$ 4,026	$ 4,951
Past due	15,597	12,192
Total	$ 19,623	$ 17,143
Impaired accrual loans:		
Restructured	$ 7,770	$ 7,910
90 days or more past due	–	–
Total	$ 7,770	$ 7,910
Total impaired loans	$ 27,393	$ 25,053
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.

	March 31, 2017			Quarter Ended March 31, 2017	
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	$ 3,801	$ 3,867	$ 1,592	$ 3,570	$ 57
Production and intermediate-term	355	375	36	334	5
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 4,156	$ 4,242	$ 1,628	$ 3,904	$ 62
With no related allowance for credit losses:					
Real estate mortgage	$ 18,336	$ 20,005	$ –	$ 17,225	$ 271
Production and intermediate-term	4,244	5,603	–	3,986	63
Farm-related business	4	92	–	4	–
Rural residential real estate	653	759	–	613	10
Total	$ 23,237	$ 26,459	$ –	$ 21,828	$ 344
Total:					
Real estate mortgage	$ 22,137	$ 23,872	$ 1,592	$ 20,795	$ 328
Production and intermediate-term	4,599	5,978	36	4,320	68
Farm-related business	4	92	–	4	–
Rural residential real estate	653	759	–	613	10
Total	$ 27,393	$ 30,701	$ 1,628	$ 25,732	$ 406

Impaired loans:	December 31, 2016 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2016 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

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows.

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Rural Residential Real Estate	Other (including Mission Related)	Total
Activity related to the allowance for credit losses:						
Balance at December 31, 2016	$ 11,297	$ 2,271	$ 178	$ 426	$ 11	$ 14,183
Charge-offs	(55)	(13)	–	(49)	–	(117)
Recoveries	118	7	1	–	7	133
Provision for loan losses	(145)	(97)	(5)	29	(8)	(226)
Balance at March 31, 2017	$ 11,215	$ 2,168	$ 174	$ 406	$ 10	$ 13,973
Balance at December 31, 2015	$ 10,369	$ 2,177	$ 92	$ 423	$ 38	$ 13,099
Charge-offs	(49)	(25)	–	–	–	(74)
Recoveries	56	42	1	–	5	104
Provision for loan losses	209	(279)	1	(2)	(23)	(94)
Balance at March 31, 2016	$ 10,585	$ 1,915	$ 94	$ 421	$ 20	$ 13,035
Allowance on loans evaluated for impairment:						
Individually	$ 1,592	$ 36	$ –	$ –	$ –	$ 1,628
Collectively	9,623	2,132	174	406	10	12,345
Balance at March 31, 2017	$ 11,215	$ 2,168	$ 174	$ 406	$ 10	$ 13,973
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
Recorded investment in loans evaluated for impairment:						
Individually	$ 22,133	$ 4,611	$ 4	$ 653	$ –	$ 27,401
Collectively	1,267,401	280,800	22,917	53,444	1,332	1,625,894
Balance at March 31, 2017	$ 1,289,534	$ 285,411	$ 22,921	$ 54,097	$ 1,332	$ 1,653,295
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

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

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.

	Three months ended March 31, 2017				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 225	$ –	$ 225	
Rural residential real estate	37	–	–	37	
Total	$ 37	$ 225	$ –	$ 262	
Post-modification:					
Real estate mortgage	$ –	$ 225	$ –	$ 225	$ –
Rural residential real estate	37	–	–	37	–
Total	$ 37	$ 225	$ –	$ 262	$ –

	Three months ended March 31, 2016				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 1,791	$ 1,030	$ –	$ 2,821	
Production and intermediate-term	168	140	–	308	
Total	$ 1,959	$ 1,170	$ –	$ 3,129	
Post-modification:					
Real estate mortgage	$ 1,708	$ 1,040	$ –	$ 2,748	$ –
Production and intermediate-term	153	170	–	323	–
Total	$ 1,861	$ 1,210	$ –	$ 3,071	$ –

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.

	Three Months Ended March 31,	
	2017	**2016**
Real estate mortgage	$ 522	$ 33
Production and intermediate-term	809	146
Rural residential real estate	9	–
Total	$ 1,340	$ 179

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

	Total TDRs		Nonaccrual TDRs	
	March 31, 2017	**December 31, 2016**	**March 31, 2017**	**December 31, 2016**
Real estate mortgage	$ 11,404	$ 12,525	$ 4,155	$ 5,145
Production and intermediate-term	1,505	1,534	1,194	1,216
Farm-related business	4	4	4	4
Rural residential real estate	325	370	115	158
Total Loans	$ 13,238	$ 14,433	$ 5,468	$ 6,523
Additional commitments to lend	$ –	$ –		

The following table presents information as of period end:

	March 31, 2017
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	$ 151

Note 3 — 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 March 31, 2017, the Association held no RABs 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:

	March 31, 2017				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 5,714	$ 58	$ (130)	$ 5,642	6.44%

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

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

	March 31, 2017		
	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	5,714	5,642	6.44
Total	$ 5,714	$ 5,642	6.44%

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. 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 at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	March 31, 2017			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ –	$ –	$ 1,014	$ (130)

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

The recording of an impairment 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

The Association is required to maintain ownership in AgFirst Farm Credit Bank (AgFirst or the Bank) of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 7.12 percent of the issued stock of the Bank as of March 31, 2017 net of any reciprocal investment. As of that date, the Bank's assets totaled $31.0 billion and shareholders' equity totaled $2.3 billion. The Bank's earnings were $83 million for the first three months of 2017. In addition, the Association held investments of $5,049 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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. The contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

	Changes in Accumulated other Comprehensive income by component *(a)*	
	Three Months Ended March 31,	
	2017	**2016**
Employee Benefit Plans:		
Balance at beginning of period	$ (393)	$ (512)
Other comprehensive income before reclassifications	–	–
Amounts reclassified from AOCI	39	37
Net current period other comprehensive income	39	37
Balance at end of period	$ (354)	$ (475)

	Reclassifications out of Accumulated Other Comprehensive Income *(b)*		
	Three Months Ended March 31,		
	2017	**2016**	**Income Statement Line Item**
Defined Benefit Pension Plans:			
Periodic pension costs	$ (39)	$ (37)	See Note 7.
Net amounts reclassified	$ (39)	$ (37)	

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

Note 6 — 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.

The classifications within the fair value hierarchy are as follows:

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

Level 2 inputs 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 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 the third-party valuation or internal model pricing.

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see the latest Annual Report to Shareholders.

There were no Level 3 assets or 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 Three Months Ended March 31, 2017					
	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	$ 1,876	$ 1,876	$ –	$ –	$ 1,876	
Recurring Assets	$ 1,876	$ 1,876	$ –	$ –	$ 1,876	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 25,765	$ –	$ –	$ 25,765	$ 25,765	$ 41
Other property owned	3,473	–	–	3,547	3,547	10
Nonrecurring Assets	$ 29,238	$ –	$ –	$ 29,312	$ 29,312	$ 51
Other Financial Instruments						
Assets:						
Cash	$ 1,760	$ 1,760	$ –	$ –	$ 1,760	
Investment securities, held-to-maturity	5,714	–	–	5,642	5,642	
Loans	1,602,578	–	–	1,600,246	1,600,246	
Other Financial Assets	$ 1,610,052	$ 1,760	$ –	$ 1,605,888	$ 1,607,648	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,329,955	$ –	$ –	$ 1,313,351	$ 1,313,351	
Other Financial Liabilities	$ 1,329,955	$ –	$ –	$ 1,313,351	$ 1,313,351	

	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	

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	$ 29,312	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			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
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Investment securities, held-to-maturity	Discounted cash flow	Prepayment rates
		Risk adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity

Note 7 — Employee Benefit Plans

The following is a table of retirement and other postretirement benefit expenses for the Association:

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Pension	$ 1,139	$ 1,524
401(k)	239	209
Other postretirement benefits	209	340
Total	$ 1,587	$ 2,073

The following is a table of retirement and other postretirement benefit contributions for the Association:

	Actual YTD Through 3/31/17	Projected Contributions For Remainder of 2017	Projected Total Contributions 2017
Pension	$ 21	$ 3,922	$ 3,943
Other postretirement benefits	210	606	816
Total	$ 231	$ 4,528	$ 4,759

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2017.

Further details regarding employee benefit plans are contained in the 2016 Annual Report to Shareholders. As of March 31, 2017, the AgFirst Farm Credit Cash Balance Retirement Plan has been terminated and all vested benefits have been distributed to participants.

Note 8 — Commitments and Contingent Liabilities

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.

Note 9 — Subsequent Events

The Association evaluated subsequent events and determined there were none requiring disclosure through May 8, 2017, which was the date the financial statements were issued.