FARM CREDIT
OF FLORIDA

Committed to the Future of Agriculture

2016 ANNUAL REPORT

Farmer-owned since 1916

OUR COMMITMENT CONTINUES

Farm Credit's mission is to provide reliable and consistent credit and financial services for rural communities and agriculture today and tomorrow. We evolve to meet your changing needs and remain a steady source of funding for our borrowers, day in and day out, regardless of market or industry fluctuations.

By the NUMBERS

Percent of All Loans and
Number of Accounts

2016 Patronage

$10.5 MILLION

Members 2,610 | **Accounts 3,107** | **Crop Insurance Accounts 307**

Services

AccountAccess
1,002

AutoDraft
609

FastCash
262

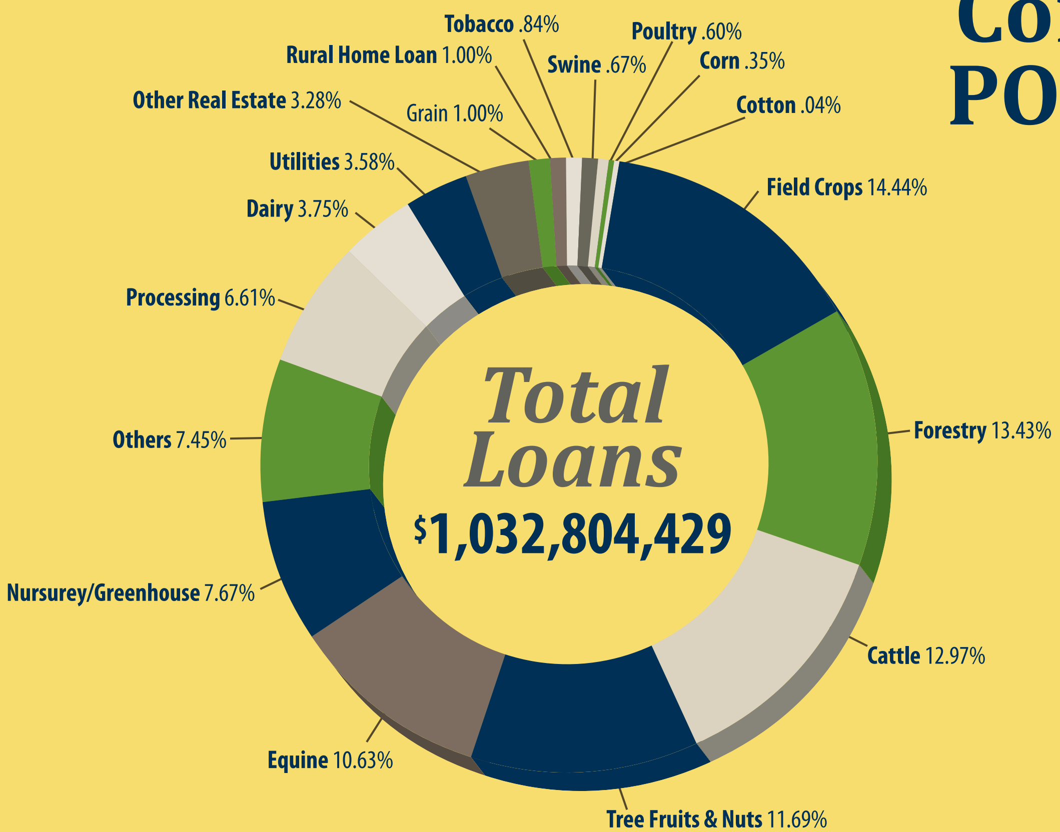
AgriLine
89

YBS Accounts

Young Farmers	Beginning Farmers	Small Farmers
342	848	1,206

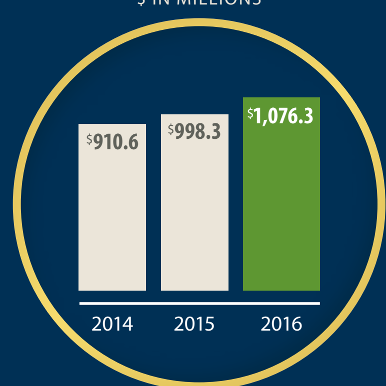
Real Estate Loans	57.63%
Social Media Followers	3,859
Organizations Supported	203
Farm Credit Employees	122
Years of Farm Credit System	100
Counties in Florida Served	36

Commodity PORTFOLIO

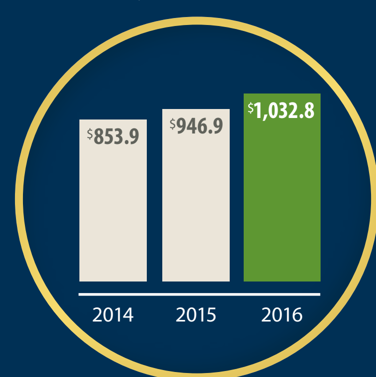


Financially STRONG

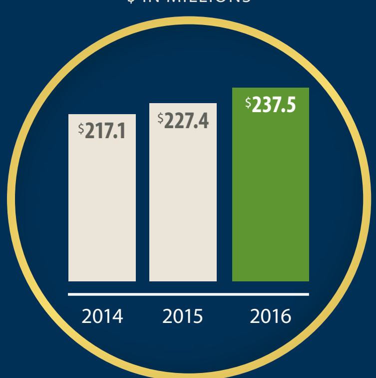
TOTAL ASSETS
$ IN MILLIONS



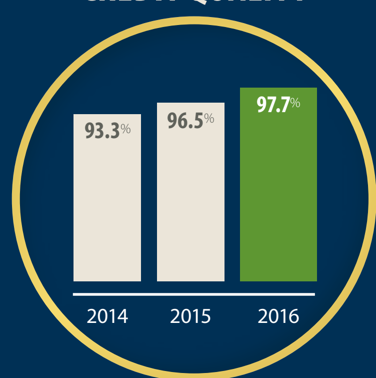
LOANS
$ IN MILLIONS



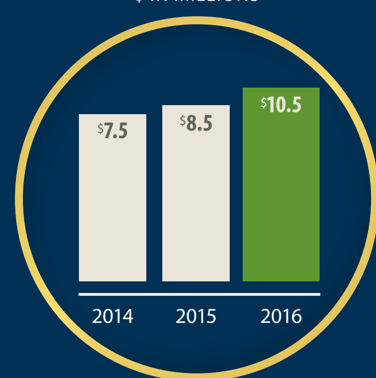
MEMBERS' EQUITY
$ IN MILLIONS



CREDIT QUALITY



PATRONAGE DISTRIBUTION
$ IN MILLIONS



Commitment to Our MEMBERS

Today's rural communities and the farmers and growers that are the heartbeat of these communities are innovative, expanding and active, and we are evolving to meet their needs.

Rural communities depend on Farm Credit's funding and expertise to produce the high-quality food and agricultural products enjoyed around the globe.

As our communities evolve, Farm Credit of Florida is keeping pace. Here are the stories of a few of our members who are leading the charge for the future of agriculture.

Growing INTEREST

Ismel Vera
VERA'S NURSERY

It's a story of the pursuit of life, liberty and happiness: Fifteen years ago the Vera family, of Vera's nursery, arrived from Cuba, running away from a regimen that had no room for freedom of speech, liberty, and much less the ability of someone to own a business. Leaving behind everything except a dream, the "American Dream," they brought with them hard working ethics that later turned out to be the very key to their success.

Two years after their arrival, the family business was born. The family worked seven days a week, often from 7 in the morning until 5 at night, on only two acres of land. They named their business Vera's Nursery and continued to work hard, never taking a day off, fueled by their passion to grow plants.

"I like the nursery business because you are working with nature," says Ismel Vera. "You can actually see the change in the plants. You take a seed and grow it into one big palm in a 25 gallon container. Growing plants, that's my passion."

Throughout his years of growing, Ismel has learned that what makes him truly successful in the nursery business is this love for what he does. "In this business we learned that when you do what you like to do you see different results in the end. You have to select the business that you are passionate about. Like in my situation, I like the plant business so I'm here in the plant business."

Today, Vera's Nursery consists of more than 100 acres growing 50 different types of palms, shrubs, topiaries and hibiscus; however, Ismel is not done yet. "I want to try to grow more and get bigger and bigger," he says.

One key to this growth has been the help of Farm Credit of Florida. Ismel says, "Farm Credit has helped me a lot in this business. We want to grow more and more, and every nursery that wants to grow needs support from one lender and we select Farm Credit of Florida. Farm Credit is the best lender for our business."

"Farm Credit as the name says everything. They are a lender that supports farmers so I prefer working with Farm Credit than any other lender. We get our support from Farm Credit."

~Ismel Vera

A STRONG VOICE for Florida BLUEBERRIES

Brittany Lee
FLORIDA BLUE FARMS, INC.

For Farm Credit of Florida member Brittany Lee, blueberries are not just her livelihood, but her passion. As vice-president and general manager of Florida Blue Farms, Inc., she has become a strong advocate for the Florida blueberry industry.

In 2008, Brittany's parents, Dennis and Caridad Lee, decided to convert a timber tract held by their real estate company in Waldo, Florida into a production blueberry farm, creating Florida Blue Farms, Inc. This decision was not made overnight, but after careful consideration of soil types and climate in north Florida.

New Beginnings

"The property we selected was a timber tract held by the real estate arm of our family operations," Lee said. "After much research we learned that the property was ideally suited for the establishment of blueberries, as the planted pine provided an ideal level of organic matter and soil acidity for our new operation."

After the timber was harvested, the now clear land allowed Lee and Florida Blue Farms to plan the layout of the farm, which led to one of their biggest challenges to date: water drainage.

"Managing the flow of water through our farm has always been a challenge. Blueberries like soil that drains well, so standing water was something that we knew we had to avoid," Lee said. "We were proactive in working with the Florida Department of Agriculture, NRCS and the local water management district to come up with a Best Management Plan to keep the water flowing off the farm in a safe and environmentally conscious way."

Doing Things Right

Doing things the right way has always been the mission of Florida Blue Farms.

"We are dedicated to conducting business with honesty, integrity and competence," said Lee. "We believe in faith and family and we are committed to conservation through land stewardship and protecting our natural resources."

Doing things the right way has also led to national recognition for Lee, who was recently appointed by former U.S. Secretary of Agriculture Tom Vilsack to the U.S. Highbush Blueberry Council, where she represents Florida blueberry farmers and the blueberry industry as a whole.

As a young farmer, Lee will bring a new perspective to the council.

"This is an exciting time to be in agriculture - the technological advances available through highly specialized imagery from drones and other aerial methods provide very precise and scientific information with respect to plant health, soil moistures, disease pressures and many other impactful areas. I love incorporating these technologies into our overall farm management plan," Lee said.

Growing a Legacy

Lee is currently working on identifying varieties that may be conducive to machine harvesting. This is still a new and emerging practice in Florida blueberries.

"With the support of Farm Credit we have been able to develop a program to improve best practices and technologies, allowing us to become a cutting edge blueberry farm," Lee said.

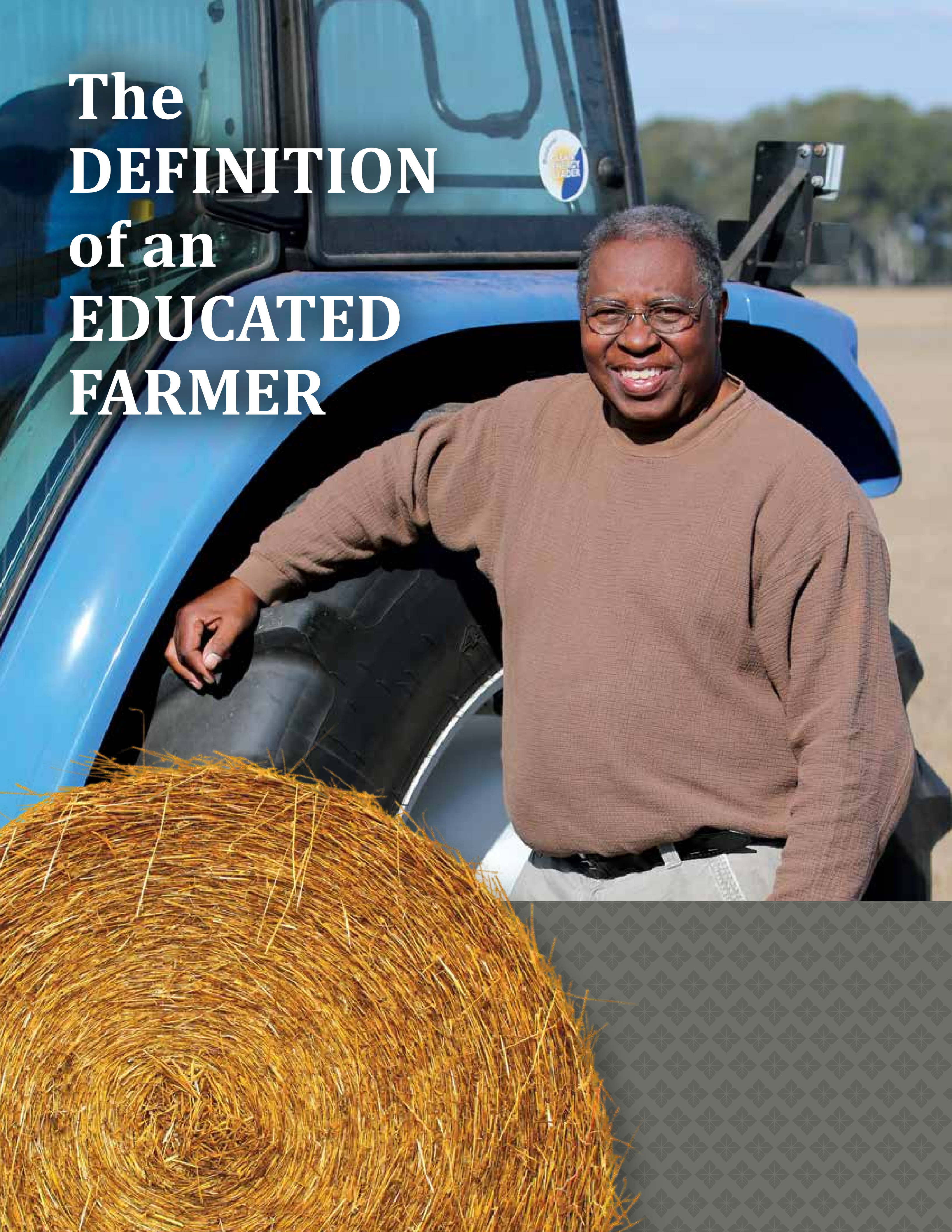
Florida Blue Farms continues to grow, planting 50 acres in March of 2010, an additional 20 acres in 2013 and 20 acres in 2016. The farm is currently working on a 20-acre expansion, which will soon bring them to 110 acres of blueberries.

Lee's family is growing as well, as she and her husband Ryan Brown recently welcomed a new baby boy, Jeb, into their family this past January.

"More than anything, we started this farm to leave a legacy for our children and grandchildren. It has always been a family endeavor, and we have enjoyed being part of the Florida blueberry industry and plan to be for generations to come."

~Brittany Lee

The DEFINITION of an EDUCATED FARMER



Dr. Fred Gainous

CORNCOB'S COASTAL BERMUDA HAY FARM

As a young boy, Fred Gainous always dreamed of becoming a farmer. Nearly 30 years later, after a successful career in education and with the help of Farm Credit of Florida, his dream of becoming a farmer came true.

Born and raised in Tallahassee, Florida, Gainous did not grow up on a farm. However, he always found the farm lifestyle intriguing. After high school, Gainous decided to study at Florida Agricultural and Mechanical University, earning his bachelor's degree in agriculture. Gainous then went on to complete his master's degree in agriculture and his doctorate of education from the University of Florida.

After graduation, Gainous enjoyed a long career in higher education, eventually rising to become the president of Florida A&M University.

A Dream on Hold

Although Gainous enjoyed every minute of his career in education, he still had the same dream in his head that he had as a young boy: to become a farmer. While most are ready to enjoy their retirement on a golf course or in a beach house, Gainous was ready to retire so he could get to work.

"When it comes to owning a farm, people told me that there were only two ways to be successful," Gainous said. "You have to be born into it, or marry into it. Farm Credit gave me a third option."

Before he could buy a farm, Gainous's first challenge was figuring out what he could grow and how he could be profitable. After some deliberation, he and his wife decided on Coastal Bermuda hay.

"What drew me to a hay farm was the ability to watch something grow and multiply every day," Gainous said. "My wife and I agreed that we could grow quality hay and still stay profitable, and the sunsets over a hay field are simply spectacular."

Back to School

After a career in education, Dr. Gainous was not afraid to go back to school.

"After we decided on growing Coastal hay, I realized that I had no idea how to actually grow hay and run a farm, so I reached out to a farmer in south Georgia, and he agreed to let me be his apprentice for a season," Gainous said.

After his apprenticeship, Gainous and his wife, Beverly, searched throughout north Florida for the right farm, eventually settling on 80 acres just outside of Live Oak.

"When we found the farm we wanted to buy, we said to ourselves, 'Ok, how do we do this without spending all of our life savings?' That's where Farm Credit of Florida came in," Gainous said. "Farm Credit rescued our dream of farm ownership."

A Dream Rescued

While most people his age are booking their next tee time, Gainous is scheduling fertilizer deliveries and spraying for army worms. He relies heavily on the help of his friends and neighbors in the community, many of whom he met at the annual Farm Credit of Florida customer appreciation dinner.

When asked to sum up what he has learned from his farm experiences so far, Gainous, without hesitation, replies, "Farming will teach you how to pray."

"I've always respected the hard work involved with agriculture, and I am thankful that Farm Credit was able to make my childhood dream of being a farmer come true."

"When we found the farm we wanted to buy, we said to ourselves, 'Ok, how do we do this without spending all of our life savings?' that's where Farm Credit of Florida came in. Farm Credit rescued our dream of Farm Ownership."

~Dr. Fred Gainous

The Next CHAPTER

Farm Credit is funding the future of America's agricultural economy and will continue to evolve to meet the changing needs of our borrower-owners today and tomorrow. This includes creating a full range of easy-to-use services that allow you to manage your time and money. We pride ourselves on customer service and the range of services available to our members. When you do business with Farm Credit of Florida, you become a member of our family.

Want to sign up for these services? Just reach out to your local branch, and we will get you started.

AccountAccess

We know you're busy, and sometimes you just don't have time to come see us in person. No problem. With Farm Credit's online AccountAccess, you have 24/7 access to all of your loan information. You can also make payments and transfer funds any time of day or night, all in one place in an easy-to-read, easy-to-print format.

With AccountAccess you can:

- Check your account online -- principal balance, interest paid year-to-date, interest rate, the amount and due date of your next payment, and much more
- Make loan payments and set up AutoDraft
- Transfer funds between your line of credit loan and your bank account
- View your statement from AgriLine®
- Review your account activity for the past 16 months
- Download and print your annual loan activity statement
- Access tax documents to view and print (1098 and 1099)

With the new mobile app, you can view balances, recent transactions, account details and other AccountAccess information right on your smartphone or tablet.

Farm Credit *EXPRESS*

Farm Credit ***EXPRESS*** is an equipment financing program, offering both loans and leases to the hard-working men and women in agriculture. Farm Credit ***EXPRESS*** is offered through your local farm equipment dealer.

Your loan will stay local—and so will your service. If you ever have a question or a concern about your loan, it's as easy as calling your local branch office.

Because Farm Credit is a cooperative lender, you will have all the advantages of being a cooperative member, including participation in our unique patronage program. While other lenders share their profits with their stockholders, our borrowers ARE our stockholders, and are eligible to share in our profits. Your equipment dealer can explain the benefits of ownership.

The Farm Credit System has been financing agriculture for over 100 years, working with farmers, ranchers and rural homeowners throughout the United States. We look forward to working with you!

Why use Farm Credit EXPRESS?

- Easy, on-the-spot financing
- Allows you to take advantage of cash discounts from the manufacturer for new equipment
- Used equipment programs
- Decisions within minutes
- Fixed rate loan products
- Leasing options
- Service and support from a local lender
- The opportunity to share in our profit-sharing patronage program

FARM CREDIT EXPRESS

Farm Credit *EXPRESS* Participating Dealers

Ag Pro, LLC
AG 98
Ag-Tastic Solutions, LLC
Allen Farm & Lawn Equipment
Caldwell Tractor Inc.
Champion Irrigation, Inc.
Coast to Coast Truck & Trailer Sales, Inc.
Creel Tractor Company
Everglades Farm Equipment Co., Inc.
Fields Equipment Company, Inc.
Florida Coast Equipment, Inc.
Gator Horse Trailers, LLC
Gatorland Kubota Equipment Co.
Glade & Grove Supply
Johnson Fleet and Farm, Inc.
Lazenby Equipment, Inc.
Lee's Custom Services
Nelson Truck and Trailer Sales, LLC
No Reins Equine LLC
Ocala Tractor, LLC
Sanders Farms of Ocala, Inc.
Shadow Trailer World, Inc.
Suwannee Equipment, LLC
SW FL Tractor, LLC
Sweet Cypress Ranch, Inc.
Texas Trailers Sales and Service
Trenton Farm Equipment, Inc.
Tri-County Irrigation, Inc.
Weeks Auction Company, Inc.

Find a convenient payment calculator and search for a dealer near you at **www.farmcreditexpress.com**. New participating dealers are added monthly. Get started today to get the equipment financing you need!

Board of Directors

Robert G. "Bobby" Sexton
Chairman

Joseph C. Joyce
Vice Chairman
Outside Director

John L. Alger

Tobin J. "Toby" Basore

Howard P. "Rowdy" Bateman

Roger W. Davis

W. Eric Hopkins
Appointed Stockholder Director

Bobby G. "Bob" Lines

Martin J. "Marty" McKenna

Douglas I. "Doug" Moore

John R. Newbold, III

Harrell H. "Hal" Phillips, Jr.

Lisa Sherman
Appointed Stockholder Director

Wayne H. Simmons

Charles R. Thomas

Andrea Thurn
Outside Director

E. E. "Bucky" Waldron
Outside Director

Management Team

Gregory M. Cunningham
President & Chief Executive Officer

Laura Craker
Senior Vice President & Chief Financial Officer

Robert W. Teston
Senior Vice President & Chief Credit Officer

Marcus A. Boone
Senior Vice President & Chief Lending Officer

Roland Kampf
Senior Vice President & Chief Risk Officer

Dawn Goodspeed
Senior Vice President & Director of Operations & Information Technology

Deborah Caldeira
Senior Vice President & Chief Human Resources Officer

Ashley Layson
Senior Vice President & Director of Marketing

"We here at Farm Credit of Florida are dedicated to making your Association ***"Bigger, Better, and Stronger"*** *by providing the financing that you require, by providing the service that you deserve, and by paying you back the patronage that belongs to you as an owner of this Association."*

~Greg Cunningham
President & CEO

FARM CREDIT
100
ESTABLISHED 1916

MESSAGE from the PRESIDENT and CHIEF EXECUTIVE OFFICER

At Farm Credit of Florida, 2016 was the Year of Commitment: **Commitment to Customer, Commitment to Company, and Commitment to Community.** As we closed out 2016, I am happy to report that we fulfilled these commitments.

Commitment to You, Our Customer

Our commitment to you, our customer, is always our top priority. In 2016 we proved our commitment by providing superior customer service, improving our processes for more efficient service, increasing our market share, and paying you $8.5 million in patronage. Our commitment to paying patronage due to our strong earnings in 2016 will continue into 2017 as I'm proud to announce on behalf of your Board of Directors that Farm Credit of Florida will pay a record $10.5 million cash patronage back to you, our customers - borrowers - owners.

Commitment to Your Company

In regards to commitment to your Association, one focus of 2016 was increasing loan volume, and as of today I am proud to report that we have reached and exceeded $1billion in total assets. Other accomplishments include: increasing net income, increasing our return on assets, and improving the credit quality of our loans. Our capital position also remains very strong, allowing us to take on additional future loan growth, and better positioning us for any future downturns in the agricultural economy.

Commitment to Your Community

To our community, we strengthened our giving and support of both ag and non-ag related charities and organizations. In fact, your Association gave over $300,000 to local charities and youth groups in your communities! Our Advisory Committees, made up of your peers, continue to meet and are very effective in communicating feedback on existing and future programs..

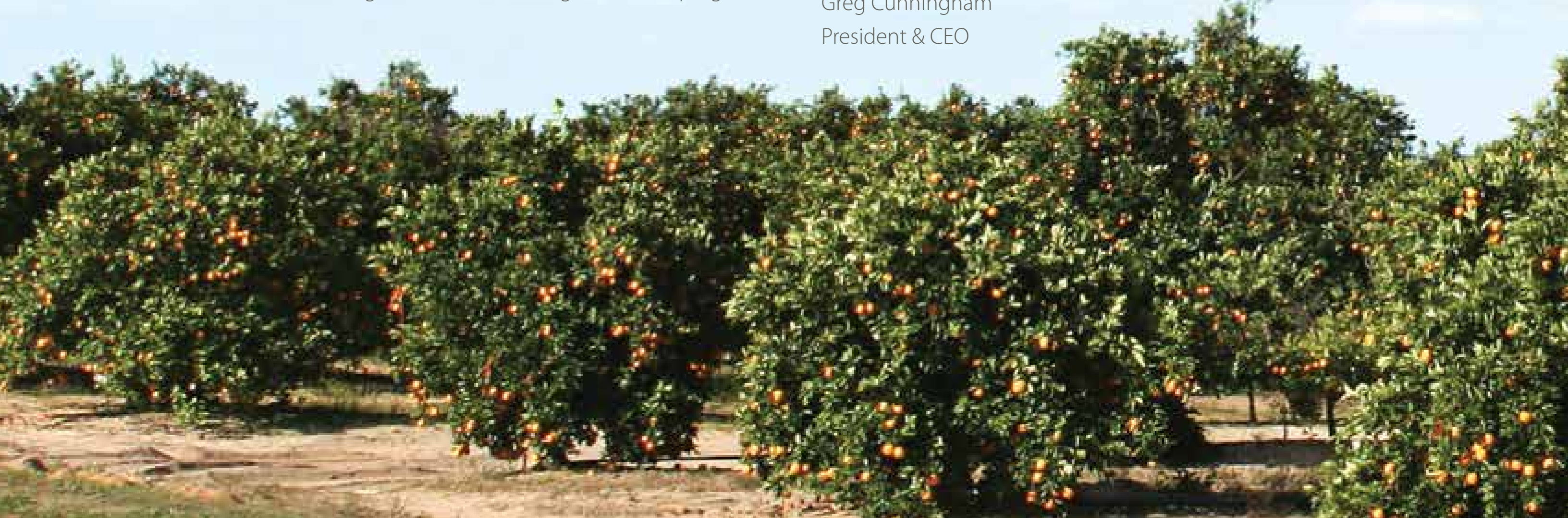
By utilizing the most modern technology available we expanded our marketing efforts and have increased our loans to Young, Beginning, Small, Minority, and Veteran farmers.

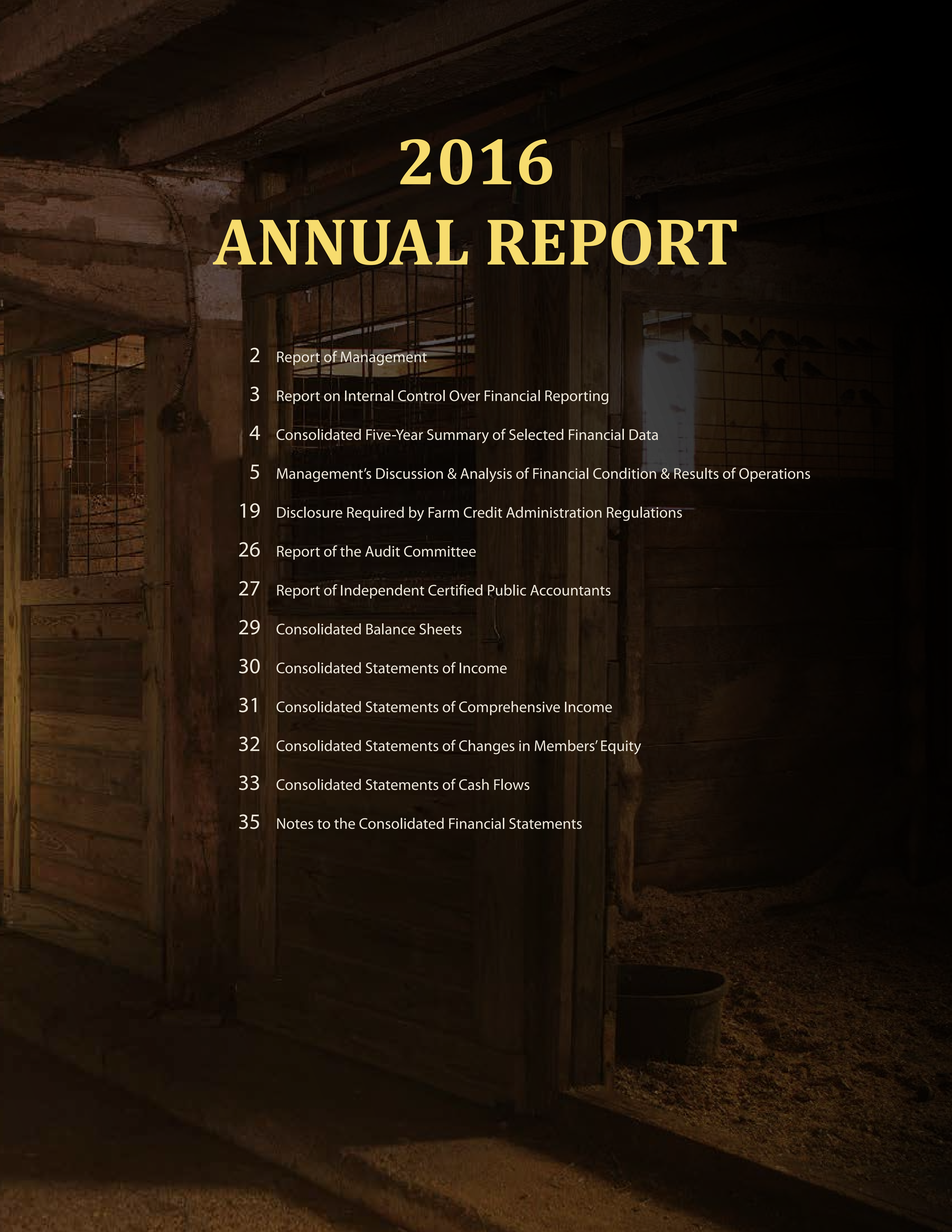
In 2016 we also celebrated the100-year anniversary of the Farm Credit System. Farm Credit Institutions throughout the country commemorated this 100th anniversary by celebrating both at home, and in Washington DC, where the Farm Credit Act was first signed in 1916. Farm Credit of Florida marked this milestone by sharing the celebration with you our members during our Customer Appreciation Dinners throughout our territory.

As our Year of Commitment comes to an end, our commitment in these areas will continue through 2017 and into the future. We here at Farm Credit of Florida are dedicated to making your Association "Bigger, Better, and Stronger" by providing the financing that you require, by providing the service that you deserve, and by paying you back the patronage that belongs to you as an owner of this Association.

Lastly, on behalf of the Board of Directors, the senior management team, and all the employees of Farm Credit of Florida, I want to thank you for your business, as we sincerely appreciate it!

Greg Cunningham
President & CEO





2016
ANNUAL REPORT

Report of Management

The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by management of Farm Credit of Florida, 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 Farm Credit of Florida, 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.

Robert G. Sexton

Robert G. Sexton
Chairman of the Board

Gregory M. Cunningham

Gregory M. Cunningham
Chief Executive Officer

Laura Craker

Laura Craker
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.

Gregory M. Cunningham
Chief Executive Officer

Laura Craker
Chief Financial Officer

March 13, 2017

Consolidated Five-Year Summary of Selected Financial Data

(dollars in thousands)	2016	2015	December 31, 2014	2013	2012
Balance Sheet Data					
Cash	**$ 244**	$ 23	$ 36	$ 75	$ 1,156
Investment securities	**7,417**	10,072	13,063	20,769	28,928
Loans	**1,032,804**	946,900	853,947	829,151	809,787
Allowance for loan losses	**(6,560)**	(6,097)	(6,110)	(7,408)	(11,766)
Net loans	**1,026,244**	940,803	847,837	821,743	798,021
Investments in other Farm Credit institutions	**13,697**	13,002	13,684	15,078	18,151
Other property owned	**366**	5,565	3,845	7,216	12,230
Other assets	**28,362**	28,835	32,134	37,196	35,295
Total assets	**$ 1,076,330**	$ 998,300	$ 910,599	$ 902,077	$ 893,781
Notes payable to AgFirst Farm Credit Bank*	**$ 809,137**	$ 743,688	$ 662,690	$ 673,175	$ 688,853
Accrued interest payable and other liabilities with maturities of less than one year	**29,684**	27,186	30,847	25,143	17,539
Total liabilities	**838,821**	770,874	693,537	698,318	706,392
Protected borrower stock	**445**	531	554	765	946
Capital stock and participation certificates	**2,272**	2,085	1,961	2,028	2,159
Additional paid-in-capital	**7,873**	7,873	7,873	7,873	7,873
Retained earnings					
Allocated	**109,960**	106,263	103,837	102,421	97,197
Unallocated	**117,171**	110,881	103,079	90,829	79,422
Accumulated other comprehensive income (loss)	**(212)**	(207)	(242)	(157)	(208)
Total members' equity	**237,509**	227,426	217,062	203,759	187,389
Total liabilities and members' equity	**$ 1,076,330**	$ 998,300	$ 910,599	$ 902,077	$ 893,781
Statement of Income Data					
Net interest income	**$ 30,109**	$ 25,707	$ 26,485	$ 25,107	$ 29,493
Provision for (reversal of allowance for) loan losses	**(1,101)**	(3,446)	(8,117)	(5,845)	33,707
Noninterest income (expense), net	**(10,722)**	(10,425)	(7,099)	(7,979)	(11,702)
Net income (loss)	**$ 20,488**	$ 18,728	$ 27,503	$ 22,973	$ (15,916)
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.04%**	2.07%	3.15%	2.64%	(1.62)%
Total members' equity	**8.58%**	8.28%	12.79%	11.78%	(7.81)%
Net interest income as a percentage of average earning assets	**3.09%**	2.95%	3.16%	3.02%	3.17%
Net (chargeoffs) recoveries to average loans	**0.162%**	0.399%	0.832%	0.185%	(3.877)%
Total members' equity to total assets	**22.07%**	22.78%	23.84%	22.59%	20.97%
Debt to members' equity (:1)	**3.53**	3.39	3.20	3.43	3.77
Allowance for loan losses to loans	**0.64%**	0.64%	0.72%	0.89%	1.45%
Permanent capital ratio	**21.49%**	21.62%	22.55%	20.34%	18.98%
Total surplus ratio	**21.35%**	21.49%	22.00%	19.48%	18.11%
Core surplus ratio	**21.35%**	21.49%	22.00%	19.48%	17.74%
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 10,500**	$ 8,500	$ 7,500	$ 5,000	$ —
Nonqualified retained earnings	**4,072**	3,015	6,372	6,566	—

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

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of Farm Credit of Florida, 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 south and north east Florida. 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 may be materially 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.farmcreditfl.com*** or by calling 1-800-432-4156, extension 3070, or writing Laura Craker, Chief Financial Officer, Farm Credit of Florida, ACA, P. O. Box 213069, West Palm Beach, FL 33421. The Association 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 Association prepares an electronic version of the Quarterly report, which is available on the 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.

CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management must make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements. The following is a summary of certain critical policies.

- *Allowance for loan losses* — The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic and political conditions, loan portfolio composition, credit quality and prior loan loss experience.

Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by nature, contains elements of uncertainty and imprecision. Changes in the agricultural economy and their borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

Management considers the following factors in determining and supporting the levels of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties in farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences. Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

- *Acquisition accounting* — Acquisitions are accounted for under the acquisition method of accounting. Purchased assets, including identifiable intangible assets, and assumed liabilities are recorded at their respective acquisition date fair values. See *Valuation methodologies* section below. The purchase date valuations and any subsequent adjustments also determine the amount of goodwill or bargain purchase gain recognized in connection with the business combination. Certain assumptions and estimates must be updated regularly in connection with the ongoing accounting for purchased loans. Valuation assumptions and estimates may also have to be revisited in connection with periodic assessments of possible value impairment, including impairment of goodwill, intangible assets and certain other long-lived assets. The use of different assumptions could produce significantly different valuation results, which could have material positive or negative effects on the Association's results of operations.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, other property owned, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, 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 results, which could have material positive or negative effects on the Association's results of operations.

- *Pensions* — The Bank and its related Associations participate in defined benefit retirement plans. These plans are noncontributory and benefits are based on salary and years of service. In addition, the Bank and its related Associations also participate in defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense for the defined benefit retirement plans is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of our future benefit obligations. The discount rate for 2016 was selected by reference to analysis and yield curves of the plans' actuary and industry norms. In addition, supplemental retirement benefits are provided to certain key employees under a supplemental defined benefit executive plan.

ECONOMIC CONDITIONS

The U.S. and the world appear to have emerged from the worst recession since the Great Depression. National economic indicators are modestly positive but job growth is still slow and the number of workers in the workforce has declined. The Florida economy is exhibiting a rebound as unemployment has declined and trade, tourism, and housing are showing positive growth. The economy of the area served by the Association began a significant decline during 2007 and continued to decline rapidly through 2009 with no significant improvement noted through mid-2012. New home and commercial construction, the leading non-farm economic driver in the South Florida economy, was stagnant but began to show signs of life in late 2012. Improvement in activity continued through 2016. The inventory of new homes and permitted lots has been substantially absorbed by the market and new development is commencing or planned in some locations throughout the territory. The foreclosure process and timeline has improved and much of the backlog has been absorbed by the courts. The Florida unemployment rate that peaked at 10.9% has now declined to below 4.7%.

The 2016 farm operating year realized favorable production conditions and prices for most farm products. Nursery products and sod have been the slowest to improve but it appears demand and supply is nearing equalization. Also, the market for landscape trees also exhibited improvement with moderate activity for the growers who maintained quality. The row crop segments in corn and peanuts have exhibited moderate price declines.

Citrus growers continue to observe decline in total state production due to a number of industry disease issues. Citrus canker, citrus greening and other diseases have resulted in the loss of significant acreage and production over the past five years. Prices for citrus products have been very good due to the demand for juice and fresh fruit and the reduction in crop supply. The industry's infrastructure capacity continues to exceed producer needs. Growers continue to seek alternative crops and solutions to disease threats but have had little success. Citrus greening continues to be the most significant threat to tree mortality and production.

Cattle herd reductions across the U.S. in 2012 and 2013 resulted in record cattle prices in Florida, where production conditions have remained favorable for feeder calves and replacement heifers. During the last half of 2016, cattle producers noted a decline in prices as the cattle cycle appears to be rotating to the down side. Dairy prices rebounded to very profitable levels in 2015 and early 2016, but began to show a decline near year end as supply outpaces world demand. Vegetable prices and production in 2016 was good for most producers financed by the Association with isolated weather impacts. Sugar producers in Florida have remained profitable and observed a positive price increase in 2016. The Association's timber portfolio has exhibited improved conditions with many sawmills returning to operation and prices on saw timber improving. Timberland values have remained stable.

Performance and asset quality of the Association's loan portfolio exhibited improvement in 2015 which continued throughout 2016. A significant number of non-performing loans were resolved and significant recoveries were received. There was little migration experienced in loans transferring to a nonperforming status. The volume of criticized loans to risk funds improved and is now within an acceptable risk level. Beginning in 2015 and throughout 2016, many distressed borrowers were able to sell land to reduce debt. Improved real estate prices and economic activity continues to assist trouble customers. Real estate sales activity has improved on certain property types but continues to be slow on non-income producing property. Overall, real estate values appear stable on all property types with improved pricing across the service territory. The Association has a department specifically dedicated to working with troubled borrowers. As in past economic downturns and natural disasters, Farm Credit stands ready to work with our members who have long-term viable operations even though they are currently experiencing cash flow and profitability problems.

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 below.

	December 31,					
Loan Type	**2016**		**2015**		**2014**	
			(dollars in thousands)			
Real estate mortgage	$ 595,253	57.63%	$ 597,598	63.11%	$ 553,057	64.76%
Production and intermediate-term	231,159	22.38	182,591	19.28	171,418	20.07
Processing and marketing	88,202	8.54	104,459	11.03	89,658	10.50
Communication	33,287	3.22	25,858	2.73	16,764	1.96
Loans to cooperatives	32,777	3.17	1,206	0.12	1,344	0.16
Farm-related business	30,015	2.91	22,310	2.36	13,329	1.56
International	9,980	0.97	1,568	0.17	–	–
Rural residential real estate	8,446	0.82	8,301	0.88	6,809	0.81
Power and water/waste disposal	3,685	0.36	3,009	0.32	1,568	0.18
Total	$ 1,032,804	100.00%	$ 946,900	100.00%	$ 853,947	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/city for the past three years is as follows:

	December 31,		
Branch	**2016**	**2015**	**2014**
West Palm	17.02%	18.45%	19.72%
Okeechobee	11.35%	11.74%	14.37%
Alachua	7.76%	13.20%	10.61%
Ocala	6.85%	5.76%	4.22%
Wauchula	6.65%	7.17%	8.22%
Homestead	5.69%	5.77%	5.83%
Trenton	5.24%	3.03%	2.73%
Arcadia	5.17%	4.10%	4.98%
Palatka	5.07%	5.42%	5.16%
Live Oak	3.50%	2.95%	2.63%
Vero Beach	2.76%	2.56%	1.94%
Purchased Loans	22.94%	19.85%	19.59%
Total	100.00%	100.00%	100.00%

Nonaccrual loans are included in the percentages above.

Commodity and industry categories are based upon the Standard Industry 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. The predominant commodities are field crops, forestry, cattle, tree fruits and nuts, equine, and nursery/greenhouse, which constitute over 70 percent of the entire portfolio. From 2014 to year end 2016, the nursery group's outstanding volume declined. During the past recession, the nursery portfolio was adversely impacted by the economy and resulted in declining credit quality and a large number of nonperforming loans. As the Florida and national economy has improved, the nursery industry has experienced improving markets and financial results. Trees, landscape plants and sod are dependent on a vibrant home and commercial construction industry while flowering plants and foliage are dependent upon the general economy and ability of consumers to spend discretionary funds. The average credit quality of the nursery segment has improved to 82% acceptable. Increase in cattle, forestry, equine and field crops are due to origination of new loans in these commodity segments. The Association has experienced increases in brood cow operations and row and field crops in the North Florida region.

Commodity Group	December 31, 2016		2015		2014	
	(dollars in thousands)					
Field Crops	$ 149,171	14.44%	$ 122,451	12.93%	$ 105,234	12.32%
Forestry	138,675	13.43	124,654	13.16	112,977	13.23
Cattle	133,931	12.97	127,060	13.42	99,797	11.69
Tree Fruits and Nuts	120,700	11.69	115,893	12.24	115,176	13.48
Equine	109,823	10.63	96,050	10.14	75,791	8.88
Nursery/Greenhouse	79,219	7.67	72,229	7.63	77,380	9.06
Processing	68,230	6.61	62,658	6.62	45,017	5.27
Dairy	38,731	3.75	21,804	2.30	19,312	2.26
Utilities	36,978	3.58	28,874	3.05	19,812	2.32
Other Real Estate	33,915	3.28	48,713	5.14	57,721	6.76
Grain	10,362	1.00	11,825	1.25	14,049	1.65
Rural Home Loan	10,283	1.00	10,560	1.12	9,639	1.13
Tobacco	8,633	0.84	9,701	1.02	5,717	0.67
Swine	6,870	0.67	3,717	0.39	2,805	0.33
Poultry	6,222	0.60	3,990	0.42	3,167	0.37
Corn	3,722	0.35	3,140	0.34	2,599	0.30
Cotton	411	0.04	–	–	–	–
Others	76,928	7.45	83,581	8.83	87,754	10.28
Total	$ 1,032,804	100.00%	$ 946,900	100.00%	$ 853,947	100.00%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association enjoys a diverse commodity portfolio mix with no significant single concentration in any one commodity in excess of 14.44%. While the Nursery/Greenhouse group represents 7.67% of the portfolio, it should be noted this group is a broad classification covering interior foliage and exterior landscape plants, trees, and sod products with very different market characteristics and credit risk profiles. Citrus, which is included in Tree Fruits and Nuts commodity group, represents approximately 12% of the portfolio. Many citrus customers have diversified sources of farm and nonfarm income. Timber at approximately 13.4% also has characteristics of diversified income sources. Other concentrations, such as citrus, sugar and vegetables contain operations that are vertically integrated with processing, sales and marketing which increases their profitability and reduces credit risk to the Association. For purposes of calculating concentration risks, each loan is classified by the principal product grown. However, many operations produce a number of products in addition to the principal product, thus reducing overall risks to the operation and the Association. In addition, the Association also segments repayment based upon whether the primary repayment source is from agricultural or nonfarm personal and business income. Approximately 28.5% of agricultural loans have nonfarm income sources as the primary repayment source.

The increase in loan volume during 2016 and 2015 was a result of increased demand for credit in the market and more concerted marketing efforts by Association lenders.

The Association continues to see a minor shift in loan assets. The Association grew volume in long term real estate loans and capital market purchases. While short and intermediate-term volume was down slightly, the volume has been stable but down as a percentage of total volume. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak balance in the fall and rapidly declines in the late spring and early summer months as commodities are marketed and proceeds are applied to repay operating loans. The Association continues to exhibit new loan growth in commercial corporate market transactions.

The Association continues to have activity in the buying and selling of loan participations within and outside of the System. This provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which may strengthen our capital position.

Loan Participations:	December 31, 2016	2015	2014
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 247,033	$ 194,904	$ 175,244
Participations Purchased – Non-FCS Institutions	4,820	5,131	143,530
Participations Sold	(226,162)	(202,805)	(307,107)
Total	$ 25,691	$ (2,770)	$ 11,667

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 residential loans into the secondary market. For the periods ended December 31, 2016, 2015 and 2014, the Association originated loans for resale totaling $19,759, $12,314, and $4,738, respectively, which were sold into the secondary market.

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, 2015, and 2014, the Association had loans amounting to $148, $302, and $811, respectively, that are 100 percent guaranteed by Farmer Mac.

The Association additionally has loans wherein a certain portion of the loans are guaranteed by various governmental entities for the purpose of reducing risk. At December 31, 2016, 2015, and 2014, the balance of these loans was $35,095, $36,012, and $35,451, 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. 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, the Association had $9,718 in Rural America Bonds, of which $6,806 was classified as Loans and $2,912 were classified as Investments on the Consolidated Balance Sheets. As of December 31, 2015, the Association had $13,118 in Rural America Bonds, of which $10,151 was classified as Loans and $2,967 were classified as Investments. As of December 31, 2014, the Association had $14,184 in Rural America Bonds, of which $11,165 were classified as Loans and $3,019 was classified as Investments.

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

In 2006, the Association agreed to become one of several investors in a USDA approved Rural Business Investment Company (RBIC). This investment was made under the USDA's Rural Business Investment Program, which is authorized by the Farm Security and Rural Investment Act (FSRIA). It permits USDA to license RBICs and provide guarantees and grants to promote rural economic development and job opportunities and meet equity capital investment needs of small rural enterprises. FSRIA authorizes FCS institutions to establish and invest in RBICs, provided that such investments are not greater than 5 percent of the capital and surplus of the FCS institution.

Over the years, the Association purchased total equity investments in the RBIC of $500. There are no outstanding commitments to make additional equity purchases beyond this amount.

During 2015 and 2014, analyses indicated that decreases in value of the investment had occurred that were other than temporary, due to a series of losses and other factors. As a result, for the years ended December 31, 2015, and 2014, the Association recognized other-than-temporary impairment of $80, and $60, respectively, which is included in Impairment Losses on Investments in the Statements of Income. At December 31, 2016, 2015, and 2014, the Association had $0, $0, and $80, respectively, in RBIC outstanding and these are classified as Other Investments on the Consolidated Balance Sheets.

Refer to Note 4, *Investments,* of the Notes to the Consolidated Financial Statements for additional information regarding these Mission Related Investments.

INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for the purposes of reducing interest rate risk and managing surplus short-term funds. The Bank is responsible for approving the investment policies of the Association. The Bank annually reviews the investment portfolio of every Association that it funds. The Association's investments consist primarily of asset-backed securities (ABS). The ABS investments amounted to $4,505 at December 31, 2016, $7,105 at December 31, 2015 and $10,044 at December 31, 2014. These investments are rated AAA, as they are guaranteed by the full faith and credit of the United States government.

In view of the recent economic conditions and volatility related to these types of securities, the Association is actively monitoring the creditworthiness of these securities. These securities are supported by various forms of credit enhancements including insurance guarantees from AAA rated insurers, over-collateralization and favorable priority of payments. Based on our evaluations, we believe these securities do not pose a significant risk of loss given the credit enhancements and relatively short weighted average lives. However, in the event a security is downgraded, we may be required by our regulator to dispose of the security. FCA approval has been requested to allow the Association to continue to hold one Rural America Bond in the amount of $113 whose credit quality has deteriorated beyond the program limits.

Investment securities classified as being held-to-maturity totaled $7,417 at December 31, 2016, $10,072 at December 31, 2015 and $13,063 at December 31, 2014. These held-to-maturity investments consist of pools of loans with United States government guarantees.

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. Long term mortgage 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 long term 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 Association's collateral standards normally result in actual loan to appraised value lower than the statutory maximum percentage. Appraisals are required for non-business purpose loans of more than $250,000 or for business purpose loans of more than $1 million. At origination, each loan is assigned a credit risk rating based upon the Association's loan underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

We review 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 excluding impact of financial marks as a result of the merger at December 31.

Credit Quality	2016	2015	2014
Acceptable & OAEM	97.66%	96.51%	93.29%
Substandard	2.34%	3.49%	6.71%
Doubtful	–%	–%	–%
Loss	–%	–%	–%
Total	100.00%	100.00%	100.00%

Portfolio credit quality improved significantly compared to 2014. The improvement in credit quality is a result of a substantial reduction in the level of substandard and criticized assets and adding new volume of acceptable assets.

Nonperforming Assets

The Association's loan portfolio is divided into performing and nonperforming categories. A Special Assets Management Department is responsible for servicing loans classified as nonperforming. The nonperforming assets, including accrued interest, are detailed in the following table:

	December 31,		
Nonperforming Assets	**2016**	**2015**	**2014**
	(dollars in thousands)		
Nonaccrual loans	$ 13,395	$ 17,040	$ 29,686
Accruing restructured loans	1,119	2,017	2,646
Accruing loans 90 days or more past due	–	–	–
Total nonperforming loans	14,514	19,057	32,332
Other property owned	366	5,565	3,845
Total nonperforming assets	$ 14,880	$ 24,622	$ 36,177
Ratios:			
Nonaccrual loans to total loans	1.30%	1.80%	3.48%
Nonperforming assets to total assets	1.38%	2.47%	3.97%

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 decreased $3,645 or 21.39 percent in 2016 after having decreased $12,646 or 42.60 percent in 2015. These decreases resulted from repayments, charge-offs, and transfers to other property owned in excess of loans transferred into nonaccrual status with the most significant decline occurring in the Others commodity group. Field Crops represents the largest % of total nonaccrual loans at 30.23% at December 31, 2016. Of the $13,395 in nonaccrual volume at December 31, 2016, $10,180 or 76.00 percent compared to 75.59 percent and 51.11 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.

At December 31, 2016, other property owned consisted of 6 properties and the net carrying value of the properties are equivalent to their fair value. The number of properties decreased by 6 during 2016 and the balance declined $5,199, or 93.42 percent compared to December 31, 2015. Sales of properties outpaced acquisitions during the year resulting in the decline.

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.

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 following table presents the activity in the allowance for loan losses for the most recent three years:

Allowance for Loan Losses Activity:	Year Ended December 31, 2016	2015	2014
	(dollars in thousands)		
Balance at beginning of year	$ 6,097	$ 6,110	$ 7,408
Charge-offs:			
Real estate mortgage	(11)	(1,218)	(154)
Production and intermediate-term	(48)	(23)	(40)
Rural Residential Real Estate	(4)	(3)	–
Total charge-offs	(63)	(1,244)	(194)
Recoveries:			
Real estate mortgage	1,560	4,281	5,977
Production and intermediate-term	55	396	1,033
Rural Residential Real Estate	12	–	3
Total recoveries	1,627	4,677	7,013
Net (charge-offs) recoveries	1,564	3,433	6,819
Provision for (reversal of allowance for) loan losses	(1,101)	(3,446)	(8,117)
Balance at end of year	$ 6,560	$ 6,097	$ 6,110
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	0.162%	0.399%	0.832%

The net loan recoveries in 2016 and 2015 were primarily associated with Nursery/Greenhouse and Non-Farm Income commodity groups. Due to the improvement in collateral values and return of credit availability in the market, several nonaccrual loans within these commodity groups were fully collected during the year. With the decline in nonperforming loans along with recoveries received of amounts previously charged-off, the Association was able to reverse $1,101 and $3,446 of the allowance for loan losses in 2016 and 2015, respectively. The Association was able to reverse $8,117 of the allowance for loan losses in 2014 due to the significant recoveries received of amounts previously charged-off during 2014. The net recoveries in 2014 were primarily associated with the Non-Farm Income and Other Real Estate commodity groups.

The allowance for loan losses by loan type for the most recent three years is as follows:

Allowance for Loan Losses by Type	December 31, 2016	2015	2014
	(dollars in thousands)		
Real estate mortgage	$ 3,774	$ 4,012	$ 4,566
Production and intermediate-term	1,884	1,561	622
Agribusiness	659	324	851
Communication	121	109	34
Rural residential real estate	81	76	37
Power and Water/Waste Disposal	33	14	–
International	8	1	–
Total Allowance for Loan Losses	$ 6,560	$ 6,097	$ 6,110

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	0.64%	0.64%	0.72%
Total nonperforming loans	45.20%	31.99%	18.90%
Nonaccrual loans	48.97%	35.78%	20.58%

The allowance for loan losses at December 31, 2016, 2015 and 2014 does not include $4.9 million, $5.6 million and $7.3 million, respectively of net purchase discounts related to the acquired loans. The allowance for these loans was not carried forward at acquisition per accounting guidance. However, they were purchased at a net discount, which is the direct reduction to the recorded loan amount, to reflect the credit and market metrics related to the acquired portfolios.

At December 31, 2016, the amount of credit risk reduction, in addition to the allowance for loan losses, provided by these remaining discounts would equate to 0.47% for Total loans, 33.68% of Total nonperforming loans and 36.50% of Nonaccrual loans.

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 income for the year ended December 31, 2016, totaled $20,488, an increase of $1,760 or 9.40 percent, as compared to net income of $18,728 for the same period of 2015 and a decrease of $7,015 or 25.51 percent, as compared to net income of $27,503 for the same period of 2014. The increase in net income for the year ending 2016 as compared to 2015 is attributed to an increase in net interest income resulting from growth in loan volume offset by a reduction in the reversal of allowance for loan losses. The reduced reversal of allowance for loan losses resulted from less net recoveries received during 2016 compared to 2015 of amounts previously charged-off.

Net Interest Income

Net interest income was $30,109, $25,707 and $26,485 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 three years are presented in the following table:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual Income	Total
	(dollars in thousands)			
12/31/16 - 12/31/15				
Interest income	$ 4,664	$ 393	$ 2,060	$ 7,117
Interest expense	1,900	815	–	2,715
Change in net interest income	$ 2,764	$ (422)	$ 2,060	$ 4,402
12/31/15 - 12/31/14				
Interest income	$ 1,708	$ 697	$ (2,562)	$ (157)
Interest expense	427	194	–	621
Change in net interest income	$ 1,281	$ 503	$ (2,562)	$ (778)

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

Net interest income increased by $4,402 or 17.12 percent in 2016 compared to 2015 and decreased by $778 or 2.94 percent in 2015 compared to 2014. The primary reason for the increase during 2016 compared to 2015 is due to the increase in average loan volume outstanding during 2016 and an increase in nonaccrual income. The increase in net interest income during 2016 results from an increase of $2,060 attributed to an increase in nonaccrual income along with an increase of $2,764 attributed to an increase in volume offset by a decrease of $422 attributed to a decrease in rates. The Association's net interest income as a percentage of average earning assets was 3.09 percent in 2016, compared to 2.95 percent and 3.16 percent in 2015 and 2014, respectively. The increase in this ratio is primarily a result of an increase in nonaccrual income during 2016.

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	$ 840	$ 767	$ 773	9.52%	(0.78)%
Fees for financially related services	962	982	824	(2.04)	19.17
Patronage refunds from other Farm Credit Institutions	11,257	10,454	14,103	7.68	(25.87)
Gains (losses) on sales of rural home loans, net	231	208	92	11.06	126.09
Gains (losses) on sales of premises and equipment, net	27	79	–	(65.82)	100.00
Gains (losses) on other transactions	(54)	(278)	176	(80.58)	(257.95)
Net other-than-temporary impairment losses on investments	–	(80)	(60)	(100.00)	33.33
Other noninterest income	393	175	497	124.57	(64.79)
Total noninterest income	$ 13,656	$ 12,307	$ 16,405	10.96%	(24.98)%

The increase in noninterest income of $1,349 or 10.96 percent in 2016 compared to 2015 is primarily due to increases in patronage refunds from other Farm Credit Institutions and reduction in losses on other transactions.

Patronage refunds from other Farm Credit Institutions increased $803 or 7.68 percent largely due to an increase in the Association borrowing more from the Bank during 2016. Losses on other transactions decreased $224 or 80.58 percent during the period ending December 31, 2016 when compared to 2015 due primarily to a decreased provision for unfunded commitments.

An impairment charge of $0, $80, and $60 was recognized during 2016, 2015, and 2014, respectively on an investment in a Rural Business Investment Company venture capital fund due to losses realized in the underlying investments in the fund. Additional information on the impairment charge may be found in Note 4, *Investments,* of the Notes to the Consolidated Financial Statements.

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	$ 17,616	$ 17,192	$ 17,821	2.47%	(3.53)%
Occupancy and equipment	1,295	1,123	1,325	15.32	(15.25)
Insurance Fund premiums	1,226	838	764	46.30	9.69
(Gains) losses on other property owned, net	713	(9)	(1,447)	(8022.22)	(99.38)
Other operating expenses	3,528	3,591	5,014	(1.75)	(28.38)
Total noninterest expense	$ 24,378	$ 22,735	$ 23,477	7.23%	(3.16)%

Non-interest expense increased $1,643 or 7.23 percent for the year ended December 31, 2016, as compared to the same period in 2015, and decreased $742 or 3.16 percent in 2015 compared to 2014.

Salaries and employee benefits increased $424 or 2.47 percent in 2016, as compared to 2015. This increase is primarily attributable to an increase in the number of employees in 2016.

The $172 increase or 15.32 percent in occupancy and equipment expense in 2016 compared to 2015 is due to an increase in furniture and equipment costs and facilities maintenance expenses.

Gains on other property owned of $1,447 during 2014 can be attributed to one large property sold at a gain during the year offset by declining property values realized at acquisition and upon re-appraisal.

Other operating expenses decreased $63 or 1.75 percent in 2016 as compared to 2015 primarily resulting from a decrease in nonaccrual loan expenses.

Insurance Fund premiums increased $388 or 46.30 percent for the twelve months ended December 31, 2016, compared to the same period of 2015. This increase is primarily attributed to an increase in the insurance premium charged by the Farm Credit System Insurance Corporation in 2016 compared to 2015.

Income Taxes

The Association recorded a benefit for income taxes of $3 for the year ended December 31, 2015, as compared to a provision of $27 for 2014. Refer to Note 2, *Summary of Significant Accounting Policies, I. 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 Comparisons	**For the 12 Months Ended 12/31/16**	**12/31/15**	**12/31/14**
Return on average assets	2.04%	2.07%	3.15%
Return on average members' equity	8.58%	8.28%	12.79%
Net interest income as a percentage of average earning assets	3.09%	2.95%	3.16%
Net (charge-offs) recoveries to average loans	0.162%	0.399%	0.832%

Return on average assets decreased slightly during 2016 compared to 2015 due to an increase in average assets and return on average members' equity increased during 2016 compared to 2015 as a result of increased net income in 2016 compared to 2015. The net interest income as a percentage of average earning assets, or net interest margin, increased 14 basis points in 2016 from 2015 due to an increase in nonaccrual income during 2016.

The Association recorded net recoveries of $1,564 in 2016 which is 0.162 percent of average loans compared to net recoveries of $3,433 or 0.399 percent of average loans in 2015. During 2016, the Association recovered $1.6 million of amounts previously charged-off which surpassed the amount of charge-offs recorded during the year resulting in the recording of a reversal of the allowance for loan losses of $1,101 in 2016. This was a decline compared to 2015 when the reversal of the allowance for loan losses was $3,446 and a decline compared to 2014 when the reversal of the allowance for loan losses was $8,117. The Association had higher recoveries in both 2015 and 2014 resulting in the lower reversal of the allowance in 2016 compared to prior years. Due to the improvement in collateral values and return of credit availability in the market, several nonaccrual loans were fully collected during 2016, 2015 and 2014.

The past years have been favorably impacted by the receipt of a special patronage dividend from AgFirst Farm Credit Bank which totaled $4,656 in 2016, $4,365 in 2015 and $7,595 in 2014. The Association does not forecast continued receipt of these distributions.

A key factor in the growth of net income for future years will be an increase in acceptable loan volume, continued improvement in net interest income and controlling loan losses and effectively managing noninterest income and noninterest expense. 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 $809,137 as compared to $743,688 at December 31, 2015 and $662,690 at December 31, 2014. The 2016 increase of 8.80 percent compared to December 31, 2015 was a result of an increase in total asset growth offset by an increase in members' equity attributable to net income. The average volume of outstanding notes payable to the Bank was $747,670 and $661,277 for the years ended December 31, 2016 and 2015, respectively. Refer to Note 6, *Debt, 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.

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

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 90-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 and the Bank's ability to access capital of the Association is discussed in Note 4, *Investments, Investments in Other Farm Credit Institutions*, and Note 6, *Debt, Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements included in this Annual Report

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

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. There were no material changes to the capital plan for 2016 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 4.43 percent to $237,509 from the December 31, 2015, total of $227,426. At December 31, 2015, total members' equity increased 4.77 percent from the December 31, 2014 total of $217,062. The increase during 2016 was primarily attributed to 2016 net income from operations of $20,488 less the $10,500 patronage distribution declared. Total capital stock and participation certificates were $2,717 on December 31, 2016, compared to $2,616 on December 31, 2015 and $2,515 on December 31, 2014. The 2016 and 2015 increase is attributed to the issuance of capital stock to new stockholders.

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 as of December 31 and the FCA minimum requirements follow:

	2016	2015	2014	Regulatory Minimum
Permanent capital ratio	21.49%	21.62%	22.55%	7.00%
Total surplus ratio	21.35%	21.49%	22.00%	7.00%
Core surplus ratio	21.35%	21.49%	22.00%	3.50%

The decrease in the Association's permanent capital, total surplus, and core surplus ratios for December 31, 2016 was attributed to an increase in risk weighted assets resulting from the increase in average loan volume outstanding offset by the 2016 net income.

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 $10,500 in 2016, $8,500 in 2015, and $7,500 in 2014.

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, ranchers, producers or harvesters of aquatic products (YBS Farmers and Ranchers). Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual lending goals to increase our market share of loans to YBS Farmers and Ranchers. Specific marketing plans have been developed to target this segment, and resources have been designated to help ensure YBS Farmers and Ranchers have access to a stable source of credit and financially related services. Through its marketing efforts to this segment, the Association was able to exceed its annual lending goals and produced the following new loans and related volume to YBS Farmers and Ranchers.

2016 YBS Goals and Results

	2016 Goal	2016 Actual	% of Goal
Young Farmers & Ranchers			
Number of New loans	80	129	161.25%
New Volume	$20,000	$32,970	164.85%
Beginning Farmers & Ranchers			
Number of New loans	175	239	136.57%
New Volume	$52,500	$70,005	133.34%
Small Farmers & Ranchers			
Number of New loans	275	351	127.64%
New Volume	$42,000	$43,759	104.19%

The following table outlines the loan volume and number of YBS loans in the loan portfolio for the Association.

December 31, 2016 Total YBS Loan Data

Total Loans & Commitments	12/31/16	% of Total
Number of Loans	3,257	100.00%
Volume Outstanding	1,311,696	100.00%
Young Farmers & Ranchers		
Number of Loans	342	10.50%
Volume Outstanding	92,250	7.03%
Beginning Farmers & Ranchers		
Number of Loans	848	26.04%
Volume Outstanding	193,674	14.77%
Small Farmers & Ranchers		
Number of Loans	1,206	37.03%
Volume Outstanding	155,832	11.88%

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

The 2012 USDA Ag census data is used as the benchmark to measure penetration of the Association's marketing efforts. The census data indicates that within the Association's chartered territory of thirty-six counties, there are 26,252 farmers of which, by definition, 947 or 3.6% are Young, 6,648 or 25.3% are Beginning, and 24,283 or 92.5% are Small. Further defined within the category of Small farmers and ranchers is the subcategory of "Mini", which represents farms with sales volume less than $1,000. There are 8,694 farms in this subcategory (35.8%) of Small farmers and ranchers. Related to the total number of borrowers in the Association, Young farmers and ranchers represent 282 or 12.0% of the total, Beginning Farmers and Ranchers represent 715 or 30.5% of the total and Small Farmers and Ranchers represent 1,068 or 45.5% of the total. Similarly, of the total number of Farmers and Ranchers reported as Young (947), Beginning (6,648) and Small (24,283) within the Association's territory, the Association has a segment penetration percent of 29.8%, 10.8% and 4.4% respectively.

The YBS Plan contains several components including staffing, identification, education, development, and direct financial support. Staffing represents the foundation of the program as the Association recognizes that to serve the community; its staff must understand the culture and needs of each group. The Association has focused on diversity in its employment practices because we believe strongly that our staff should reflect the diversity of the community we serve. The Association also has trained all staff to serve the YBS Community. Specific quantitative and qualitative goals have been set for the Association and staff's focus is on the YBS Program to ensure our performance in reaching this segment of our market.

Identification and outreach are also critical components of the program. The Association constantly monitors public record databases, organizational membership roles, etc. that are available and could assist in identification of potential YBS Farmers and Ranchers. In addition, staff is active in community, trade and cultural organizations believed to have membership that include potential YBS Farmers and Ranchers and works with other agricultural trade organizations and agencies such as the Federal, State and County Agricultural Agencies to ensure these agencies understand our programs and will refer YBS Farmers and Ranchers with credit or financially related service needs to the Association. The Association has also worked with these agencies in providing training and development opportunities for YBS Farmers and Ranchers. The Association aggressively attempts to partner with these agencies in joint programs. The Association is a "Preferred Lender" in the USDA Guaranteed Lending Program.

A final component of the program is in the area of youth development programs. The Association actively supports those organizations such as FFA, 4-H, and other youth based programs that are training and developing the farmers and ranchers of the future.

The Association is committed to the future success of Young, Beginning and Small farmers, ranchers, producers or harvesters of aquatic products.

* Young Farmers and Ranchers are defined 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.

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

Slight differences between the Census and our YBS information are as follows:

- The Census shows young farmers in a group up to age 34, whereas the Association's YBS information shows young farmers up to age 35.

- The Census shows years on present farm up to nine years, whereas the Association's YBS information shows 10 years or less for a beginning farmer.

- The Census data is based on number of farms, whereas the Association's YBS information 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.

OTHER MATTERS

During the third quarter of 2015, the Association entered into an agreement with and began providing certain standard and as-requested optional or negotiated services to Puerto Rico Farm Credit, ACA for a fee. These services include, but do not fully cover and are not limited to, accounting, reporting, risk management, human resources, and loan on-boarding and servicing. The agreement is expected to leverage synergies and realize operating efficiencies and savings for both institutions. Both institutions are required to meet specified obligations under the agreement, which is automatically renewable for a one year term unless terminated by either institution with 180 days prior written notice or sooner if specified obligations are not satisfied.

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.

Unincorporated Business Entities

The Association holds an equity investment in certain Unincorporated Business Entities (UBEs) as an equity interest holder of the limited liability company (LLC).

The Association has an equity investment in a Rural Business Investment Company, Meritus Ventures, L.P, a Delaware Limited Partnership. Meritus Ventures, L.P. is licensed under the Rural Business Investment Program and provides guarantees and grants to promote rural economic development and job opportunities and supplies equity capital investment to small rural enterprises. The Association has a 4.12% ownership in the limited partnership. Additional information may be found in Note 4, *Investments,* of the Notes to the Consolidated Financial Statements included in this Annual Report to shareholders.

The following LLCs were organized for the stated purpose of holding and managing unusual or complex collateral associated with former loans, until such time as the assets may be sold or otherwise disposed of pursuant to the terms of Operating Agreements of the respective LLCs.

Entity Name	Entity Type	Entity Purpose
CBF Holdings, LLC	LLC	Manage Acquired Property
DeSoto County Land Holdings Acquisition, LLC	LLC	Manage Acquired Property
DeSoto Peaceful Acquisition, LLC	LLC	Manage Acquired Property
Hardee Peaceful Horse Acquisition, LLC	LLC	Manage Acquired Property
Ethanol Holding Company, LLC	LLC	Manage Acquired Property
South Florida White Energy Holding, LLC	LLC	Manage Acquired Property
MB / BP Properties Joint Venture, LLC	LLC	Manage Acquired Property
A 1 Ledges Wilder, LLC	LLC	Manage Acquired Property
A 1 Sequatchie Pointe, LLC	LLC	Manage Acquired Property
Pickens County Properties LLC	LLC	Manage Acquired Property

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity, all of which are located in Florida:

Location	Description	Form of Ownership
11903 Southern Blvd. Ste. 200 West Palm Beach	Administrative/ Branch	Owned
12300 NW US Hwy 441 Alachua	Branch	Owned
340 N. Brevard Avenue Arcadia	Branch	Owned
24700 SW 177th Avenue Homestead	Branch	Owned
1606 Canyon Avenue Live Oak	Branch	Owned
5075 NW Blitchton Road Ocala	Branch	Owned
403 NW 6th Street Okeechobee	Branch	Owned
309 North 2nd Street Palatka	Branch	Owned
721 South Main Street Trenton	Branch	Owned
7925 20th Street Vero Beach	Branch	Owned
1311 Highway 17 North Wauchula	Branch	Owned

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 and their business experience for the past five years:

Senior Officer	Position & Other Business Interests
Gregory M. Cunningham	*President and Chief Executive Officer* since November 2012. Previously employed as Chief Executive Officer at Legacy Ag Credit since 2010, Chief Credit Officer at Alabama Ag Credit since 2008 and Senior Vice President at commercial banks since 2004.
Laura Craker	*Senior Vice President and Chief Financial Officer* since June 2012. Previously employed by community banks as a Chief Financial Officer and Director of Accounting since 2005.
Robert W. Teston	*Senior Vice President and Chief Credit Officer* since January 2013 previously employed as President of a commercial Real Estate firm since 2011, Interim CEO and COO for Legacy Ag Credit since 2009 and provided credit management consulting services to various Farm Credit Associations since 2008.
Marcus A. Boone	*Senior Vice President and Chief Lending Officer* since April 2013 previously employed as Vice President of the Association Direct Lending Unit at Farm Credit Bank of Texas since 2006.
Roland Kampf	*Senior Vice President and Chief Risk Officer* since February 2016 and Director of Risk Management since February 2013 and Risk Manager since April 2012, previously employed as Chief Risk Officer and Chief Credit Officer at AgCarolina Financial since 2000, with Farm Credit since 1991.
Deborah Caldeira	*Senior Vice President and Chief Human Resources Officer* since March 2016 and Director of Human Resources since December 2012, previously employed as Vice President, Manager of Employment & Employee Relations at BankAtlantic since 2005.

The total amount of compensation earned by the CEO and highest paid officers 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**	Perq./ Other	Total
Gregory M. Cunningham	2016	$ 370,802	$ 129,776	$ –	$ 25,424	$ 57,695	$ 583,697
Gregory M. Cunningham	2015	$ 349,813	$ 122,430	$ –	$ (11,509)	$ 8,382	$ 469,116
Gregory M. Cunningham	2014	$ 330,012	$ 115,644	$ –	$ 10,620	$ 10,434	$ 466,710
6	2016	$ 1,072,283	$ 288,737	$ –	$ 350,439	$ 20,201	$ 1,731,660
5	2015	$ 923,534	$ 207,611	$ –	$ 59,539	$ 11,554	$ 1,202,238
6	2014	$ 932,867	$ 210,100	$ –	$ 737,683	$ 61,949	$ 1,942,599

*** Change in the expected future benefit payment stream based on actuarial assumptions. Does not represent any actual cash compensation provided to any employee. 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. System banks and associations were required to comply with the rule for compensation reported in the table for the fiscal year ending 2015, and could implement the rule retroactively for the fiscal year ended 2014. The Association applied the rule for all years presented.*

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:					
Gregory M. Cunningham	2016	AgFirst Retirement Plan	4	$ 254,529	$ –
Gregory M. Cunningham	2016	Supplemental Executive Retirement Plan		60,745	–
				$ 315,274	$ –
Senior Officers and Highly Compensated Employees:					
6 Officers, excluding the CEO	2016	AgFirst Retirement Plan	14.4*	$ 3,013,916	$ –
				$ 3,013,916	$ –

** Represents the average years of credited service for the group*
*** The value of expected future benefit payment stream based on actuarial assumptions. Does not represent any actual cash compensation provided to any employee. Actual funds received can differ based on how actual events compare to assumptions used in the calculation.*

Disclosure of information on total compensation paid during 2016 to any senior officer, or to any other individual included in the total, is available to shareholders upon request.

Amounts in the table classified as Perquisites/Other are comprised primarily of automobile allowance, group life insurance, spousal travel, paid accumulated annual leave, relocation, and severance upon retirement or separation. It also includes amounts contributed by the Association on behalf of the employee to a defined contribution plan unless the plan is made available to all employees on the same basis.

In addition to a base salary, all employees earn additional compensation under an incentive plan. The Association incentive plan is designed to focus employees on the factors that produce success for the Association and its shareholders, and to reward employees for contributing to the Association exceeding its goals. The factors incorporated in the 2016 plan include return on assets, credit quality, credit administration, accrual loan volume growth and net income.

All Association employees, with the exception of the Chief Executive Officer are eligible for incentives under the plan. Participation is not allowed for employees terminating employment prior to the payment of the incentive except for retirement, disability or death which may be paid at the discretion of the CEO or persons having unsatisfactory performance evaluations. New employees receive a pro rata share and must be employed for a minimum of three months to participate in the current year's plan. The incentive earned is based on percentage of salary paid during the year and is calculated based on a matrix of four performance factors and four performance tiers up to a maximum percentage cap. Allowable incentives ranged up to 25 percent of salary paid for senior officers and up to 15 percent of salary paid for other employees excluding loan officers depending upon their position.

For loan officers, incentive award opportunity is only available to those who perform in excess of a minimum % of their goal as defined by their position. The pool for Loan Officers is funded if the performance objectives of the plan are achieved. However, individual awards ranging up to 30 percent of salary paid will be determined by loan production and fee income goals achieved by that officer.

The incentive plan also includes referral awards to employees for qualified referrals to other lines of business.

All Association employees, except for the CEO who administers the awards, are eligible to receive discretionary awards based on special or exemplary performance as recommended by another employee, the employee's supervisor or directly by the CEO. The discretionary award pools are approved by the Board annually.

The Chief Executive Officer's bonus is at the discretion of the Board of Directors. Bonuses are shown in the year earned, which may be different than the year of payment.

Additionally, all employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

All employees are eligible to receive awards based on (a) years of service on five year, or multiple of five year anniversaries and (b) new hire referrals.

The Association provides retirement benefit plans to all employees. Employees' participation in a plan is mostly determined by date of hire. Additional information on the Association's retirement plans can be found in Note 9, *Employee Benefit Plans,* of the Notes to the Consolidated Financial Statements.

The Association sponsors a non-qualified supplemental deferred compensation plan for eligible employees. The purpose of the non-qualified plan is to provide supplemental deferred compensation options to eligible key employees. As a non-qualified plan, assets have been allocated and separately invested for this plan, but are not isolated from the general creditors of the Association.

The "Actuarial Present Value of Accumulated Benefits" column in the *Pension Benefits Table* represents 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. In 2014, a significant decrease in the discount rate assumption from the prior year caused the pension values to increase at December 31, 2014. Also at December 31, 2014, the life expectancy actuarial assumption was updated 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. 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.

In addition, in 2014, the assumptions used for the Cash Balance Plan values were updated to reflect expected payouts in two years 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.

Directors

The following chart details the year the director began serving on the board, the current term of expiration, and total cash compensation paid:

DIRECTOR	ORIGINAL YEAR OF ELECTION OR APPOINTMENT	CURRENT TERM EXPIRATION	TOTAL COMP. PAID DURING 2016
Robert G. Sexton, *Chairman*	1995	2019	$ 27,600
Joseph C. Joyce, *Vice Chairman, Outside Director*	2008	2019	31,800
John L. Alger	2007	2018	26,700
Tobin J. Basore	2014	2017	27,600
Howard P. Bateman	2004	2019	30,000
Roger W. Davis	1998	2019	29,400
W. Eric Hopkins, *Appointed Stockholder Director*	2014	2017	29,700
Louis E. Larson, Jr.*	1989	2016	10,200
Bobby G. Lines	2015	2018	30,900
Martin J. McKenna	2009	2018	25,500
Douglas I. Moore	2015	2018	28,500
John R. Newbold, III	2014	2017	28,800
Harrell H. Phillips, Jr.	2015	2017	31,800
Lisa Sherman, *Appointed Stockholder Director*	2014	2017	25,800
Wayne H. Simmons	2014	2017	28,500
Charles R. Thomas	2013	2019	29,400
Andrea Thurn, *Outside Director*	2007	2019	22,800
E. E. Waldron, *Outside Director*	2001	2019	31,500
			$ 496,500

* *Term expired in 2016*

Subject to approval by the board, the Association may allow directors honoraria of $600 for attendance at regular board meetings and board committee meetings for the first day of the meeting and $300 each day thereafter if the meeting extends beyond one day. If a committee meeting is held on a day other than the board meeting date, the Association may allow directors honoraria of $600 for attendance. If a committee meeting is held via conference call, the Association may allow directors honoraria of $300 for attendance. If a director is requested by the board to attend a special meeting, other than a regular board or committee meeting, the Association may allow directors honoraria of $600 per day. Directors are paid a monthly retainer fee of $1,200, except for the chairman of the board who receives $1,700. Non-cash compensation for the year was less than $5,000.

The following chart details the number of meetings, other activities, current committee assignments, and additional compensation paid for other activities (if applicable) for each director:

Name of Director	Days Served: Regular Board Meetings	Days Served: Other Official Activities*	Committee Assignments	Comp. Paid for other Activities*
Robert G. Sexton, *Chairman*	12	2	Executive	$ 600
Joseph C. Joyce, *Vice Chairman*	12	18	Audit, Compensation, Executive	10,800
John L. Alger	12	9	Audit	5,700
Tobin J. Basore	12	9	Audit	6,600
Howard P. Bateman	12	13	Compensation, Executive, Governance	9,000
Roger W. Davis	12	9	Compensation	8,400
W. Eric Hopkins	12	13	Audit, Governance	8,700
Louis E. Larson, Jr.**	5	4	Compensation, Credit/Lending, Governance	1,500
Bobby G. Lines	12	12	Credit/Lending	9,900
Martin J. McKenna	12	14	Credit/Lending, Governance	4,500
Douglas I. Moore	11	12	Credit/Lending	7,500
John R. Newbold, III	12	14	Compensation, Governance	8,400
Harrell H. Phillips, Jr.	12	11	Credit/Lending	10,800
Lisa Sherman	11	18	Audit, Credit/Lending, Executive	5,400
Wayne H. Simmons	12	12	Credit/Lending	7,500
Charles R. Thomas	12	10	Governance	8,400
Andrea Thurn	10	8	Audit, Executive	3,000
E. E. Waldron	11	15	Compensation, Governance	10,500
				$ 127,200

* *Includes board committee meetings and other board activities other than regular board meetings*
** *Term expired in 2016*

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $125,772 for 2016, $119,696 for 2015 and $128,977 for 2014.

In late 2013, the Board of Directors adopted a board reconfiguration plan and related bylaw amendments to adjust the number of elected directors positions and the nomination regions for such positions. The goal of these changes is to ensure that the Board will continue to provide fair and equitable representation to the Association's various customer segments across its chartered territory. Under the new plan, following a three-year transition plan to be implemented at the 2014, 2015 and 2016 elections, the Board would be composed of 12 elected directors nominated from 12 separate regions within the Association's chartered territory. The Board also adopted two Bylaw amendments related to appointed director positions. One amendment reduces the number of outside appointed directors from four to three, to take effect following the 2014 annual meeting. The second amendment authorizes the Board to appoint up to three voting stockholders to serve as "Appointed Stockholder Directors". Such positions are intended to address specific areas where the Board perceives a need for added commodity representation, diversity, expertise or skill sets.

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

***Robert G. "Bobby" Sexton**,* Chairman, is a citrus grower, packer, and juice processor from Vero Beach, Florida. He is owner and President of Oslo Citrus Growers Association, and co-owner of Lost Legend, LLC and Orchid Island Juice Company. He serves as a Director on the boards of Oslo Citrus Growers Association, Oslo, Inc., Lost Legend, LLC, Florida Citrus Packers, Sexton Grove Holdings, a family citrus company, Sexton Citrus, LLC, Sexton Properties of Vero Beach, Inc., Oslo Packing Company, and Sexton, Inc., family commercial real estate companies. He also serves as a Director on the board of Scholarship Foundation of Indian River County, and serves as an Outside Director for McArthur Farms. Mr. Sexton is a member of the Citrus Administrative Committee. Mr. Sexton was elected to the Farm Credit of South Florida board in 1995 and his current term of office is 2016 - 2019. Mr. Sexton is chairman of the board and serves as chair of the Executive Committee.

Joseph C. Joyce, Vice Chairman, serves as an Outside Director of the Association. He is the Executive Director of the University of Florida Leadership and Education Foundation, Inc. He also serves as Faculty Advisor to the Wedgworth Agricultural and Natural Resources Leadership Institute within the Institute of Food and Agricultural Sciences (IFAS). He retired from the University of Florida in 2015 as a Professor Emeritus after serving 20 years as Senior Associate Vice President for IFAS. He is a 2016 inductee to the Florida Agricultural Hall of Fame. He was appointed by the Governor to the Florida Environmental Regulation commission in 2008, 2012, and 2015. He is a past Director of the Citrus Research and Development Foundation, and retired as a Brigadier General, US Army Reserves after a 28 year career. Dr. Joyce was appointed to the Farm Credit of North Florida board in 2008 and his current term of office is 2016 - 2019. He is a current member of the Audit, Compensation, and Executive Committees. He serves as chair of the Compensation Committee.

John L. Alger is a vegetable grower and nurseryman in Miami-Dade County and is President of Alger Farms, Inc. He is an owner, officer and Director of S. M. Jones and Company, Inc., a produce sales company in Belle Glade, and HAB Packing, LLC, a vegetable packing company in Brinson, Georgia. Mr. Alger is also on the board of Florida Fruit and Vegetable Association, and a member of the Baptist Health South Florida Founders Society. Mr. Alger was elected to the Farm Credit of South Florida board in 2007 and his current term of office is 2015 - 2018. He is a current member of the Audit Committee.

Tobin J. "Toby" Basore is a vegetable grower in Western Palm Beach County. He is an owner and manager of TKM Bengard Farms, LLC, and Cypress Cooling, LLC. He is an owner and President of TKM Farms, Inc., and an owner and senior officer of TKM Management, Inc. He is a Director of the Florida Fruit and Vegetable Association (and serves as Chairman of the Florida Vegetable Exchange), and a Director of the Wedgworth Leadership Institute Alumni Association, a graduate of the Wedgworth Leadership Institute and a member and past Director of the Leadership Palm Beach County organization. Mr. Basore was elected to the Farm Credit of Florida board in 2014 and his current term of office is 2014 - 2017. He is a current member of the Audit Committee.

Howard P. "Rowdy" Bateman has interests in a family cattle operation, as well as his own cattle and citrus operation and is President of Bateman Enterprises, Inc. and is Managing Member of I S Ranch, LLC. Mr. Bateman is a member of Peace River Valley Citrus Growers Association. He was elected to the Farm Credit of Southwest Florida board in 2004 and his current term of office is 2016 - 2019. Mr. Bateman serves as chair of the Governance Committee, and is a current member of the Compensation and Executive Committees.

Roger W. Davis is a tobacco, corn, and timber farmer and cattle rancher based in Alachua County. He is owner, President and Director of R & H Farms, Inc. He owns CWH Land, LLC and is an owner and Managing Partner of 848 Land, LLC. Mr. Davis was elected to the Farm Credit of North Florida board in 1998 and his current term of office is 2016 - 2019. He also serves on the AgFirst Farm Credit Bank Nominating Committee and the AgFirst District Advisory Committee. He is a current member of the Compensation Committee.

W. Eric Hopkins is a sugar cane and vegetable grower in Western Palm Beach County, employed by, and part owner of, Hundley Farms, Inc. He is the Board Chairman of Pioneer Growers Cooperative and serves as Director on the boards of Hundley Farms, Inc., Frontier Produce, Inc., Double H Farms, Inc., Leadership Palm Beach County, Florida Fruit and Vegetable Association (and serves as Chairman of the Supply Chain Management Committee), and Law Enforcement Assistance Foundation, a fund raising organization. Mr. Hopkins had previously held elected director positions on the Boards of Farm Credit of South Florida and Farm Credit of Florida from 2009 until 2013. During this time, he was a member of the Audit Committee. On January 30, 2014, the Board appointed Mr. Hopkins as an appointed stockholder director, a position established under the Bylaws and his current term of office is 2014 - 2017. Mr. Hopkins is a current member of the Audit and Governance Committees.

Louis E. "Woody" Larson, Jr. is a dairy farmer and rancher in Okeechobee County and has ownership in Family Tree Enterprises, LLLP, Providence Dairy, LLC, Old River Cattle Company, LLC, Cow Creek Cattle, LLC, CattleTree, LLC, Larson Dairy, Inc., Dairy Feeds, Inc., and Southeast Milk, Inc. He serves as Director on the boards of Larson Dairy, Inc., Dairy Feeds, Inc., Southeast Milk, Inc., and Florida State Fair Foundation. Mr. Larson serves as an Advisory Director of SunTrust Bank – Mid Florida. Mr. Larson is a Director and past President of the Florida Cattlemen's Association and is an honorary Director of Okeechobee Cattlemen's Association. He was originally appointed to the Farm Credit of South Florida board in 1989 and his current term of office expired in June 2016. Mr. Larson served as a member of the Compensation, Governance, and the Credit/Lending Committees.

Bobby G. "Bob" Lines is a cattle rancher, as well as a Bahia sod and seed producer in Palm Beach and Martin Counties. Mr. Lines owns and operates Agricultural Land Services, Inc., a grassing contractor, that provides sodding and seeding services to various government projects. Additionally, he supervises 4L Land & Cattle, LLC which has over 400 head of beef cattle and 250 roping steers. He serves as a Director and is past President of the Florida Quarter Horse Association and as National Director of the American Quarter Horse Association. He was originally appointed to the Farm Credit of Florida board in 2015 for a term that expired in 2016, and then was elected to serve his current term of office, 2016 –

2018. He is a current member of the Credit/Lending Committee.

Martin J. "Marty" McKenna operates McKenna Brothers, Inc., a privately owned citrus and harvesting operation. He has ownership in Dixie Belle Grove Partnership, Tombstone Grove Partnership, JMCK Enterprises, LLC, New Port Groves Partnership, EdMac Partnership, and McKenna Family Enterprises, LLC. Mr. McKenna is a Director, Officer, and has ownership interest in McKenna & Associates Citrus, Inc., Lakemont Harvesting, Inc., M & M Groves, Inc., McKenna Harvesting, Inc., and Poachers Hammock Grove, Inc. He manages Firetower Grove Partnership. He is past Chairman of the Florida Citrus Commission. Mr. McKenna was elected to the Farm Credit of Southwest Florida board in 2009. His current term of office is 2015 - 2018. He is a current member of the Credit/Lending and Governance Committees.

Douglas I. "Doug" Moore is a beef cattle farmer in Duval County and timber farmer in Baker County. Mr. Moore spent over 30 years in the dairy business. Mr. Moore is a Director, Officer, and has ownership interests in M & M Dairy, Inc., a timber farm, Southeastern Stainless Fabricators, Inc., a metal fabrication business, TM Livestock, Inc., a land development business, and Flatwoods Management, LLC, an agricultural consulting business. Mr. Moore serves as a Director of Baker County Farm Bureau and the North Florida Cattleman's Association. He is Vice President and Director of the Baker County Business Alliance. He serves on the Advisory Committee of the Florida Wildlife Commission and the Florida Forest Service. Mr. Moore served as past Director and President of Sunshine State Milk Producers, Inc., as past Director and Secretary of Southeast Milk, Inc., and as past Chairman of the Duval County Soil and Water Board. Mr. Moore previously served as Director for 17 years on the North Florida Farm Credit and Farm Credit of Florida Boards. His current term of office is 2015 - 2018. He is a current member of the Credit/Lending Committee.

John R. Newbold, III is a cut-foliage farmer in Crescent City, Florida. He owns, operates, and is President of Forest Groves, Inc. He is an owner and manager of Newbold Farms, LLC. He is a Director of the Putnam County Fair Authority, Crescent City Cemetery Association, Florida Wine and Grape Growers Association, and Florida Wildflower Cooperative. Mr. Newbold was elected to the Farm Credit of Florida board in 2014 and his current term of office is 2014 – 2017. He is a current member of the Compensation and Governance Committees.

Harrell H. "Hal" Phillips, Jr. is a cattleman and veterinarian in Levy and Marion Counties. Dr. Phillips owns and operates Phillips Ranch, a ranching and background / stocker operation, with almost 1,200 breeding age beef cattle and background approximately 1,500 calves annually. The ranch also produces hay, sod, grass seed, small grains, and timber. Dr. Phillips has 29 years of experience as a veterinarian. He serves as Director, and is past President, of both the Florida Cattlemen's Association and the Marion County Cattlemen's Association. Dr. Phillips is a past Director of the National Cattlemen's Beef Association. He has ownership in The Creek at Wekiva, LLC, a recreation and conservation property. He serves as Director on the Southeastern Youth Fair Board. He was originally appointed to the Farm Credit of Florida board in 2015 for a term that expired in 2016, and then was elected to serve his current term of office, 2016 – 2017. He is a current member of the Credit/Lending Committee.

Lisa Sherman is a citrus grower in Highlands County and has ownership interest in Black Bear Citrus, LLC and Lake Childs Citrus, Inc. She is a Certified Public Accountant in Lake Placid. Ms. Sherman is an officer and serves on the board of Black Bear Citrus, LLC, Lake Childs Citrus, Inc., The Great Fruit Company, Inc., Highlands County 4H Club Foundation, Embassy Ministries, Inc., Good Care Home, Inc., and Lisa Sherman, CPA, P.A. Mrs. Sherman had previously held an Outside Director position on the boards of Farm Credit of Southwest Florida and Farm Credit of Florida from 2008 until May 2014. On May 29, 2014, the board appointed Mrs. Sherman as an appointed stockholder director, a position established under the Bylaws and her current term of office is 2014 - 2017. Ms. Sherman is a current member of the Audit, Credit/Lending, and Executive Committees. She serves as chair of the Credit/Lending Committee.

Wayne H. Simmons is a citrus grower, timber farmer, realtor, and rental property owner from LaBelle, Florida. He is an owner and President of Simmons Family Grove, Inc. He is an owner and manager of Labelle Fruit Company, LLC, Labelle Housing Company, LLC and Labelle Timber Company, LLC. Mr. Simmons is a Broker Associate of Southern Heritage Real Estate and Investments. He is also licensed in Georgia as an associate with Green Forest & Farm Realty, LLC. He is a Director and Past President of the Gulf Citrus Growers Association. Mr. Simmons is a Director on the Citrus Research and Development Foundation. He is also a member of the Florida Citrus Production Managers Association, Hendry County Farm Bureau, and Realtors Land Institute. Mr. Simmons was elected to the Farm Credit of Florida board in 2014 and his term of office is 2014 - 2017. He is a current member of the Credit/Lending Committee.

Charles R. Thomas is a timber and cattle farmer in Suwannee County. His timber operation consists of 550 acres of pine plantation and pine straw, and 40 acres of hay. In addition, Mr. Thomas is a restaurant owner, automobile dealer, and rental property owner. He has ownership interest in and operates Dixie Grill Restaurant, Dixie Motors, LLC, Thomas Farms, Thomas Rental, Block 60 Holdings, LLC, Fields of McAlpin, LLC, Bragg Branch Crossing, Inc., and MCN Partners, LLC. Mr. Thomas is Chairman of the Suwannee County Tourist Development Council, and a member of Farm Bureau and Florida Forestry Association. Mr. Thomas was elected to the Farm Credit of Florida board in 2013 and his current term of office is 2016 - 2019. He is a current member of the Governance Committee.

Andrea Thurn serves as an Outside Director for the Association. She is a Certified Public Accountant and a Partner/Owner in Morgan, Jacoby, Thurn, Boyle and Associates, P.A. in Vero Beach. She is co-owner and serves as Secretary/Treasurer of Vero Chemical Distributors, a janitorial paper and chemical supplier and is a Director on the Indian River Community Foundation. Ms. Thurn was appointed to the Farm Credit of South Florida board in 2007 and her current term of office is 2016 - 2019. She is a current member of the Audit and Executive Committees. She serves as chair of the Audit Committee.

E.E. "Bucky" Waldron serves as an Outside Director for the Association. He is an attorney with a private civil practice in

Arcadia. Mr. Waldron is a board member of Kingsway Country Club, Inc., a private non-profit corporation. He was appointed to the Farm Credit of Southwest Florida board in 2001 and his current term of office is 2016 - 2019. He is a current member of the Compensation and Governance Committees.

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. In the opinion of management, none of the loans outstanding at December 31, 2016 to senior officers or directors as defined in FCA regulations involved more than the normal risk of collectability.

Involvement in Certain Legal Proceedings

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:

	2016
Independent Certified Public Accountant	
PricewaterhouseCoopers LLP	
Audit services	$ 76,770
Total	$ 76,770

Audit fees 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 Annual and Quarterly reports are available upon request free of charge by calling 1-800-432-4156 or writing Laura Craker, Farm Credit of Florida, ACA, P. O. Box 213069, West Palm Beach, FL 33421 or accessing the web site, ***www.farmcreditfl.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 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 web site, 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 ensures 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 may 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 web site 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. 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.

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 Farm Credit of Florida, 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 Farm Credit of Florida, 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:

Andrea Thurn

Andrea Thurn
Chairman of the Audit Committee

Members of Audit Committee

John L. Alger
Tobin J. Basore
W. Eric Hopkins
Joseph C. Joyce
Lisa Sherman

March 13, 2017

Report of Independent Certified Public Accountants

Report of Independent Certified Public Accountants

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

We have audited the accompanying consolidated financial statements of Farm Credit of Florida, 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 Farm Credit of Florida, 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)	December 31, 2016	2015	2014
Assets			
Cash	**$ 244**	$ 23	$ 36
Investment securities:			
Held to maturity (fair value of $7,784, $10,447, and $13,572, respectively)	**7,417**	10,072	13,063
Loans	**1,032,804**	946,900	853,947
Allowance for loan losses	**(6,560)**	(6,097)	(6,110)
Net loans	**1,026,244**	940,803	847,837
Loans held for sale	**577**	74	428
Other investments	**—**	—	80
Accrued interest receivable	**4,243**	3,854	3,209
Investments in other Farm Credit institutions	**13,697**	13,002	13,684
Premises and equipment, net	**6,626**	6,558	6,900
Other property owned	**366**	5,565	3,845
Accounts receivable	**11,421**	11,102	14,434
Other assets	**5,495**	7,247	7,083
Total assets	**$ 1,076,330**	$ 998,300	$ 910,599
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 809,137**	$ 743,688	$ 662,690
Accrued interest payable	**1,541**	1,382	1,186
Patronage refunds payable	**10,899**	8,896	7,924
Accounts payable	**3,195**	2,592	2,129
Advanced conditional payments	**1,096**	1,352	1,972
Other liabilities	**12,953**	12,964	17,636
Total liabilities	**838,821**	770,874	693,537
Commitments and contingencies (Note 11)			
Members' Equity			
Protected borrower stock	**445**	531	554
Capital stock and participation certificates	**2,272**	2,085	1,961
Additional paid-in-capital	**7,873**	7,873	7,873
Retained earnings			
Allocated	**109,960**	106,263	103,837
Unallocated	**117,171**	110,881	103,079
Accumulated other comprehensive income (loss)	**(212)**	(207)	(242)
Total members' equity	**237,509**	227,426	217,062
Total liabilities and members' equity	**$ 1,076,330**	$ 998,300	$ 910,599

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	**$ 47,140**	$ 39,945	$ 40,066
Investments	**270**	348	384
Total interest income	**47,410**	40,293	40,450
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**17,301**	14,586	13,965
Net interest income	**30,109**	25,707	26,485
Provision for (reversal of allowance for) loan losses	**(1,101)**	(3,446)	(8,117)
Net interest income after provision for (reversal of allowance for) loan losses	**31,210**	29,153	34,602
Noninterest Income			
Loan fees	**840**	767	773
Fees for financially related services	**962**	982	824
Patronage refunds from other Farm Credit institutions	**11,257**	10,454	14,103
Gains (losses) on sales of rural home loans, net	**231**	208	92
Gains (losses) on sales of premises and equipment, net	**27**	79	—
Gains (losses) on other transactions	**(54)**	(278)	176
Total other-than-temporary impairment losses on investments	**—**	(80)	(60)
Other noninterest income	**393**	175	497
Total noninterest income	**13,656**	12,307	16,405
Noninterest Expense			
Salaries and employee benefits	**17,616**	17,192	17,821
Occupancy and equipment	**1,295**	1,123	1,325
Insurance Fund premiums	**1,226**	838	764
(Gains) losses on other property owned, net	**713**	(9)	(1,447)
Other operating expenses	**3,528**	3,591	5,014
Total noninterest expense	**24,378**	22,735	23,477
Income before income taxes	**20,488**	18,725	27,530
Provision for income taxes	**—**	(3)	27
Net income	**$ 20,488**	$ 18,728	$ 27,503

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	**$ 20,488**	$ 18,728	$ 27,503
Other comprehensive income net of tax			
Employee benefit plans adjustments	**(5)**	35	(85)
Comprehensive income	**$ 20,483**	$ 18,763	$ 27,418

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	Additional Paid-in-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2013	$ 765	$ 2,028	$ 7,873	$ 102,421	$ 90,829	$ (157)	$ 203,759
Comprehensive income					27,503	(85)	27,418
Protected borrower stock issued/(retired), net	(211)						(211)
Capital stock/participation certificates issued/(retired), net		(67)					(67)
Patronage distribution							
Cash					(7,500)		(7,500)
Nonqualified retained earnings				6,372	(6,372)		—
Retained earnings retired				(6,336)			(6,336)
Patronage distribution adjustment				1,380	(1,381)		(1)
Balance at December 31, 2014	$ 554	$ 1,961	$ 7,873	$ 103,837	$ 103,079	$ (242)	$ 217,062
Comprehensive income					18,728	35	18,763
Protected borrower stock issued/(retired), net	(23)						(23)
Capital stock/participation certificates issued/(retired), net		124					124
Patronage distribution							
Cash					(8,500)		(8,500)
Nonqualified retained earnings				3,015	(3,015)		—
Patronage distribution adjustment				(589)	589		—
Balance at December 31, 2015	$ 531	$ 2,085	$ 7,873	$ 106,263	$ 110,881	$ (207)	$ 227,426
Comprehensive income					**20,488**	**(5)**	**20,483**
Protected borrower stock issued/(retired), net	**(86)**						**(86)**
Capital stock/participation certificates issued/(retired), net		**187**					**187**
Patronage distribution							
Cash					**(10,500)**		**(10,500)**
Nonqualified retained earnings				**4,072**	**(4,072)**		**—**
Patronage distribution adjustment				**(375)**	**374**		**(1)**
Balance at December 31, 2016	**$ 445**	**$ 2,272**	**$ 7,873**	**$ 109,960**	**$ 117,171**	**$ (212)**	**$ 237,509**

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	**$ 20,488**	$ 18,728	$ 27,503
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**546**	561	627
Amortization (accretion) of net deferred loan costs (fees)	**(703)**	(592)	(550)
Premium amortization (discount accretion) on investments	**162**	183	233
Amortization (accretion) of yield mark resulting from merger	**(2,051)**	(2,033)	(2,851)
Provision for (reversal of allowance for) loan losses	**(1,101)**	(3,446)	(8,117)
(Gains) losses on other property owned	**288**	(182)	(1,645)
Net impairment losses on investments	**—**	80	60
(Gains) losses on sales of premises and equipment, net	**(27)**	(79)	—
(Gains) losses on sales of rural home loans, net	**(231)**	(208)	(92)
(Gains) losses on other transactions	**54**	278	(176)
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(19,759)**	(12,314)	(4,738)
Proceeds from sales of loans held for sale, net	**19,487**	12,876	4,521
(Increase) decrease in accrued interest receivable	**(389)**	(645)	(60)
(Increase) decrease in accounts receivable	**(319)**	3,332	1,284
(Increase) decrease in other assets	**1,752**	(164)	1,124
Increase (decrease) in accrued interest payable	**159**	196	(143)
Increase (decrease) in accounts payable	**603**	463	(596)
Increase (decrease) in other liabilities	**(63)**	(4,908)	7,198
Total adjustments	**(1,592)**	(6,602)	(3,921)
Net cash provided by (used in) operating activities	**18,896**	12,126	23,582
Cash flows from investing activities:			
Proceeds from maturities of or principal payments received on investment securities, held to maturity	**2,556**	2,885	7,375
Net (increase) decrease in loans	**(80,644)**	(92,415)	(19,854)
(Increase) decrease in investment in other Farm Credit institutions	**(695)**	682	1,394
Proceeds from payments received on other investments	**—**	—	2,752
Purchases of premises and equipment	**(610)**	(249)	(456)
Proceeds from sales of premises and equipment	**23**	109	45
Proceeds from sales of other property owned	**3,607**	3,817	10,249
Net cash provided by (used in) investing activities	**(75,763)**	(85,171)	1,505
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**65,741**	81,079	(10,354)
Net increase (decrease) in advanced conditional payments	**(256)**	(620)	(3,378)
Protected borrower stock retired	**(86)**	(23)	(211)
Capital stock and participation certificates issued/(retired), net	**187**	124	(67)
Patronage refunds and dividends paid	**(8,498)**	(7,528)	(4,780)
Retained earnings retired	**—**	—	(6,336)
Net cash provided by (used in) financing activities	**57,088**	73,032	(25,126)
Net increase (decrease) in cash	**221**	(13)	(39)
Cash, beginning of period	**23**	36	75
Cash, end of period	**$ 244**	$ 23	$ 36
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	**$ 2,231**	$ —	$ 195
Receipt of property in settlement of loans	**934**	5,362	5,435
Estimated cash dividends or patronage distributions declared or payable	**10,500**	8,500	7,500
Employee benefit plans adjustments (Note 9)	**5**	(35)	85
Supplemental information:			
Interest paid	**17,434**	14,471	14,239

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


cat

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Farm Credit of Florida, ACA (the Association) is a member-owned cooperative which provides credit and credit-related services to qualified borrowers in the counties of Alachua, Baker, Bradford, Broward, Charlotte, Clay, Collier, Columbia, DeSoto, Dixie, Duval, Flagler, Gilchrist, Glades, Hamilton, Hardee, Hendry, Highlands, Indian River, Lafayette, Lee, Levy, Manatee, Marion, Martin, Miami-Dade, Monroe, Nassau, Okeechobee, Palm Beach, Putnam, St. Johns, St. Lucie, Sarasota, Suwannee and Union in the state of Florida.

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 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 capital as previously reported.

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.

The Association may acquire loans individually, in groups or portfolios. Acquired loans are recorded at estimated fair value on their purchase date with no carryover of any related allowance for loan losses. Acquired loans are segregated between those considered to be credit impaired and those deemed performing. To make this determination, management considers such factors as past due status, nonaccrual status and credit risk ratings. The fair value of acquired performing loans is determined by discounting expected cash flows, both principal and interest, for each loan at prevailing market interest rates. The difference between the fair value and principal balances due at acquisition date, the fair value discount, is accreted into income over the estimated life of each loan.

Purchased Credit Impaired (PCI) Loans

For certain acquired loans that experienced deterioration in credit quality between origination and acquisition, the amount paid for the loan will reflect this fact. At acquisition, each loan is reviewed to determine whether there is evidence of deterioration of credit quality since origination and if it is probable that the Association would be unable to collect all amounts due according to the loan's contractual terms. If both conditions exist, the purchaser determines whether each such loan is to be accounted for individually or assembled into pools of loans based on common risk characteristics (credit score, loan type, and date of origination, for example). Considerations of value should include expected prepayments, the estimated amount and timing of undiscounted expected principal, interest, and other cash flows (expected at acquisition) for each loan and the subsequently aggregated pool of loans. Any excess of the loan's or pool's scheduled contractual principal and contractual interest payments over all of the cash flows expected at acquisition is an amount that should not be accreted to income (nonaccretable difference). The remaining amount, representing the excess of the loan's cash flows expected to be collected over the amount paid, is accreted into interest income over the remaining life of the loan or pool (accretable yield).

Accounting guidance requires that the purchaser continue to estimate cash flows expected to be collected over the life of the loan or pool. The purchaser then evaluates at the balance sheet date whether the present value of its loans, determined using the effective interest rate, has decreased and if so, recognizes a loss. For loans or pools that are not accounted for as debt securities, the present value of any subsequent increase in the loan's or pool's actual cash flows or cash flows expected to be collected is used first to reverse any existing valuation allowance for that loan or pool. For any remaining increases in cash flows expected to be collected, or for loans or pools accounted for as debt securities, a purchaser adjusts the amount of accretable yield recognized on a prospective basis over the loan's or pool's remaining life.

Valuation allowances for all PCI loans reflect only those losses incurred after acquisition, that is, the present value of cash flows expected at acquisition that are not expected to be collected. Valuation allowances are established only subsequent to acquisition of the loans.

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. Generally, only home loans that are to be sold on the secondary mortgage market through various lenders are held for sale.

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.

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 Consolidated 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). Purchase 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 OCI.

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 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 $709, is included in Other Assets on the accompanying Consolidated Balance Sheet as of December 31, 2016.

The Association holds minority equity interests in a Rural Business Investment Company (RBIC). This investment is accounted for under the cost method and is carried at the lower of cost or fair value.

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.

Unfunded commitments, and other 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. **Acquisition Accounting:** Mergers are accounted for under the acquisition method of accounting. Purchased assets, including identifiable intangibles, and assumed liabilities are recorded at their respective acquisition date fair values. If the fair value of net assets purchased exceeds the consideration given, a "bargain purchase gain" is recognized. If the consideration given exceeds the fair value of the net assets received, goodwill is recognized. Fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values becomes available. Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan losses. See Loans and Allowance for Loan Losses section above for accounting policy regarding loans acquired in a business combination.

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	December 31, 2015	December 31, 2014
Real estate mortgage	$ 595,253	$ 597,598	$ 553,057
Production and intermediate-term	231,159	182,591	171,418
Loans to cooperatives	32,777	1,206	1,344
Processing and marketing	88,202	104,459	89,658
Farm-related business	30,015	22,310	13,329
Communication	33,287	25,858	16,764
Power and water/waste disposal	3,685	3,009	1,568
Rural residential real estate	8,446	8,301	6,809
International	9,980	1,568	–
Total Loans	$ 1,032,804	$ 946,900	$ 853,947

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	$ 17,290	$ 116,443	$ –	$ 18,136	$ 4,253	$ –	$ 21,543	$ 134,579
Production and intermediate-term	56,331	21,452	6,279	–	272	–	62,882	21,452
Loans to cooperatives	32,834	–	–	–	–	–	32,834	–
Processing and marketing	74,404	4,243	7,315	52,000	–	–	81,719	56,243
Farm-related business	2,353	11,188	3,129	2,700	295	–	5,777	13,888
Communication	33,397	–	–	–	–	–	33,397	–
Power and water/waste disposal	3,701	–	–	–	–	–	3,701	–
International	10,000	–	–	–	–	–	10,000	–
Total	$ 230,310	$ 153,326	$ 16,723	$ 72,836	$ 4,820	$ –	$ 251,853	$ 226,162

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	$ 4,119	$ 140,297	$ –	$ 20,369	$ 4,473	$ 351	$ 8,592	$ 161,017
Production and intermediate-term	32,111	27,092	16,389	1,349	658	–	49,158	28,441
Loans to cooperatives	1,216	–	–	–	–	–	1,216	–
Processing and marketing	95,067	6,280	–	5,413	–	–	95,067	11,693
Farm-related business	15,476	–	–	1,654	–	–	15,476	1,654
Communication	25,939	–	–	–	–	–	25,939	–
Power and water/waste disposal	3,019	–	–	–	–	–	3,019	–
International	1,568	–	–	–	–	–	1,568	–
Total	$ 178,515	$ 173,669	$ 16,389	$ 28,785	$ 5,131	$ 351	$ 200,035	$ 202,805

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	$ 852	$ 104,389	$ –	$ 1,648	$ 5,118	$ 1,172	$ 5,970	$ 107,209
Production and intermediate-term	40,276	119,634	18,787	1,759	87,030	–	146,093	121,393
Loans to cooperatives	1,348	–	–	–	–	–	1,348	–
Processing and marketing	85,271	64,893	–	11,869	51,124	–	136,395	76,762
Farm-related business	10,348	–	–	1,743	258	–	10,606	1,743
Communication	16,791	–	–	–	–	–	16,791	–
Power and water/waste disposal	1,571	–	–	–	–	–	1,571	–
Total	$ 156,457	$ 288,916	$ 18,787	$ 17,019	$ 143,530	$ 1,172	$ 318,774	$ 307,107

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	$ 27,400	$ 137,964	$ 429,889	$ 595,253
Production and intermediate-term	66,729	125,041	39,389	231,159
Loans to cooperatives	–	17,924	14,853	32,777
Processing and marketing	1,378	57,584	29,240	88,202
Farm-related business	5,364	8,856	15,795	30,015
Communication	–	26,027	7,260	33,287
Power and water/waste disposal	–	2,825	860	3,685
Rural residential real estate	339	1,041	7,066	8,446
International	–	9,980	–	9,980
Total Loans	$ 101,210	$ 387,242	$ 544,352	$ 1,032,804
Percentage	9.80%	37.49%	52.71%	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	94.78%	93.17%	89.37%
OAEM	3.28	3.59	3.99
Substandard/doubtful/loss	1.94	3.24	6.64
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	92.63%	91.05%	94.49%
OAEM	4.83	4.76	0.07
Substandard/doubtful/loss	2.54	4.19	5.44
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	94.22%	100.00%	95.31%
OAEM	5.78	–	–
Substandard/doubtful/loss	–	–	4.69
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	98.53%	99.70%	99.45%
OAEM	0.65	0.30	0.55
Substandard/doubtful/loss	0.82	–	–
	100.00%	100.00%	100.00%

	December 31,		
	2016	2015	2014
Communication			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Power and water/waste disposal			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	96.32%	95.01%	93.23%
OAEM	0.31	1.19	1.99
Substandard/doubtful/loss	3.37	3.80	4.78
	100.00%	100.00%	100.00%
International:			
Acceptable	100.00%	100.00%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	–%
Total Loans:			
Acceptable	94.78%	93.91%	91.45%
OAEM	3.48	3.20	2.63
Substandard/doubtful/loss	1.74	2.89	5.92
	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	$ 2,817	$ 832	$ 3,649	$ 594,514	$ 598,163	$ –
Production and intermediate-term	622	476	1,098	230,896	231,994	–
Loans to cooperatives	–	–	–	32,822	32,822	–
Processing and marketing	–	–	–	88,327	88,327	–
Farm-related business	195	–	195	29,911	30,106	–
Communication	–	–	–	33,294	33,294	–
Power and water/waste disposal	–	–	–	3,689	3,689	–
Rural residential real estate	150	58	208	8,261	8,469	–
International	–	–	–	10,129	10,129	–
Total	$ 3,784	$ 1,366	$ 5,150	$ 1,031,843	$ 1,036,993	$ –

	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	$ 3,054	$ 2,963	$ 6,017	$ 594,442	$ 600,459	$ –
Production and intermediate-term	295	177	472	182,818	183,290	–
Loans to cooperatives	–	–	–	1,206	1,206	–
Processing and marketing	–	–	–	104,568	104,568	–
Farm-related business	–	–	–	22,380	22,380	–
Communication	–	–	–	25,880	25,880	–
Power and water/waste disposal	–	–	–	3,010	3,010	–
Rural residential real estate	13	43	56	8,269	8,325	–
International	–	–	–	1,568	1,568	–
Total	$ 3,362	$ 3,183	$ 6,545	$ 944,141	$ 950,686	$ –

	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	$ 3,050	$ 6,927	$ 9,977	$ 545,496	$ 555,473	$ –
Production and intermediate-term	3,664	3,598	7,262	164,733	171,995	–
Loans to cooperatives	–	–	–	1,345	1,345	–
Processing and marketing	–	–	–	89,732	89,732	–
Farm-related business	–	–	–	13,364	13,364	–
Communication	–	–	–	16,766	16,766	–
Power and water/waste disposal	–	–	–	1,568	1,568	–
Rural residential real estate	107	–	107	6,720	6,827	–
Total	$ 6,821	$ 10,525	$ 17,346	$ 839,724	$ 857,070	$ –

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

	December 31,		
	2016	2015	2014
Nonaccrual loans:			
Real estate mortgage	$ 6,146	$ 11,526	$ 22,385
Production and intermediate-term	6,772	5,293	7,093
Farm-related business	248	–	–
Rural residential real estate	229	221	208
Total	$ 13,395	$ 17,040	$ 29,686
Accruing restructured loans:			
Real estate mortgage	$ 809	$ 1,487	$ 2,072
Production and intermediate-term	310	530	574
Total	$ 1,119	$ 2,017	$ 2,646
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 14,514	$ 19,057	$ 32,332
Other property owned	366	5,565	3,845
Total nonperforming assets	$ 14,880	$ 24,622	$ 36,177
Nonaccrual loans as a percentage of total loans	1.30%	1.80%	3.48%
Nonperforming assets as a percentage of total loans and other property owned	1.44%	2.59%	4.22%
Nonperforming assets as a percentage of capital	6.27%	10.83%	16.67%

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	$ 10,180	$ 12,880	$ 15,172
Past due	3,215	4,160	14,514
Total	13,395	17,040	29,686
Impaired accrual loans:			
Restructured	1,119	2,017	2,646
90 days or more past due	–	–	–
Total	1,119	2,017	2,646
Total impaired loans	$ 14,514	$ 19,057	$ 32,332
Additional commitments to lend	$ 15	$ 4	$ –

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

Impaired loans:	December 31, 2016 Recorded Investment	December 31, 2016 Unpaid Principal Balance	December 31, 2016 Related Allowance	Year Ended December 31, 2016 Average Impaired Loans	Year Ended December 31, 2016 Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 116	$ 195	$ 117	$ 118	$ 29
Production and intermediate-term	104	107	18	106	27
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 220	$ 302	$ 135	$ 224	$ 56
With no related allowance for credit losses:					
Real estate mortgage	$ 6,839	$ 17,228	$ –	$ 6,970	$ 1,744
Production and intermediate-term	6,978	14,415	–	7,111	1,779
Farm-related business	248	316	–	253	63
Rural residential real estate	229	462	–	233	58
Total	$ 14,294	$ 32,421	$ –	$ 14,567	$ 3,644
Total impaired loans:					
Real estate mortgage	$ 6,955	$ 17,423	$ 117	$ 7,088	$ 1,773
Production and intermediate-term	7,082	14,522	18	7,217	1,806
Farm-related business	248	316	–	253	63
Rural residential real estate	229	462	–	233	58
Total	$ 14,514	$ 32,723	$ 135	$ 14,791	$ 3,700

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	$ 724	$ 840	$ 169	$ 957	$ 64
Production and intermediate-term	148	148	76	195	13
Rural residential real estate	42	45	5	56	4
Total	$ 914	$ 1,033	$ 250	$ 1,208	$ 81
With no related allowance for credit losses:					
Real estate mortgage	$ 12,289	$ 28,257	$ –	$ 16,253	$ 1,096
Production and intermediate-term	5,675	11,312	–	7,505	506
Rural residential real estate	179	419	–	236	16
Total	$ 18,143	$ 39,988	$ –	$ 23,994	$ 1,618
Total impaired loans:					
Real estate mortgage	$ 13,013	$ 29,097	$ 169	$ 17,210	$ 1,160
Production and intermediate-term	5,823	11,460	76	7,700	519
Rural residential real estate	221	464	5	292	20
Total	$ 19,057	$ 41,021	$ 250	$ 25,202	$ 1,699

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	$ 4,607	$ 10,765	$ 845	$ 6,969	$ 452
Production and intermediate-term	1,540	4,157	222	2,330	151
Rural residential real estate	165	198	3	250	16
Total	$ 6,312	$ 15,120	$ 1,070	$ 9,549	$ 619
With no related allowance for credit losses:					
Real estate mortgage	$ 19,850	$ 36,997	$ –	$ 30,030	$ 1,947
Production and intermediate-term	6,127	14,773	–	9,268	601
Rural residential real estate	43	235	–	65	4
Total	$ 26,020	$ 52,005	$ –	$ 39,363	$ 2,552
Total impaired loans:					
Real estate mortgage	$ 24,457	$ 47,762	$ 845	$ 36,999	$ 2,399
Production and intermediate-term	7,667	18,930	222	11,598	752
Rural residential real estate	208	433	3	315	20
Total	$ 32,332	$ 67,125	$ 1,070	$ 48,912	$ 3,171

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

	December 31, 2016	December 31, 2015	December 31, 2014
Interest income which would have been recognized under the original loan terms	$ 4,776	$ 3,325	$ 5,676
Less: interest income recognized	3,700	1,698	3,170
Foregone interest income	$ 1,076	$ 1,627	$ 2,506

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*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:								
Balance at December 31, 2015	$ 4,012	$ 1,561	$ 324	$ 109	$ 14	$ 76	$ 1	$ 6,097
Charge-offs	(11)	(48)	–	–	–	(4)	–	(63)
Recoveries	1,560	55	–	–	–	12	–	1,627
Provision of loan losses	(1,787)	316	335	12	19	(3)	7	(1,101)
Balance at December 31, 2016	$ 3,774	$ 1,884	$ 659	$ 121	$ 33	$ 81	$ 8	$ 6,560
Balance at December 31, 2014	$ 4,566	$ 622	$ 851	$ 34	$ –	$ 37	$ –	$ 6,110
Charge-offs	(1,218)	(23)	–	–	–	(3)	–	(1,244)
Recoveries	4,281	396	–	–	–	–	–	4,677
Provision of loan losses	(3,617)	566	(527)	75	14	42	1	(3,446)
Balance at December 31, 2015	$ 4,012	$ 1,561	$ 324	$ 109	$ 14	$ 76	$ 1	$ 6,097
Balance at December 31, 2013	$ 6,251	$ 655	$ 439	$ 22	$ 4	$ 37	$	$ 7,408
Charge-offs	(154)	(40)	–	–	–	–	–	(194)
Recoveries	5,977	1,033	–	–	–	3	–	7,013
(Reversal of) provision for loan losses	(7,508)	(1,026)	412	12	(4)	(3)	–	(8,117)
Balance at December 31, 2014	$ 4,566	$ 622	$ 851	$ 34	$ –	$ 37	$ –	$ 6,110
Allowance on loans evaluated for impairment:								
Individually	$ 117	$ 18	$ –	$ –	$ –	$ –	$ –	$ 135
Collectively	3,657	1,866	659	121	33	81	8	6,425
PCI**	–	–	–	–	–	–	–	–
Balance at December 31, 2016	$ 3,774	$ 1,884	$ 659	$ 121	$ 33	$ 81	$ 8	$ 6,560
Individually	$ 169	$ 76	$ –	$ –	$ –	$ 5	$ –	$ 250
Collectively	3,843	1,485	324	109	14	71	1	5,847
PCI**	–	–	–	–	–	–	–	–
Balance at December 31, 2015	$ 4,012	$ 1,561	$ 324	$ 109	$ 14	$ 76	$ 1	$ 6,097
Individually	$ 688	$ 222	$ –	$ –	$ –	$ 3	$ –	$ 913
Collectively	3,721	400	851	34	–	34	–	5,040
PCI**	157	–	–	–	–	–	–	157
Balance at December 31, 2014	$ 4,566	$ 622	$ 851	$ 34	$ –	$ 37	$ –	$ 6,110
Recorded investment in loans evaluated for impairment:								
Individually	$ 5,591	$ 7,339	$ 248	$ –	$ –	$ 229	$ –	$ 13,407
Collectively	590,513	224,913	151,007	33,294	3,689	8,240	10,129	1,021,785
PCI**	2,059	(258)	–	–	–	–	–	1,801
Balance at December 31, 2016	$ 598,163	$ 231,994	$ 151,255	$ 33,294	$ 3,689	$ 8,469	$ 10,129	$ 1,036,993
Individually	$ 11,224	$ 5,976	$ –	$ –	$ –	$ 153	$ –	$ 17,353
Collectively	587,221	177,469	128,154	25,880	3,010	8,104	1,568	931,406
PCI**	2,014	(155)	–	–	–	68	–	1,927
Balance at December 31, 2015	$ 600,459	$ 183,290	$ 128,154	$ 25,880	$ 3,010	$ 8,325	$ 1,568	$ 950,686
Individually	$ 21,938	$ 7,180	$ –	$ –	$ –	$ 124	$ –	$ 29,242
Collectively	530,969	164,328	104,441	16,766	1,568	6,619	–	824,691
PCI**	2,566	487	–	–	–	84	–	3,137
Balance at December 31, 2014	$ 555,473	$ 171,995	$ 104,441	$ 16,766	$ 1,568	$ 6,827	$ –	$ 857,070

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

To mitigate risk of loan losses, the Association may enter into guarantee arrangements with certain 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 $32,209, $32,526, and $32,737 at December 31, 2016, 2015, and 2014, respectively. Fees paid for such guarantee commitments totaled $8, $26, and $12 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. The tables do not include purchased credit impaired loans.

	Year Ended December 31, 2016				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 78	$ 317	$ –	$ 395	
Production and intermediate-term	–	3,436	–	3,436	
Total	$ 78	$ 3,753	$ –	$ 3,831	
Post-modification:					
Real estate mortgage	$ 79	$ 327	$ –	$ 406	$ –
Production and intermediate-term	–	3,436	–	3,436	–
Total	$ 79	$ 3,763	$ –	$ 3,842	$ –

	Year Ended December 31, 2015				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ (1)	$ 1,487	$ –	$ 1,486	
Production and intermediate-term	–	102	–	102	
Total	$ (1)	$ 1,589	$ –	$ 1,588	
Post-modification:					
Real estate mortgage	$ (1)	$ 533	$ –	$ 532	$ –
Production and intermediate-term	–	94	–	94	–
Total	$ (1)	$ 627	$ –	$ 626	$ –

	Year Ended December 31, 2014				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 235	$ 2,698	$ –	$ 2,933	
Production and intermediate-term	–	815	–	815	
Total	$ 235	$ 3,513	$ –	$ 3,748	
Post-modification:					
Real estate mortgage	$ 192	$ 2,855	$ –	$ 3,047	$ –
Production and intermediate-term	–	828	–	828	–
Total	$ 192	$ 3,683	$ –	$ 3,875	$ –

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	$ –	$ –	$ 52
Production and intermediate-term	–	–	300
Total	$ –	$ –	$ 352

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	$ 3,938	$ 6,802	$ 13,303	$ 3,129	$ 5,315	$ 11,231
Production and intermediate-term	3,850	2,951	4,608	3,540	2,421	4,034
Farm-related business	248	–	–	248	–	–
Rural residential real estate	–	(11)	(4)	–	(11)	(4)
Total Loans	$ 8,036	$ 9,742	$ 17,907	$ 6,917	$ 7,725	$ 15,261
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	$ –

Purchased Credit Impaired (PCI) Loans

The Association acquires loans individually and in groups or portfolios. For certain acquired loans that experienced deterioration in credit quality between origination and acquisition, the amount paid for the loan will reflect this fact. At acquisition, each loan is reviewed to determine whether there is evidence of deterioration of credit quality since origination and if it is probable that the Association would be unable to collect all amounts due according to the loan's contractual terms. If both conditions exist, the purchaser determines whether each such loan is to be accounted for individually or whether such loans would be assembled into pools of loans based on common risk characteristics (credit score, loan type, and date of origination, for example). Considerations of value should include expected prepayments, the estimated amount and timing of undiscounted expected principal, interest, and other cash flows (expected at acquisition) for each loan and the subsequently aggregated pool of loans. Any excess of the loan's or pool's scheduled contractual principal and contractual interest payments over all of the cash flows expected at acquisition is an amount that should not be accreted to income (nonaccretable difference). The remaining amount, representing the excess of the loan's cash flows expected to be collected over the amount paid, is accreted into interest income over the remaining life of the loan or pool (accretable yield).

Accounting guidance requires that the purchaser continue to estimate cash flows expected to be collected over the life of the loan or pool. It then evaluates at the balance sheet date whether the present value of its loans, determined using the effective interest rate, has decreased and if so, recognizes a loss. For loans or pools that are not accounted for as debt securities, the present value of any subsequent increase in the loan's or pool's actual cash flows or cash flows expected to be collected is used first to reverse any existing valuation allowance for that loan or pool. For any remaining increases in cash flows expected to be collected, or for loans or pools accounted for as debt securities, a purchaser adjusts the amount of accretable yield recognized on a prospective basis over the loan's or pool's remaining life.

Valuation allowances for all PCI loans reflect only those losses incurred after acquisition, that is, the present value of cash flows expected at acquisition that are not expected to be collected. Valuation allowances are established only subsequent to acquisition of the loans.

The carrying amounts of such loans acquired in a 2011 business combination included in the balance sheet amounts of loans receivable at period end were as follows:

	December 31, 2016
Real estate mortgage	$ 2,059
Production and intermediate-term	(258)
Total Loans	$ 1,801

At December 31, 2016, the allowance for loan losses related to these loans was $0 compared with $0 at December 31, 2015 and $157 at December 31, 2014. During the years ended December 31, 2016, 2015, and 2014 provision for loan losses on these loans was an expense reversal of $477, an expense reversal of $888, and an expense reversal of $857, respectively. See above for a summary of changes in the total allowance for loan losses. There were no loans acquired during the years ended December 31, 2016, 2015 or 2014 for which it was probable at acquisition that all contractually required payments would not be collected.

Certain of the loans acquired by the Association in the 2011 business combination that were within the scope of PCI loan guidance are accounted for using a cash basis method of income recognition because the Association cannot reasonably estimate cash flows expected to be collected. Substantially all of the loans acquired were real estate collateral dependent loans. The real estate market in Florida was extremely unstable, making the estimation of the amount and timing of a sale of loan collateral in essentially the same condition as received upon foreclosure indeterminate. As such, the Association did not have the information necessary to reasonably estimate cash flows expected to be collected to compute a yield. Management determined a nonaccrual classification would be the most appropriate and that no income would be recognized on these loans as is allowed under accounting guidance. These amounts are included in the carrying values, net of allowance, described above.

Note 4 — Investments

Investment Securities

The Association's investments consist primarily of asset-backed securities (ABSs). These ABSs are issued through the Small Business Administration and are guaranteed by the full faith and credit of the United States government. They are held for managing short-term surplus funds and reducing interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

The Association's investments also consist 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 one RAB whose credit quality has 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	$ 2,912	$ 431	$ (5)	$ 3,338	5.56%
ABSs	4,505	13	(72)	4,446	0.08
Total	$ 7,417	$ 444	$ (77)	$ 7,784	2.23%

	December 31, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 2,967	$ 444	$ (10)	$ 3,401	5.56%
ABSs	7,105	28	(87)	7,046	-0.29
Total	$ 10,072	$ 472	$ (97)	$ 10,447	1.43%

	December 31, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 3,019	$ 512	$ (16)	$ 3,515	5.55%
ABSs	10,044	71	(58)	10,057	0.14
Total	$ 13,063	$ 583	$ (74)	$ 13,572	1.39%

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	$ 1,062	$ 1,055	2.87%
After one year through five years	1,979	1,932	-0.66
After five years through ten years	748	738	0.84
After ten years	3,628	4,059	3.91
Total	$ 7,417	$ 7,784	2.23%

A portion of these investments has 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.

	December 31, 2016			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ –	$ –	$ 889	$ (5)
ABSs	402	(2)	2,594	(70)
Total	$ 402	$ (2)	$ 3,483	$ (75)

	December 31, 2015			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ –	$ –	$ 904	$ (10)
ABSs	1,106	(5)	3,651	(82)
Total	$ 1,106	$ (5)	$ 4,555	$ (92)

	December 31, 2014			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ –	$ –	$ 917	$ (16)
ABSs	2,297	(17)	3,481	(41)
Total	$ 2,297	$ (17)	$ 4,398	$ (57)

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 (OTTI) 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.

A substantial portion of these investments was in U. S. government agency securities and the Association expects these securities would not be settled at a price less than their amortized cost. All securities continue to perform at period end.

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 $10,684 for 2016, $9,461 for 2015 and $9,597 for 2014. The Association owns 4.22 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 $3,013 related to other Farm Credit institutions at December 31, 2016.

Other Investments
In 2006, the Association agreed to become one of several investors in a USDA approved Rural Business Investment Company (RBIC). This investment was made under the USDA's Rural Business Investment Program, which is authorized by the Farm Security and Rural Investment Act (FSRIA). It permits USDA to license RBICs and provide guarantees and grants to promote rural economic development and job opportunities and meet equity capital investment needs of small rural enterprises. FSRIA authorizes FCS institutions to establish and invest in RBICs, provided that such investments are not greater than 5 percent of the capital and surplus of the FCS institution.

Over the years, the Association purchased total equity investments in the RBIC of $500. There are no outstanding commitments to make additional equity purchases beyond this amount. Beginning in 2013, analyses indicated that decreases in value of the investment had occurred that were other than temporary, due to a series of losses and other factors. As a result, for the years ended December 31, 2016, 2015, and 2014, the Association recognized OTTI of $0, $80, and $60, respectively, which is included in Impairment Losses on Investments in the Statements of Income. At December 31, 2016, there were no holdings of RBIC investments.

Note 5 — Real Estate and Other Property

Premises and Equipment
Premises and equipment consists of the following:

	December 31, 2016	December 31, 2015	December 31, 2014
Land	$ 677	$ 673	$ 667
Buildings and improvements	8,553	8,501	8,494
Furniture and equipment	4,552	4,080	4,157
	13,782	13,254	13,318
Less: accumulated depreciation	7,156	6,696	6,418
Total	$ 6,626	$ 6,558	$ 6,900

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

	December 31, 2016	December 31, 2015	December 31, 2014
(Gains) losses on sale, net	$ (57)	$ (276)	$ (2,439)
Carrying value unrealized (gains) losses	345	94	794
Operating (income) expense, net	425	173	198
(Gains) losses on other property owned, net	$ 713	$ (9)	$ (1,447)

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. Deferred gains totaled $104, $112, and $119 at December 31, 2016, 2015, and 2014, respectively.

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 31and 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 rate on all interest-bearing notes payable was 2.41 percent and the weighted-average remaining maturity was 7.3 years at December 31, 2016. Variable rate and fixed rate notes payable represent approximately 29.97 percent and 70.03 percent, respectively, of total notes payable at December 31, 2016. 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 that 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 lessor of two percent of the loan amount or $1,000. 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	21.49%	21.62%	22.55%	7.00%
Total surplus ratio	21.35%	21.49%	22.00%	7.00%
Core surplus ratio	21.35%	21.49%	22.00%	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 Class 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, except for Class D Preferred Stock which, if issued, would have a par value of ($0.01) per share.

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

		Shares Outstanding	
Class	Protected	Number	Aggregate Par Value
A Common/Nonvoting	Yes	89,103	$ 445
C Common/Voting	No	410,570	2,053
C Participation Certificates/Nonvoting	No	43,821	219
Total Capital Stock and Participation Certificates		543,494	$ 2,717

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 Board determines the minimum aggregate amount of these two accounts. 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. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2016, allocated members' equity consisted of $56,830 of nonqualified allocated surplus and $53,130 of nonqualified retained 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 8 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Class D Preferred Stock or on all classes of stock and participation certificates.

The rate of dividends paid on Class D 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

Class D Preferred, Classes A, B and C Common Stocks, 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:

a) ***First***, Assistance Preferred Stock issued and outstanding:

b) ***Second***, allocated surplus, in its entirety, with application to most recent allocation first and then in reverse order until all allocated surplus has been exhausted;

c) ***Third***, Class C Common Stock and Class C Participation Certificates issued and outstanding, pro rata until such stock is fully impaired;

d) ***Fourth***, Class A Common and Class B Common Stock and Class B Participation Certificates issued and outstanding, pro rata until such stock is fully impaired; and

e) ***Fifth***, Class D Preferred Stock issued and outstanding, if any.

Distribution on Liquidation

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities, shall be distributed in the following order of priority:

a) ***First***, to the holders of Class D Preferred Stock until an amount equal to the aggregate par value of all shares of said stock then issued and outstanding has been distributed to such holders,

b) ***Second***, to the holders of Class A Common Stock, Class B Common Stock, Class C Common Stock and Participation Certificates, pro rata in proportion to the number of shares or units of each such class of stock or participation certificates then issued and outstanding, until an amount equal to the aggregate par value or face amount of all such shares or units has been distributed to such holders;

c) ***Third***, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of the year of issuance, until the total amount of such account has been distributed;

d) ***Fourth***, to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of the year of issuance, until the total amount of such account has been distributed;

e) ***Fifth***, all unallocated surplus accrued or issued after April 22, 1995, shall be distributed to present and former Patrons from said date through the date of liquidation on a patronage basis to the extent practicable; and

f) ***Sixth***, any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of Common Stock and Participation Certificates in proportion to the number of shares or units of such class of Common Stock or participation certificates held by such holders.

All distributions to the holders of any class of stock and/or participation certificate holders shall be made in proportion to the number of shares or units of such classes of stock or participation certificates held by such holders. All distributions to holders of allocated surplus shall be pro-rata by year of issuance.

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	$ (207)	$ (242)	$ (157)
Other comprehensive income before reclassifications	(13)	26	(91)
Amounts reclassified from AOCI	8	9	6
Net current period OCI	(5)	35	(85)
Balance at end of period	$ (212)	$ (207)	$ (242)

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

	Year to Date			
	2016	**2015**	**2014**	**Income Statement Line Item**
Defined Benefit Pension Plans:				
Periodic pension costs	$ (8)	$ (9)	$ (6)	See Note 9.
Amounts reclassified	$ (8)	$ (9)	$ (6)	

(a) Amounts in parentheses indicate debits to AOCI.
(b) Amounts in parentheses indicate debits 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
ABSs, such as those issued through the Small Business Administration, are classified Level 2.

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 are no observable market values for the Association's RBIC investments which are included in other investments. Management must estimate the fair value based on an assessment of the operating performance of the company and available capital to operate the venture. This analysis requires significant judgment and actual sales values could differ materially from those estimated.

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	$ 709	$ 709	$ –	$ –	$ 709	
Recurring Assets	$ 709	$ 709	$ –	$ –	$ 709	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 14,379	$ –	$ –	$ 14,379	$ 14,379	$ 1,678
Other property owned	366	–	–	405	405	(288)
Nonrecurring Assets	$ 14,745	$ –	$ –	$ 14,784	$ 14,784	$ 1,390
Other Financial Instruments						
Assets:						
Cash	$ 244	$ 244	$ –	$ –	$ 244	
RABs	2,912	–	–	3,338	3,338	
ABSs	4,505	–	4,446	–	4,446	
Loans	1,012,442	–	–	1,012,554	1,012,554	
Other Financial Assets	$ 1,020,103	$ 244	$ 4,446	$ 1,015,892	$ 1,020,582	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 809,137	$ –	$ –	$ 806,220	$ 806,220	
Other Financial Liabilities	$ 809,137	$ –	$ –	$ 806,220	$ 806,220	

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	$ 744	$ 744	$ –	$ –	$ 744	
Recurring Assets	$ 744	$ 744	$ –	$ –	$ 744	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 18,807	$ –	$ –	$ 18,807	$ 18,807	$ 4,253
Other property owned	5,565	–	–	6,274	6,274	182
Other investments	–	–	–	–	–	(80)
Nonrecurring Assets	$ 24,372	$ –	$ –	$ 25,081	$ 25,081	$ 4,355
Other Financial Instruments						
Assets:						
Cash	$ 23	$ 23	$ –	$ –	$ 23	
RABs	2,967	–	–	3,401	3,401	
ABSs	7,105	–	7,046	–	7,046	
Loans	922,070	–	–	928,085	928,085	
Other Financial Assets	$ 932,165	$ 23	$ 7,046	$ 931,486	$ 938,555	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 743,688	$ –	$ –	$ 742,781	$ 742,781	
Other Financial Liabilities	$ 743,688	$ –	$ –	$ 742,781	$ 742,781	

	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	$	843	$	843	$	–	$	–	$	843		
Recurring Assets	$	843	$	843	$	–	$	–	$	843		
Liabilities:												
Recurring Liabilities	$	–	$	–	$	–	$	–	$	–		
Nonrecurring Measurements												
Assets:												
Impaired loans	$	31,262	$	–	$	–	$	31,262	$	31,262	$	6,766
Other property owned		3,845		–		–		4,294		4,294		1,645
Other investments		80		–		–		80		80		(60)
Nonrecurring Assets	$	35,187	$	–	$	–	$	35,636	$	35,636	$	8,351
Other Financial Instruments												
Assets:												
Cash	$	36	$	36	$	–	$	–	$	36		
RABs		3,019		–		–		3,515		3,515		
ABSs		10,044		–		10,057		–		10,057		
Loans		817,003		–		–		822,508		822,508		
Other investments	$	830,102	$	36	$	10,057	$	826,023	$	836,116		
Liabilities:												
Notes payable to AgFirst Farm Credit Bank	$	662,690	$	–	$	–	$	658,746	$	658,746		
Other Financial Liabilities	$	662,690	$	–	$	–	$	658,746	$	658,746		

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	$ 14,784	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*
Other investments - RBIC	$ –	Third party evaluation	Income, expense, capital	Not applicable

** 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
RABs	Discounted cash flow	Prepayment rates Risk adjusted discount rate
ABSs	Vendor priced	**
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

*** The inputs used to estimate fair value for assets and liabilities that are obtained from third party vendors are not included in the table as the specific inputs applied are not provided by the vendor.*

Note 9 — Employee Benefit Plans

The Association participates in four District sponsored benefit plans. These plans include two multiemployer 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 multiemployer 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 multiemployer plans are different from single-employer plans in the following aspects:

1. Assets contributed to multiemployer 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 multiemployer 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, 2015.

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 multiemployer 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 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%	$1,828	$3,708	$2,531	6.41%	6.42%	6.67%
AgFirst Farm Credit Cash Balance Retirement Plan	100.21%	102.72%	100.07%	$–	$–	$278	0.00%	0.00%	5.58%

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%	$334	$314	$360	4.64%	4.62%	4.65%

The District's multiemployer plans are not subject to 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 $3,472 for 2016, $3,496 for 2015, and $3,724 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 $606 for 2016, $793 for 2015, and $478 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 $634, $577, and $488 for the years ended December 31, 2016, 2015, and 2014, respectively. Beginning in 2015, 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, $(5), $35, and $(85) has been recognized as a net debit, net credit and net debit 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 $614 and a net under-funded status of $614 at December 31, 2016. Net periodic pension cost was $35, $36, and $33 for 2016, 2015, and 2014, respectively. Assumptions used to determine the projected benefit obligation as of December 31, 2016 included a discount rate of 4.35 percent. The expenses of these nonqualified plans included in employee benefit costs were $43, $42, and $35 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 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 $40,615. During 2016, $144,707 of new loans were made and repayments totaled $146,367.

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, $311,875 of commitments to extend credit and no commercial letters of credit were outstanding with a related reserve for unfunded commitments of $431 included in Other Liabilities in the Consolidated Balance Sheets.

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 $3,025 with expiration dates ranging from January 1, 2017 to April 1, 2020. The maximum potential amount of future payments that may be required under these guarantees was $3,025.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2016	2015	2014
Current:			
Federal	$ –	$ (3)	$ 27
		(3)	27
Deferred:	–	–	–
Total provision (benefit) for income taxes	$ –	$ (3)	$ 27

The provision (benefit) 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	$ 7,171	$ 6,554	$ 9,636
Patronage distributions	(3,675)	(2,975)	(2,625)
Tax-exempt FLCA earnings	(7,683)	(7,479)	(7,010)
Dividend from FLCA	3,675	3,819	–
Change in deferred tax asset valuation allowance	590	143	225
P/Y Provision to Return, Permanent Trueup	(25)	(66)	(220)
Other	(53)	1	21
Provision (benefit) for income taxes	$ –	$ (3)	$ 27

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

	December 31,		
	2016	2015	2014
Deferred income tax assets:			
Allowance for loan losses	$ 350	$ 316	$ 344
Deferred Revenue –Merger	270	278	308
Net operating loss – carryforward	10,156	9,538	9,198
Nonaccrual loan interest	1,044	1,048	1,380
Loss Reserve –Letters of Credit	91	77	35
Non qualified allocations	–	–	–
Gross deferred tax assets	11,911	11,257	11,265
Less: valuation allowance	(10,940)	(10,350)	(10,207)
Gross deferred tax assets, net of valuation allowance	971	907	1,058
Deferred income tax liabilities:			
Bank patronage allocation	(1,013)	(875)	(1,006)
Loan Origination Fees	42	(32)	(52)
Gross deferred tax liability	(971)	(907)	(1,058)
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2016, deferred income taxes have not been provided by the Association on approximately $4.6 million 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 $10,940, $10,350 and $10,207 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	$ 8,078	7,804	7,359	6,868	30,109
Provision for (reversal of allowance for) loan losses	(63)	(154)	(788)	(96)	(1,101)
Noninterest income (expense), net	(3,069)	(3,414)	(3,046)	(1,193)	(10,722)
Net income	$ 5,072	4,544	5,101	5,771	20,488

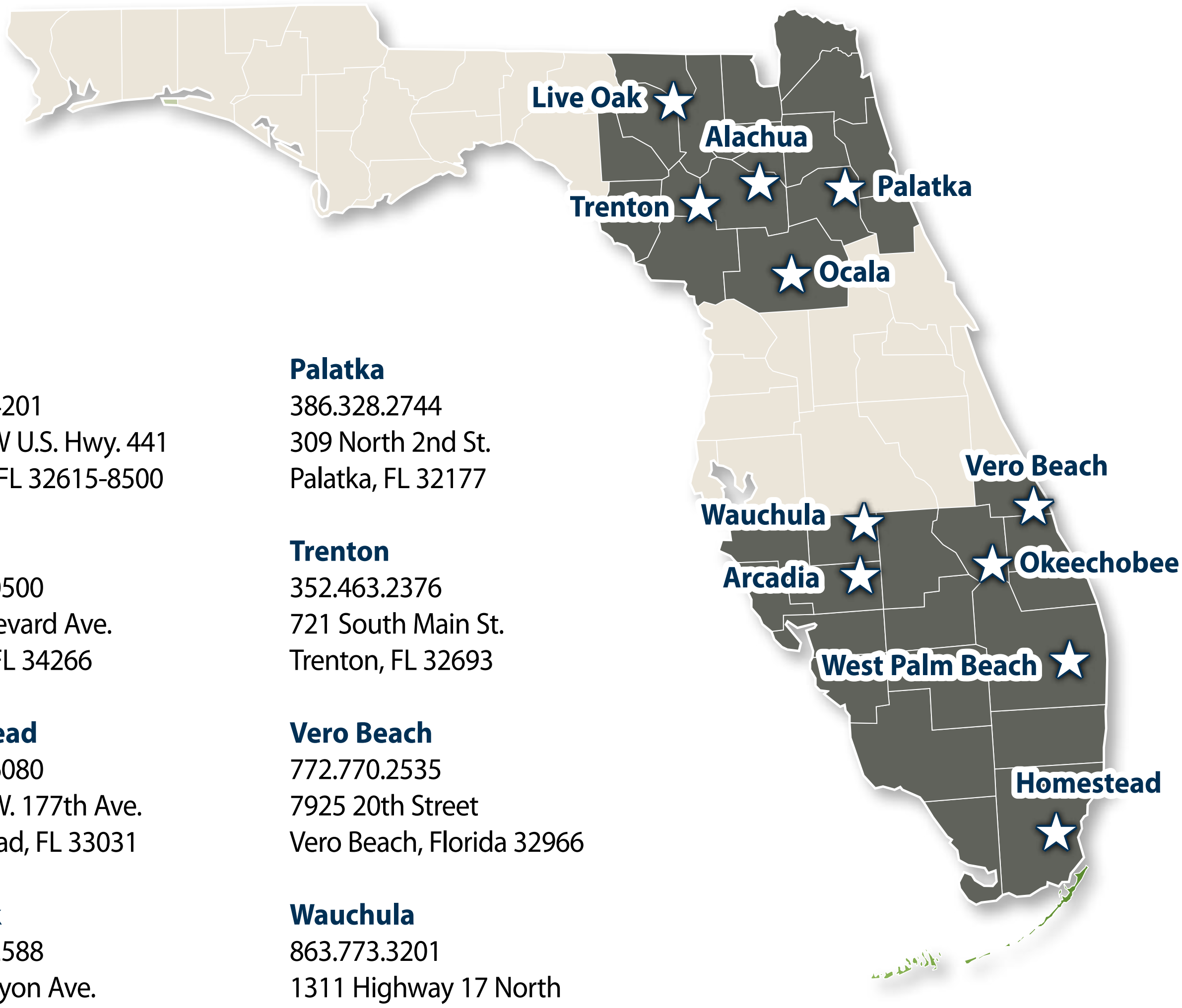
	2015				
	First	Second	Third	Fourth	Total
Net interest income	$ 6,076	6,567	6,221	6,843	25,707
Provision for (reversal of allowance for) loan losses	(653)	120	(2,816)	(97)	(3,446)
Noninterest income (expense), net	(3,114)	(3,449)	(3,571)	(291)	(10,425)
Net income	$ 3,615	2,998	5,466	6,649	18,728

	2014				
	First	Second	Third	Fourth	Total
Net interest income	$ 6,337	6,216	6,028	7,904	26,485
Provision for (reversal of allowance for) loan losses	(2,277)	(1,703)	(2,806)	(1,331)	(8,117)
Noninterest income (expense), net	(3,313)	(3,854)	(1,594)	1,662	(7,099)
Net income	$ 5,301	4,065	7,240	10,897	27,503

Note 14 — Subsequent Events

The Association evaluated subsequent events and determined that there were none requiring disclosure through March 13, 2017, which was the date the financial statements were issued.

Our Locations



Alachua
386.462.4201
12300 NW U.S. Hwy. 441
Alachua, FL 32615-8500

Arcadia
863.494.0500
340 N. Brevard Ave.
Arcadia, FL 34266

Homestead
305.248.6080
24700 S.W. 177th Ave.
Homestead, FL 33031

Live Oak
386.362.2588
1606 Canyon Ave.
Live Oak, FL 32064

Ocala
352.622.4188
5075 NW Blitchton Rd. (US 27)
Ocala, FL 34482-4054

Okeechobee
863.763.6466
403 N.W. 6th St.
Okeechobee, FL 34972

Palatka
386.328.2744
309 North 2nd St.
Palatka, FL 32177

Trenton
352.463.2376
721 South Main St.
Trenton, FL 32693

Vero Beach
772.770.2535
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Vero Beach, Florida 32966

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