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*Farm Credit of Florida, ACA*

**THIRD QUARTER 2017**

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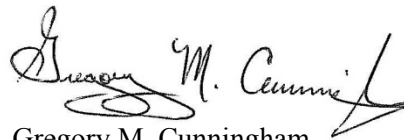
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**CERTIFICATION**

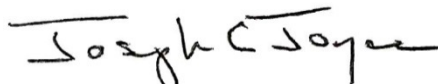
The undersigned certify that we have reviewed the September 30, 2017 quarterly report of Farm Credit of Florida, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Gregory M. Cunningham  
Chief Executive Officer



Laura Craker  
Chief Financial Officer



Dr. Joseph C. Joyce  
Chairman of the Board

November 8, 2017

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*Farm Credit of Florida, ACA*

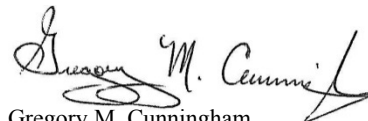
# Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidate Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2017. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of September 30, 2017, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2017.

  
Gregory M. Cunningham  
Chief Executive Officer

  
Laura Craker  
Chief Financial Officer

November 8, 2017

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*Farm Credit of Florida, ACA*

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

*(dollars in thousands)*

The following commentary reviews the financial condition and results of operations of Farm Credit of Florida, ACA, (Association) for the period ended September 30, 2017. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2016 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

## **LOAN PORTFOLIO**

The Association provides funds to farmers, rural homeowners, farm-related businesses, and other agribusiness firms for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in the north and southern regions of Florida. The commodities include cattle, citrus, dairy, equine, field crops, nurseries, sugar, timber, tropical fruits, and vegetables. All commodity groups identified within the portfolio have experienced generally favorable operating results over the last two production seasons. The horticultural or nursery segment continues to rebound from the previous stress resulting from the recession and reduced activity in commercial and residential construction. Several loans in produce segments continue to exhibit stress as a result of weather events in spring 2016; however, spring 2017 was improved. Cattle prices and milk price continues to be lower. Farm size varies throughout the regions and many borrowers have diversified farming operations. This factor, along with numerous opportunities for non-farm income in the territory, reduces the level of repayment dependency on a single agricultural commodity. The State of Florida was impacted by a severe drought in spring 2017 but conditions have improved with normal summer rains returning moisture conditions and lake levels to near normal.

Much of our territory was impacted by wind damage and widespread power outages caused by Hurricane Irma which made landfall on September 10<sup>th</sup> and 11<sup>th</sup>. Agricultural interests in our territory have reported storm impacts especially in the Citrus and Nursery industries. Management continues to assess and quantify the financial impact this storm will have on our customers and the Association. Some credit quality deterioration and credit losses are expected. Loss reduction options that are available for some of our customers, such as the use of loan guarantees, crop

insurance, and federal disaster relief, will help to mitigate the losses associated with this storm event. The Association is well capitalized and maintains adequate allowance for loan losses, which allows us to withstand stress in our loan portfolio.

Land values in the north region continue to exhibit stability since their improvement in 2014. Land values in the south region show stability with values increasing in more urban areas. As discussed above, Hurricane Irma impacted the entire Florida peninsula on September 10<sup>th</sup> and 11<sup>th</sup>. Storm impacts are widespread and vary depending on location with more impact in the southwest Florida region. Management recognizes continuing risk in the citrus industry resulting from the impacts of citrus greening disease and now storm impact. Continued stress in production, profitability, and asset values may adversely impact citrus growers over the near and long term horizon. All Florida citrus production continues to decline according to the most recent USDA crop forecast for October 2017. All Florida orange production is forecasted at 54 million boxes, down 21% from last season's final utilization. Prior to Hurricane Irma, production was expected to increase statewide. To date, the Association's citrus portfolio has continued to perform satisfactorily, but some performance issues on several stressed growers have been observed. Nursery growers did receive structure impacts and some crop losses as a result of the Hurricane. Insurance is expected to mitigate the extent of losses.

The gross loan volume of the Association as of September 30, 2017, was \$1,056,176, an increase of \$23,372 or 2.26 percent as compared to \$1,032,804 at December 31, 2016. Net loans outstanding at September 30, 2017, were \$1,047,902 as compared to \$1,026,244 at December 31, 2016, an increase of \$21,658 or 2.11 percent. Net loans accounted for 96.09 percent of total assets at September 30, 2017, as compared to 95.35 percent of total assets at December 31, 2016. The increase in both gross and net loan volume during the period is primarily attributed to increased demand for credit in the market and a more concerted marketing effort by Association lenders. Competition continues to be strong in the large loan segment. Activity in small and middle market loans in the north region continues to be strong.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality has slightly declined compared to year end 2016 as a result of movement from OAEM to Substandard of two large loans in the field crops (vegetable) and Citrus commodity groups. Acceptable and OAEM credit quality as a percentage of the total loan portfolio was 98.01 percent as of

September 30, 2017 compared to 98.26 percent at December 31, 2016. During the nine months, nonaccrual loans decreased by \$3,324 or 24.82 percent to \$10,071 at September 30, 2017 from \$13,395 at December 31, 2016. The nonaccrual loan decline is primarily attributed to liquidation of loans in process of collection and other liquidation and curtailments on troubled assets. The balance of Other Property Owned at September 30, 2017 was \$559, an increase of \$193 or 52.73 percent from \$366 at December 31, 2016. One property was acquired during the period and the acquisition cost of an existing property was adjusted in accordance with GAAP.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at September 30, 2017, was \$8,274 compared to \$6,560 at December 31, 2016. This increase is due to additional reserves required resulting from downgrades of loans to substandard and estimated impacts from Hurricane Irma. Recoveries of \$2,323 recorded during the period were in the Nursery industry and \$231 in charge-offs were on vegetable commodity loans. Management considers the current level of allowance adequate to cover additional possible losses. The ratio of the allowance for loan losses to gross loans at September 30, 2017 was 0.78 percent.

The allowance for loan losses at September 30, 2017 does not include \$4.1 million of net purchase discounts related to 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 September 30, 2017, the amount of credit risk reduction in addition to the allowance for loan losses, provided by these remaining discounts would equate to 0.39 percent of gross loans.

## RESULTS OF OPERATIONS

### *For the three months ended September 30, 2017*

The Association recorded net income for the three months ended September 30, 2017 of \$3,849 as compared to \$5,101 for the same period in 2016. This \$1,252 decrease is primarily attributed to an increase in the provision for loan losses.

Provision for loan losses was \$397 for the three months ended September 30, 2017 as compared to a reversal of allowance for loan losses of \$788 during the same period in 2016, an increase of \$1,185 or 150.38 percent. This increase is attributed to an increase in reserves required resulting from downgrades of loans to substandard and estimated impacts from Hurricane Irma offset by higher net loan recoveries compared to prior year. Net loan recoveries were \$671 during the period in 2017 compared to \$566 for the same period in 2016, an increase of \$105 or 18.55 percent.

Net interest income was \$7,351 for the three months ended September 30, 2017 as compared to \$7,359 during the same period in 2016. The change in net interest income represents an \$8 or 0.11 percent decrease when compared to the same period last year and is attributed to a decline in recoveries of interest on nonaccrual loan liquidations.

Noninterest income for the three months ended September 30, 2017, totaled \$2,189 as compared to \$2,041 for the same period of 2016, an increase of \$148 or 7.25 percent. This increase is attributed primarily to an increase in patronage refunds from other Farm Credit institutions of \$133.

Noninterest expense for the three months ended September 30, 2017, totaled \$5,294 as compared to \$5,087 for the same period of 2016, an increase of \$207 or 4.07 percent. The primary reason for the increase in noninterest expense is attributed to \$289 increase in other operating expenses offset by a \$171 decrease in salaries and employee benefits.

### *For the nine months ended September 30, 2017*

Net income for the nine months ended September 30, 2017 totaled \$14,649 compared to \$14,717 for the same period in 2016, a decrease of \$68 or 0.46 percent. The decrease is attributed to a decrease in the reversal of allowance for loan losses and a decrease in net interest income offset by an increase in noninterest income.

Reversal of allowance for loan losses was \$378 for the nine months ended September 30, 2017 as compared to \$1,005 during the same period in 2016, a decrease of \$627 or 62.39 percent. This decrease is attributed to an increase in reserves required resulting from downgrades of loans to substandard and estimated impacts from Hurricane Irma offset by higher net loan recoveries compared to prior year. Net loan recoveries were \$2,092 during the period in 2017 compared to \$1,534 for the same period in 2016, an increase of \$558 or 36.38 percent.

Net interest income decreased \$616 or 2.65 percent for the nine months ended September 30, 2017, as compared to the same period in 2016. This decrease is attributed to a decline in recoveries of interest on nonaccrual loan liquidations.

Noninterest income for the nine months ended September 30, 2017, totaled \$7,655 as compared to \$6,876 for the same period of 2016, an increase of \$779 or 11.33 percent. This increase is attributed to increases in patronage refunds from other Farm Credit institutions of \$508, and increases in fees for financially related services of \$150.

Noninterest expense for the nine months ended September 30, 2017, decreased \$396 or 2.41 percent compared to the same period of 2016. The primary reason for the decrease is attributed to \$477 decrease in losses on other property owned, and \$355 decrease in salaries and employee benefits offset by \$520 increase in other operating expenses.

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## FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. These funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2017 was \$819,413 as compared to \$809,137 at December 31, 2016. The increase during the period of \$10,276 is primarily attributed to an increase in loan volume during the period offset by an increase in members' equity resulting from net income for the nine months ended September 30, 2017 and receipt of 2016 patronage dividends due from AgFirst Farm Credit Bank.

## CAPITAL RESOURCES

Total members' equity at September 30, 2017, increased to \$252,245 from the December 31, 2016 total of \$237,509. The increase is primarily attributed to net income during the period.

Total capital stock and participation certificates were \$2,798 on September 30, 2017, compared to \$2,717 on December 31, 2016. The increase is attributed to the issuance of capital stock and participation certificates to new members.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum regulatory capital ratios. See the Regulatory Matters section for information on compliance with these minimums.

## REGULATORY MATTERS

### Capital

Effective January 1, 2017, the regulatory capital requirements for System Banks and Associations were modified. The new regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. New regulations replaced existing core surplus and total surplus ratios with common equity tier 1 (CET1), tier 1 capital, and total capital risk-based capital ratios. The new regulations also replaced the existing net collateral ratio with a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The current permanent capital ratio (PCR) remains in effect.

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

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

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

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

- The CET1 ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- The total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The tier 1 leverage ratio is tier 1 capital, divided by average assets less regulatory deductions to tier 1 capital.
- The UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions to tier 1 capital.

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

<b>Ratio</b>	<b>Minimum Requirement</b>	<b>Capital Conservation Buffer*</b>	<b>Minimum Requirement with Capital Conservation Buffer</b>	<b>Capital Ratios as of September 30, 2017</b>
<b>Risk-adjusted ratios:</b>				
CET1 Capital	4.5%	0.625%	5.125%	19.71%
Tier 1 Capital	6.0%	0.625%	6.625%	19.71%
Total Capital	8.0%	0.625%	8.625%	20.37%
Permanent Capital Ratio	7.0%	0.0%	7.0%	19.83%
<b>Non-risk-adjusted:</b>				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	21.88%
UREE Leverage Ratio	1.5%	0.0%	1.5%	16.49%

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

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

#### **Other Regulatory Matters**

On July 25, 2014, the FCA published a proposed rule in the Federal Register to revise the requirements governing the eligibility of investments for System banks and associations. The public comment period ended on October 23, 2014. The FCA expects to issue a final regulation in 2018. 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.

#### **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.

On October 16, 2017, AgFirst's Board of Directors indicated an intention to declare, in December 2017, a special patronage distribution. The Association will receive between \$6,179 and \$7,415 which will be recorded as patronage refunds from other Farm Credit institutions.

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

The following Accounting Standards Updates (ASUs) were issued by the Financial Accounting Standards Board (FASB) but have not yet been adopted:

Standard	Summary of Guidance	Effective Date and Potential Financial Statement Impact
ASU 2017-08 – Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): <i>Premium Amortization on Purchased Callable Debt Securities</i>	<ul style="list-style-type: none"> <li>• Requires amortization of premiums to the earliest call date on debt securities with call features that are explicit, noncontingent and callable at fixed prices and on preset dates.</li> <li>• Does not impact securities held at a discount; the discount continues to be amortized to the contractual maturity.</li> <li>• Requires adoption on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption.</li> </ul>	<ul style="list-style-type: none"> <li>• The investment securities portfolio may include holdings of callable debt securities. The Association is currently evaluating the impact of the Update on the financial statements, which will be affected by any investments in callable debt securities carried at a premium at the time of adoption.</li> <li>• The Association expects to adopt the guidance in first quarter 2019 using the modified retrospective method with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption.</li> </ul>
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): <i>Measurement of Credit Losses on Financial Instruments</i>	<ul style="list-style-type: none"> <li>• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management’s estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets.</li> <li>• Changes the present incurred loss impairment guidance for loans to a current expected credit loss (CECL) model.</li> <li>• The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit.</li> <li>• Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on financial assets purchased with more than insignificant credit deterioration since origination.</li> <li>• Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.</li> </ul>	<ul style="list-style-type: none"> <li>• The Association has begun implementation efforts by establishing a cross-discipline governance structure. The Association is currently identifying key interpretive issues, and assessing existing credit loss forecasting models and processes against the new guidance to determine what modifications may be required.</li> <li>• The Association expects that the new guidance will result in an increase in its allowance for credit losses due to several factors, including:               <ol style="list-style-type: none"> <li>1. The allowance related to loans and commitments will most likely increase to cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions,</li> <li>2. An allowance will be established for estimated credit losses on debt securities,</li> <li>3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans.</li> </ol> </li> <li>• The extent of the increase is under evaluation, but will depend upon the nature and characteristics of the Association’s portfolio at the adoption date, and the macroeconomic conditions and forecasts at that date.</li> <li>• The Association expects to adopt the guidance in first quarter 2021 using the modified retrospective method with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption.</li> </ul>

<p>ASU 2016-02 – Leases (Topic 842)</p>	<ul style="list-style-type: none"> <li>• Requires lessees to recognize leases on the balance sheet with lease liabilities and corresponding right-of-use assets based on the present value of lease payments.</li> <li>• Lessor accounting activities are largely unchanged from existing lease accounting.</li> <li>• The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification.</li> <li>• Expands qualitative and quantitative disclosures of leasing arrangements.</li> <li>• Requires adoption using a modified cumulative-effect approach wherein the guidance is applied to all periods presented.</li> </ul>	<ul style="list-style-type: none"> <li>• The practical expedients allow entities to largely account for existing leases consistent with current guidance, except for the incremental balance sheet recognition for lessees.</li> <li>• The Association has started its implementation of the Update which has included an initial evaluation of leasing contracts and activities.</li> <li>• As a lessee the Association is developing its methodology to estimate the right-of use assets and lease liabilities, which is based on the present value of lease payments but does not expect a material change to the timing of expense recognition.</li> <li>• Given the limited changes to lessor accounting, the Association does not expect material changes to recognition or measurement, but it is early in the implementation process and the impact will continue to be evaluated.</li> <li>• The Association is evaluating existing disclosures and may need to provide additional information as a result of adoption of the Update.</li> <li>• The Association expects to adopt the guidance in first quarter 2019 using the modified retrospective method and practical expedients for transition.</li> </ul>
<p>ASU 2016-01 – Financial Instruments – Overall (Subtopic 825-10): <i>Recognition and Measurement of Financial Assets and Financial Liabilities</i></p>	<ul style="list-style-type: none"> <li>• The Update amends the presentation and accounting for certain financial instruments, including liabilities measured at fair value under the fair value option and equity investments.</li> <li>• Requires certain equity instruments be measured at fair value, with changes in fair value recognized in earnings.</li> <li>• The guidance also updates fair value presentation and disclosure requirements for financial instruments measured at amortized cost.</li> </ul>	<ul style="list-style-type: none"> <li>• The Association is currently evaluating any impacts to the financial statements. The Association’s implementation efforts include the identification of securities within the scope of the guidance, the evaluation of the measurement alternative available for equity securities without a readily determinable fair value, and the related impact to accounting policies, presentation, and disclosures.</li> <li>• Any investments in nonmarketable equity investments accounted for under the cost method of accounting (except for other Farm Credit Institution stock) will be accounted for either at fair value with unrealized gains and losses reflected in earnings or, if elected, using an alternative method. The alternative method is similar to the cost method of accounting, except that the carrying value is adjusted (through earnings) for subsequent observable transactions in the same or similar investment. The Association is evaluating which method will be applied to these nonmarketable equity investments.</li> <li>• Additionally, for purposes of disclosing the fair value of loans carried at amortized cost, the Association is evaluating valuation methods to determine the necessary changes to conform to an “exit price” notion as required by the Standard. Accordingly, the fair value amounts disclosed for such loans may change upon adoption.</li> <li>• The Association expects to adopt the guidance in first quarter 2018 with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption, except for changes related to nonmarketable equity investments, which is applied prospectively. The Association expects the primary accounting changes will relate to equity investments.</li> </ul>



<p>ASU 2014-09 – Revenue from Contracts With Customers (Topic 606) and subsequent related Updates</p>	<ul style="list-style-type: none"> <li>• Requires that revenue from contracts with customers be recognized upon transfer of control of a good or service, and transfers of nonfinancial assets, in an amount equaling the consideration expected to be received.</li> <li>• Changes the accounting for certain contract costs, including whether they may be offset against revenue in the Statements of Income, and requires additional disclosures about revenue and contract costs.</li> <li>• May be adopted using a full retrospective approach or a modified, cumulative-effect approach wherein the guidance is applied only to existing contracts as of the date of initial application, and to new contracts transacted after that date.</li> </ul>	<ul style="list-style-type: none"> <li>• The Association’s revenue is the sum of net interest income and noninterest income. The scope of the guidance explicitly excludes net interest income as well as many other revenues for financial assets and liabilities including loans, leases, securities, and derivatives. Accordingly, the majority of the Association’s revenues will not be affected.</li> <li>• The Association is performing an assessment of revenue contracts as well as working with industry participants on matters of interpretation and application. Accounting policies will not change materially since the principles of revenue recognition from the Update are largely consistent with existing guidance and current practices. The Association has not identified material changes to the timing or amount of revenue recognition.</li> <li>• The Association expects a minor change to the presentation of costs for certain underwriting activities which will be presented in expenses rather than the current presentation against the related revenues. The Association will provide qualitative disclosures of performance obligations related to revenue recognition and will continue to evaluate disaggregation for significant categories of revenue in the scope of the guidance.</li> <li>• The Association expects to adopt the guidance in first quarter 2018 using the modified retrospective method with a cumulative-effect adjustment to opening retained earnings.</li> </ul>
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**Note:** Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst’s annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, [www.agfirst.com](http://www.agfirst.com). Copies of the Association’s annual and quarterly reports are also available upon request, free of charge, by calling (561)-965-9001, or writing Laura Craker, CFO, Farm Credit of Florida, ACA, P. O. Box 213069, West Palm Beach, FL 33421, or accessing the website, [www.farmcreditfl.com](http://www.farmcreditfl.com). The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

# Farm Credit of Florida, ACA

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2017 <i>(unaudited)</i>	December 31, 2016 <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 181	\$ 244
Investment securities:		
Held to maturity (fair value of \$6,403 and \$7,784, respectively)	6,013	7,417
Loans	1,056,176	1,032,804
Allowance for loan losses	(8,274)	(6,560)
Net loans	1,047,902	1,026,244
Loans held for sale	171	577
Accrued interest receivable	5,874	4,243
Investments in other Farm Credit institutions	13,579	13,697
Premises and equipment, net	7,031	6,626
Other property owned	559	366
Accounts receivable	5,415	11,421
Other assets	3,808	5,495
Total assets	\$ 1,090,533	\$ 1,076,330
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 819,413	\$ 809,137
Accrued interest payable	1,896	1,541
Patronage refunds payable	258	10,899
Accounts payable	2,898	3,195
Advanced conditional payments	1,105	1,096
Other liabilities	12,718	12,953
Total liabilities	838,288	838,821
Commitments and contingencies (Note 8)		
<b>Members' Equity</b>		
Protected borrower stock	445	445
Capital stock and participation certificates	2,353	2,272
Additional paid-in-capital	7,873	7,873
Retained earnings		
Allocated	109,402	109,960
Unallocated	132,378	117,171
Accumulated other comprehensive income (loss)	(206)	(212)
Total members' equity	252,245	237,509
Total liabilities and members' equity	\$ 1,090,533	\$ 1,076,330

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

# Farm Credit of Florida, ACA

## Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
<b>Interest Income</b>				
Loans	\$ 13,031	\$ 11,702	\$ 38,611	\$ 36,191
Investments	61	64	180	208
Total interest income	<b>13,092</b>	11,766	<b>38,791</b>	36,399
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	5,741	4,407	16,166	13,158
Net interest income	7,351	7,359	22,625	23,241
Provision for (reversal of allowance for) loan losses	397	(788)	(378)	(1,005)
Net interest income after provision for (reversal of allowance for) loan losses	<b>6,954</b>	8,147	<b>23,003</b>	24,246
<b>Noninterest Income</b>				
Loan fees	218	191	600	620
Fees for financially related services	6	4	908	758
Patronage refunds from other Farm Credit institutions	1,724	1,591	5,532	5,024
Gains (losses) on sales of rural home loans, net	106	68	232	168
Gains (losses) on sales of premises and equipment, net	17	6	58	26
Gains (losses) on other transactions	6	74	38	(26)
Other noninterest income	112	107	287	306
Total noninterest income	<b>2,189</b>	2,041	<b>7,655</b>	6,876
<b>Noninterest Expense</b>				
Salaries and employee benefits	3,701	3,872	11,385	11,740
Occupancy and equipment	265	308	809	885
Insurance Fund premiums	303	324	889	897
(Gains) losses on other property owned, net	10	(143)	14	491
Other operating expenses	1,015	726	2,912	2,392
Total noninterest expense	<b>5,294</b>	5,087	<b>16,009</b>	16,405
Net income	<b>\$ 3,849</b>	\$ 5,101	<b>\$ 14,649</b>	\$ 14,717

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

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**Farm Credit of Florida, ACA**  
**Consolidated Statements of**  
**Comprehensive Income**

*(unaudited)*

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
Net income	\$ 3,849	\$ 5,101	\$ 14,649	\$ 14,717
<b>Other comprehensive income net of tax</b>				
Employee benefit plans adjustments	2	2	6	6
Comprehensive income	<b>\$ 3,851</b>	<b>\$ 5,103</b>	<b>\$ 14,655</b>	<b>\$ 14,723</b>

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

**Farm Credit of Florida, ACA**  
**Consolidated Statements of Changes in**  
**Members' Equity**

*(unaudited)*

*(dollars in thousands)*

	Protected Borrower Stock	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
				Allocated	Unallocated		
Balance at December 31, 2015	\$ 531	\$ 2,085	\$ 7,873	\$ 106,263	\$ 110,881	\$ (207)	\$ 227,426
Comprehensive income					14,717	6	14,723
Protected borrower stock issued/(retired), net	(4)						(4)
Capital stock/participation certificates issued/(retired), net		86					86
Patronage distribution adjustment				(375)	374		(1)
<b>Balance at September 30, 2016</b>	<b>\$ 527</b>	<b>\$ 2,171</b>	<b>\$ 7,873</b>	<b>\$ 105,888</b>	<b>\$ 125,972</b>	<b>\$ (201)</b>	<b>\$ 242,230</b>
<b>Balance at December 31, 2016</b>	<b>\$ 445</b>	<b>\$ 2,272</b>	<b>\$ 7,873</b>	<b>\$ 109,960</b>	<b>\$ 117,171</b>	<b>\$ (212)</b>	<b>\$ 237,509</b>
Comprehensive income					14,649	6	14,655
Capital stock/participation certificates issued/(retired), net		81					81
Patronage distribution adjustment				(558)	558		—
<b>Balance at September 30, 2017</b>	<b>\$ 445</b>	<b>\$ 2,353</b>	<b>\$ 7,873</b>	<b>\$ 109,402</b>	<b>\$ 132,378</b>	<b>\$ (206)</b>	<b>\$ 252,245</b>

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

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*Farm Credit of Florida, ACA*

# Notes to the Consolidated Financial Statements

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

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

### **Organization**

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

### **Basis of Presentation**

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

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

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

### **Significant Accounting Policies**

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

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and

financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

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

### **Accounting Standards Updates (ASUs) Issued During the Period**

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

- In March 2017, the FASB issued ASU 2017-08 *Receivables—Nonrefundable Fees and Other Costs* (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The guidance relates to certain callable debt securities and shortens the amortization period for any premium to the earliest call date. The Update will be effective for interim and annual periods beginning after December 15, 2018 for public business entities. Early adoption is permitted. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- In February 2017, the FASB issued ASU 2017-05 *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets* (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The Update clarifies whether certain transactions are within the scope of the guidance on derecognition and the accounting for partial sales of nonfinancial assets, and defines the term in substance nonfinancial asset. The amendments conform the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue recognition standard. The amendments will be effective for reporting periods beginning after December 15, 2017 for public business entities. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- In January 2017, the FASB issued ASU 2017-04 *Intangibles—Goodwill and Other* (Topic 350): Simplifying the Test for Goodwill Impairment. The Update simplifies the accounting for goodwill impairment for public business entities and other entities that have goodwill reported in their financial statements and have not elected the private company alternative for the subsequent measurement of goodwill. The amendment removes Step 2 of the goodwill impairment test. Goodwill impairment will now be the

amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The effective date and transition requirements for the technical corrections will be effective for reporting periods beginning after December 15, 2020 for public business entities that are not SEC filers. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- In January 2017, the FASB issued ASU 2017-03 Accounting Changes and Error Corrections (Topic 250) and Investments—Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings (SEC Update). The ASU incorporates recent SEC guidance about disclosing, under SEC SAB Topic 11.M, the effect on financial statements of adopting the revenue, leases, and credit losses standards. The Update was effective upon issuance. Application of this guidance is not expected to have a material impact on the Association's financial condition or results of operations.

#### *ASUs Pending Effective Date*

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

Potential effects of ASUs issued in previous periods:

- 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business. In January, 2017, the FASB issued this update to provide a more robust framework to use in determining when a set of assets and activities is a business. It supports more consistency in applying the guidance, reduces the costs of application, and makes the definition of a business more operable. For public business entities, the ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The amendments should be applied prospectively. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2016-16 Income Taxes (Topic 740) - Intra-Entity Transfers of Assets Other Than Inventory: In October, 2016, the FASB issued this Update that requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. For public business entities, the amendments are effective, on a modified retrospective basis, for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments: In June, 2016, the FASB issued this Update to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to better estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2016-02 Leases (Topic 842): In February, 2016, the FASB issued this Update which requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. The amendments will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities. Early adoption is permitted. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2016-01 Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities: In January, 2016, the FASB issued this Update which is intended to improve the recognition and measurement of financial instruments. The new guidance makes targeted improvements to existing GAAP. The ASU will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years for public business entities. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2014-09 Revenue from Contracts with Customers (Topic 606): In May 2014, the FASB issued this guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. This guidance also includes expanded disclosure requirements that result in an entity providing users of financial

statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Based on input received from stakeholders, the FASB has issued several additional Updates that generally provide clarifying guidance where there was the potential for diversity in practice, or address the cost and complexity of applying Topic 606. The guidance and all related updates will be effective for reporting periods beginning after December 15, 2017 for public business entities. Early application is not permitted. The amendments are to be applied retrospectively. The Association has identified ancillary revenues that will be affected by this Update. However, because financial instruments are not within the scope of the guidance, it is expected that adoption will not have a material impact on the Association's financial condition or results of operations, but may result in additional disclosures.

#### ***Accounting Standards Effective During the Period***

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

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

- 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash. In November, 2016, the FASB issued this Update to clarify that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted using a retrospective transition method to each period presented. The Association elected retrospective early adoption of this guidance. The criteria of the standard were not significantly different from the Association's policy in place at adoption. Application of the guidance had no impact on the Association's Statements of Cash Flows.
- 2016-17 Consolidation (Topic 810) - Interests Held through Related Parties That Are under Common Control: In October, 2016, the FASB issued this Update to amend the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity (VIE) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. The amendments are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Application of the guidance had no impact on the Association's financial statements.
- 2016-15 Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force): In August, 2016, the FASB issued this Update to eliminate diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The Update addresses eight specific cash flow issues with the objective of reducing existing diversity in practice. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments are to be applied using a retrospective transition method to each period presented. The Association elected retrospective early adoption of this guidance. The criteria of the standard were not significantly different from the Association's policy in place at adoption. Application of the guidance had no impact on the Association's Statements of Cash Flows.

#### **Note 2 — Loans and Allowance for Loan Losses**

The Association maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified. See Note 3, *Loans and Allowance for Loan Losses*, from the latest Annual Report for further discussion.

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



A summary of loans outstanding at period end follows:

	September 30, 2017	December 31, 2016
Real estate mortgage	\$ 632,898	\$ 595,253
Production and intermediate-term	193,996	231,159
Loans to cooperatives	29,281	32,777
Processing and marketing	89,759	88,202
Farm-related business	46,134	30,015
Communication	32,750	33,287
Power and water/waste disposal	5,035	3,685
Rural residential real estate	8,964	8,446
International	10,673	9,980
Other (including Mission Related)	6,686	-
<b>Total Loans</b>	<b>\$ 1,056,176</b>	<b>\$ 1,032,804</b>

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

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

	September 30, 2017							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 9,818	\$ 105,639	\$ -	\$ 26,851	\$ -	\$ -	\$ 9,818	\$ 132,490
Production and intermediate-term	49,877	10,515	5,118	-	16	-	55,011	10,515
Loans to cooperatives	29,318	-	-	-	-	-	29,318	-
Processing and marketing	80,946	16,404	5,779	67,039	-	-	86,725	83,443
Farm-related business	2,457	15,712	3,394	2,203	31	-	5,882	17,915
Communication	32,843	-	-	-	-	-	32,843	-
Power and water/waste disposal	5,049	-	-	-	-	-	5,049	-
International	10,704	-	-	-	-	-	10,704	-
Other (including Mission Related)	-	2,924	-	-	4,098	-	4,098	2,924
<b>Total</b>	<b>\$ 221,012</b>	<b>\$ 151,194</b>	<b>\$ 14,291</b>	<b>\$ 96,093</b>	<b>\$ 4,145</b>	<b>\$ -</b>	<b>\$ 239,448</b>	<b>\$ 247,287</b>

	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	-
<b>Total</b>	<b>\$ 230,310</b>	<b>\$ 153,326</b>	<b>\$ 16,723</b>	<b>\$ 72,836</b>	<b>\$ 4,820</b>	<b>\$ -</b>	<b>\$ 251,853</b>	<b>\$ 226,162</b>

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:

	September 30, 2017			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 30,125	\$ 141,768	\$ 461,005	\$ 632,898
Production and intermediate term	64,409	103,834	25,753	193,996
Loans to cooperatives	-	22,854	6,427	29,281
Processing and marketing	1,998	54,121	33,640	89,759
Farm-related business	5,820	16,655	23,659	46,134
Communication	-	28,031	4,719	32,750
Power and water/waste disposal	3,242	984	809	5,035
Rural residential real estate	341	824	7,799	8,964
International	-	10,673	-	10,673
Other (including Mission Related)	111	3,619	2,956	6,686
<b>Total Loans</b>	<b>\$ 106,046</b>	<b>\$ 383,363</b>	<b>\$ 566,767</b>	<b>\$ 1,056,176</b>
Percentage	10.04%	36.30%	53.66%	100.00%

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

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

	September 30, 2017	December 31, 2016		September 30, 2017	December 31, 2016
<b>Real estate mortgage:</b>			<b>Communication:</b>		
Acceptable	95.65%	94.78%	Acceptable	100.00%	100.00%
OAEM	2.24	3.28	OAEM	—	—
Substandard/doubtful/loss	2.11	1.94	Substandard/doubtful/loss	—	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Production and intermediate-term:</b>			<b>Power and water/waste disposal:</b>		
Acceptable	91.48%	92.63%	Acceptable	100.00%	100.00%
OAEM	4.81	4.83	OAEM	—	—
Substandard/doubtful/loss	3.71	2.54	Substandard/doubtful/loss	—	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Loans to cooperatives:</b>			<b>Rural residential real estate:</b>		
Acceptable	100.00%	100.00%	Acceptable	96.83%	96.32%
OAEM	—	—	OAEM	0.26	0.31
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	2.91	3.37
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Processing and marketing:</b>			<b>International:</b>		
Acceptable	100.00%	94.22%	Acceptable	100.00%	100.00%
OAEM	—	5.78	OAEM	—	—
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	—	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Farm-related business:</b>			<b>Other (including Mission Related)</b>		
Acceptable	99.26%	98.53%	Acceptable	100.00%	—%
OAEM	0.20	0.65	OAEM	—	—
Substandard/doubtful/loss	0.54	0.82	Substandard/doubtful/loss	—	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>—%</u>
			<b>Total Loans:</b>		
			Acceptable	95.77%	94.78%
			OAEM	2.24	3.48
			Substandard/doubtful/loss	1.99	1.74
				<u>100.00%</u>	<u>100.00%</u>

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

	September 30, 2017					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 4,781	\$ 1,184	\$ 5,965	\$ 631,313	\$ 637,278	\$ —
Production and intermediate-term	747	3,700	4,447	190,408	194,855	—
Loans to cooperatives	—	—	—	29,353	29,353	—
Processing and marketing	—	—	—	89,960	89,960	—
Farm-related business	113	—	113	46,143	46,256	—
Communication	—	—	—	32,762	32,762	—
Power and water/waste disposal	—	—	—	5,037	5,037	—
Rural residential real estate	253	25	278	8,727	9,005	—
International	—	—	—	10,748	10,748	—
Other (including Mission Related)	—	—	—	6,725	6,725	—
Total	\$ 5,894	\$ 4,909	\$ 10,803	\$ 1,051,176	\$ 1,061,979	\$ —

**December 31, 2016**

	<b>30 Through 89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total Past Due</b>	<b>Not Past Due or Less Than 30 Days Past Due</b>	<b>Total Loans</b>	<b>Recorded Investment 90 Days or More Past Due and Accruing Interest</b>
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	\$ -

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

	<b>September 30, 2017</b>	<b>December 31, 2016</b>
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 5,698	\$ 6,146
Production and intermediate-term	3,941	6,772
Farm-related business	248	248
Rural residential real estate	184	229
Total	\$ 10,071	\$ 13,395
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 789	\$ 809
Production and intermediate-term	263	310
Total	\$ 1,052	\$ 1,119
<b>Accruing loans 90 days or more past due:</b>		
Total	\$ -	\$ -
Total nonperforming loans	\$ 11,123	\$ 14,514
Other property owned	559	366
Total nonperforming assets	\$ 11,682	\$ 14,880
Nonaccrual loans as a percentage of total loans	0.95%	1.30%
Nonperforming assets as a percentage of total loans and other property owned	1.11%	1.44%
Nonperforming assets as a percentage of capital	4.63%	6.27%

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

	<b>September 30, 2017</b>	<b>December 31, 2016</b>
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 3,977	\$ 10,180
Past due	6,094	3,215
Total	\$ 10,071	\$ 13,395
<b>Impaired accrual loans:</b>		
Restructured	\$ 1,052	\$ 1,119
90 days or more past due	-	-
Total	\$ 1,052	\$ 1,119
Total impaired loans	\$ 11,123	\$ 14,514
Additional commitments to lend	\$ 60	\$ 15

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

Impaired loans:	September 30, 2017			Quarter Ended September 30, 2017		Nine Months Ended September 30, 2017	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>							
Real estate mortgage	\$ 269	\$ 361	\$ 209	\$ 290	\$ 5	\$ 329	\$ 37
Production and intermediate-term	—	—	—	—	—	—	—
Farm-related business	—	—	—	—	—	—	—
Rural residential real estate	—	—	—	—	—	—	—
Total	\$ 269	\$ 361	\$ 209	\$ 290	\$ 5	\$ 329	\$ 37
<b>With no related allowance for credit losses:</b>							
Real estate mortgage	\$ 6,218	\$ 12,965	\$ —	\$ 6,686	\$ 113	\$ 7,598	\$ 843
Production and intermediate-term	4,204	11,203	—	4,521	76	5,137	570
Farm-related business	248	307	—	267	5	303	34
Rural residential real estate	184	409	—	198	3	225	25
Total	\$ 10,854	\$ 24,884	\$ —	\$ 11,672	\$ 197	\$ 13,263	\$ 1,472
<b>Total:</b>							
Real estate mortgage	\$ 6,487	\$ 13,326	\$ 209	\$ 6,976	\$ 118	\$ 7,927	\$ 880
Production and intermediate-term	4,204	11,203	—	4,521	76	5,137	570
Farm-related business	248	307	—	267	5	303	34
Rural residential real estate	184	409	—	198	3	225	25
Total	\$ 11,123	\$ 25,245	\$ 209	\$ 11,962	\$ 202	\$ 13,592	\$ 1,509

Impaired loans:	December 31, 2016			Year Ended December 31, 2016	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>					
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
<b>With no related allowance for credit losses:</b>					
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
<b>Total:</b>					
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

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

	Real Estate Mortgage	Production and Intermediate- term	Agribusiness*	Communication	Power and water/waste disposal	Rural Residential Real Estate	International	Other (including Mission Related)	Total
<b>Activity related to the allowance for credit losses:</b>									
Balance at June 30, 2017	\$ 4,165	\$ 2,019	\$ 754	\$ 142	\$ 16	\$ 100	\$ 9	\$ 1	\$ 7,206
Charge-offs	–	(72)	–	–	–	–	–	–	(72)
Recoveries	735	8	–	–	–	–	–	–	743
Provision for loan losses	(472)	771	79	8	5	5	1	–	397
Balance at September 30, 2017	\$ 4,428	\$ 2,726	\$ 833	\$ 150	\$ 21	\$ 105	\$ 10	\$ 1	\$ 8,274
Balance at December 31, 2016	\$ 3,774	\$ 1,884	\$ 659	\$ 121	\$ 33	\$ 81	\$ 8	\$ –	\$ 6,560
Charge-offs	–	(231)	–	–	–	–	–	–	(231)
Recoveries	2,232	90	1	–	–	–	–	–	2,323
Provision for loan losses	(1,578)	983	173	29	(12)	24	2	1	(378)
Balance at September 30, 2017	\$ 4,428	\$ 2,726	\$ 833	\$ 150	\$ 21	\$ 105	\$ 10	\$ 1	\$ 8,274
Balance at June 30, 2016	\$ 4,245	\$ 1,599	\$ 731	\$ 146	\$ 32	\$ 93	\$ 2	\$ –	\$ 6,848
Charge-offs	–	–	–	–	–	(4)	–	–	(4)
Recoveries	570	–	–	–	–	–	–	–	570
Provision for loan losses	(705)	89	(155)	(32)	2	6	7	–	(788)
Balance at September 30, 2016	\$ 4,110	\$ 1,688	\$ 576	\$ 114	\$ 34	\$ 95	\$ 9	\$ –	\$ 6,626
Balance at December 31, 2015	\$ 4,012	\$ 1,561	\$ 324	\$ 109	\$ 14	\$ 76	\$ 1	\$ –	\$ 6,097
Charge-offs	(10)	–	–	–	–	(4)	–	–	(14)
Recoveries	1,481	55	–	–	–	12	–	–	1,548
Provision for loan losses	(1,373)	72	252	5	20	11	8	–	(1,005)
Balance at September 30, 2016	\$ 4,110	\$ 1,688	\$ 576	\$ 114	\$ 34	\$ 95	\$ 9	\$ –	\$ 6,626
<b>Allowance on loans evaluated for impairment:</b>									
Individually	\$ 209	–	–	–	–	–	–	–	\$ 209
Collectively	4,219	2,726	833	150	21	105	10	1	8,065
PCI**	–	–	–	–	–	–	–	–	–
Balance at September 30, 2017	\$ 4,428	\$ 2,726	\$ 833	\$ 150	\$ 21	\$ 105	\$ 10	\$ 1	\$ 8,274
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
<b>Recorded investment in loans evaluated for impairment:</b>									
Individually	\$ 5,280	\$ 4,510	\$ 248	\$ –	\$ –	\$ 184	\$ –	\$ –	\$ 10,222
Collectively	630,291	190,651	165,321	32,762	5,037	8,821	10,748	6,725	1,050,356
PCI**	1,707	(306)	–	–	–	–	–	–	1,401
Balance at September 30, 2017	\$ 637,278	\$ 194,855	\$ 165,569	\$ 32,762	\$ 5,037	\$ 9,005	\$ 10,748	\$ 6,725	\$ 1,061,979
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

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

\*\*Purchased credit impaired loans.

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. There were no new TDRs that occurred during the three months ended September 30, 2017 and September 30, 2016.

Outstanding Recorded Investment	Nine Months Ended September 30, 2017				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
<b>Pre-modification:</b>					
Real estate mortgage	\$ –	\$ 45	\$ –	\$ 45	
Production and intermediate-term	–	67	–	67	
Total	\$ –	\$ 112	\$ –	\$ 112	
<b>Post-modification:</b>					
Real estate mortgage	\$ –	\$ 56	\$ –	\$ 56	\$ –
Production and intermediate-term	–	68	–	68	–
Total	\$ –	\$ 124	\$ –	\$ 124	\$ –

Outstanding Recorded Investment	Nine months ended September 30, 2016				
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
<b>Pre-modification:</b>					
Real estate mortgage	\$ 78	\$ –	\$ –	\$ 78	
Total	\$ 78	\$ –	\$ –	\$ 78	
<b>Post-modification:</b>					
Real estate mortgage	\$ 79	\$ –	\$ –	\$ 79	\$ –
Total	\$ 79	\$ –	\$ –	\$ 79	\$ –

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.

Defaulted troubled debt restructurings:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Production and intermediate-term	\$ 67	\$ –	\$ 3,331	\$ –
Total	\$ 67	\$ –	\$ 3,331	\$ –

The following table provides information at 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	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Real estate mortgage	\$ 3,449	\$ 3,938	\$ 2,660	\$ 3,129
Production and intermediate-term	3,533	3,850	3,270	3,540
Farm-related business	248	248	248	248
Total Loans	\$ 7,230	\$ 8,036	\$ 6,178	\$ 6,917
Additional commitments to lend	\$ –	\$ –		

The following table presents information as of period end:

	September 30, 2017
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ 456
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ 25

### Purchased Credit Impaired (PCI) Loans

For further discussion of the Association's accounting for PCI loans, see Note 2, *Summary of Significant Accounting Policies*, from the Association's most recent Annual Report.

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

	September 30, 2017
Real estate mortgage	\$ 1,707
Production and intermediate-term	(306)
Total Loans	\$ 1,401

There was no allowance for loan losses related to these loans at September 30, 2017 or December 31, 2016. During the three and nine months ended September 30, 2017, provision for loan

losses on these loans was an expense reversal of \$16 and \$50, respectively, compared with an expense reversal of \$177 and \$468 for the same periods in 2016. See above for a summary of changes in the total allowance for loan losses for the period ended September 30, 2017. There were no loans acquired during 2017 or 2016 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.

### Note 3 — 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 September 30, 2017, 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:

	September 30, 2017				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 2,570	\$ 431	\$ (1)	\$ 3,000	5.50%
ABSs	3,443	21	(61)	3,403	0.76
Total	\$ 6,013	\$ 452	\$ (62)	\$ 6,403	2.79%

	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%

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

	September 30, 2017		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ 983	\$ 982	3.28%
After one year through five years	1,183	1,145	-0.37
After five years through ten years	994	983	1.58
After ten years	2,853	3,293	4.35
Total	\$ 6,013	\$ 6,403	2.79%

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.

	September 30, 2017			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	\$ —	\$ —	\$ 878	\$ (1)
ABSs	286	(2)	1,903	(59)
Total	\$ 286	\$ (2)	\$ 2,781	\$ (60)

	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)

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

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

agencies, (6) the credit worthiness of bond insurers, and (7) volatility of the fair value changes.

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

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

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

A substantial portion of these investments were 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**

The Association is required to maintain ownership in AgFirst Farm Credit Bank (AgFirst or the Bank) of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 4.21 percent of the issued stock of the Bank as of September 30, 2017 net of any reciprocal investment. As of that date, the Bank's assets totaled \$32.1 billion and shareholders' equity totaled \$2.5 billion. The Bank's earnings were \$247 million for the first nine months of 2017. In addition, the Association held investments of \$2,895 related to other Farm Credit institutions.

#### **Note 4 — Debt**

##### **Notes Payable to AgFirst Farm Credit Bank**

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

#### **Note 5 — Members' Equity**

##### **Accumulated Other Comprehensive Income (AOCI)**

	<b>Changes in Accumulated Other Comprehensive Income by Component (a)</b>			
	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Employee Benefit Plans:</b>				
Balance at beginning of period	\$ (208)	\$ (203)	\$ (212)	\$ (207)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	2	2	6	6
Net current period other comprehensive income	2	2	6	6
Balance at end of period	\$ (206)	\$ (201)	\$ (206)	\$ (201)

	<b>Reclassifications Out of Accumulated Other Comprehensive Income (b)</b>				<b>Income Statement Line Item</b>
	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	
<b>Defined Benefit Pension Plans:</b>					
Periodic pension costs	\$ (2)	\$ (2)	\$ (6)	\$ (6)	See Note 7.
Net amounts reclassified	\$ (2)	\$ (2)	\$ (6)	\$ (6)	

(a) Amounts in parentheses indicate debits to AOCI.

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



## Note 6 — Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

At or for the Nine Months Ended September 30, 2017						
Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings	
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in Trust funds	\$ 656	\$ 656	\$ —	\$ —	\$ 656	
Recurring Assets	\$ 656	\$ 656	\$ —	\$ —	\$ 656	
<b>Liabilities:</b>						
Recurring Liabilities	\$ —	\$ —	\$ —	\$ —	\$ —	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 60	\$ —	\$ —	\$ 60	\$ 60	\$ 2,018
Other property owned	559	—	—	608	608	(1)
Nonrecurring Assets	\$ 619	\$ —	\$ —	\$ 668	\$ 668	\$ 2,017
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 181	\$ 181	\$ —	\$ —	\$ 181	
RABs	2,570	—	—	3,000	3,000	
ABSs	3,443	—	3,403	—	3,403	
Loans	1,048,013	—	—	1,050,339	1,050,339	
Other Financial Assets	\$ 1,054,207	\$ 181	\$ 3,403	\$ 1,053,339	\$ 1,056,923	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 819,413	\$ —	\$ —	\$ 818,585	\$ 818,585	
Other Financial Liabilities	\$ 819,413	\$ —	\$ —	\$ 818,585	\$ 818,585	

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
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in Trust funds	\$ 709	\$ 709	\$ -	\$ -	\$ 709	
Recurring Assets	\$ 709	\$ 709	\$ -	\$ -	\$ 709	
<b>Liabilities:</b>						
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans*	\$ 85	\$ -	\$ -	\$ 85	\$ 85	\$ 1,678
Other property owned	366	-	-	405	405	(288)
Nonrecurring Assets	\$ 451	\$ -	\$ -	\$ 490	\$ 490	\$ 1,390
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 244	\$ 244	\$ -	\$ -	\$ 244	
RABs	2,912	-	-	3,338	3,338	
ABSs	4,505	-	4,446	-	4,446	
Loans*	1,026,736	-	-	1,026,848	1,026,848	
Other Financial Assets	\$ 1,034,397	\$ 244	\$ 4,446	\$ 1,030,186	\$ 1,034,876	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 809,137	\$ -	\$ -	\$ 806,220	\$ 806,220	
Other Financial Liabilities	\$ 809,137	\$ -	\$ -	\$ 806,220	\$ 806,220	

\*Subsequent to the issuance of the 2016 Annual Report, management identified errors in the reporting of certain loans measured at fair value on a non-recurring basis using Level 3. Management has evaluated the impact of the errors on the disclosure in this note and concluded that individually and in the aggregate, the errors do not result in a material misstatement of the previously issued financial statements. The Level 3 fair values of impaired loans and loans reported for December 31, 2016 have been revised from the previously reported amounts of \$14,379 and \$1,012,554 to \$85 and \$1,026,848, respectively.

## 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	\$ 668	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

**Information about Other Financial Instrument Fair Value Measurements**

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
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 7 — Employee Benefit Plans**

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Pension	\$ 559	\$ 877	\$ 1,676	\$ 2,631
401(k)	167	136	523	430
Other postretirement benefits	70	151	234	454
Total	\$ 796	\$ 1,164	\$ 2,433	\$ 3,515

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

	Actual	Projected	Projected
	YTD	Contributions	Total
	Through	For Remainder	Contributions
	9/30/17	of 2017	2017
Pension	\$ 32	\$ 1,956	\$ 1,988
Other postretirement benefits	234	86	320
Total	\$ 266	\$ 2,042	\$ 2,308

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

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

**Note 8 — Commitments and Contingent Liabilities**

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. 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.

**Note 9 — Subsequent Events**

The Association evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through November 8, 2017, which was the date the financial statements were issued.

On October 16, 2017, AgFirst's Board of Directors indicated an intention to declare, in December 2017, a special patronage distribution. The Association will receive between \$6,179 and \$7,415 which will be recorded as patronage refunds from other Farm Credit institutions.