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*AgCredit Agricultural Credit Association*

**FIRST QUARTER 2017**

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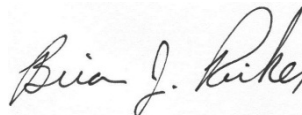
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**CERTIFICATION**

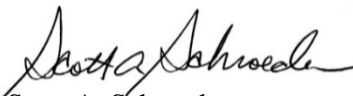
The undersigned certify that we have reviewed the March 31, 2017 quarterly report of AgCredit Agricultural Credit Association, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Brian J. Ricker  
Chief Executive Officer



Daniel E. Ebert  
Chief Financial Officer



Scott A. Schroeder  
Chairman of the Board

May 8, 2017

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*AgCredit Agricultural Credit Association*

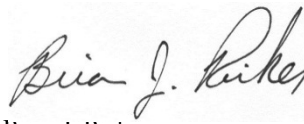
# Report on Internal Control Over Financial Reporting

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

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2017. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

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



Brian J. Ricker  
Chief Executive Officer



Daniel E. Ebert  
Chief Financial Officer

May 8, 2017

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

The following commentary reviews the financial condition and results of operations of AgCredit Agricultural Credit Association (Association) for the three months ended March 31, 2017. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements, the Association's March 31, 2016 quarterly report and the 2016 Annual Report of the Association. The accompanying consolidated financial statements (financial statements) were prepared under the oversight of the Audit Committee of the Board of Directors, which includes Michael W. Stump, David M. Stott, Ph.D., CPA and Deborah L. Johlin-Bach. The results for the three months of 2017 are not necessarily indicative of results to be expected for the year.

## LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans through numerous product types. The Association's loan portfolio consists predominantly of grains (primarily soybeans, corn and wheat) which constitute about 59 percent of the entire portfolio as of March 31, 2017. The Association recognizes the commodity concentration risk exceeds normally accepted industry standards. This risk, along with the risk associated with large loans, is reduced by members' off-farm income, utilization of crop insurance, and the use of FSA, USDA, Business and Industry, and Farmer Mac loan guarantees. As of March 31, 2017, the Association had \$459,202 of guaranteed loan volume, which is 26.10 percent of loans as compared to \$468,012 of guaranteed volume or 27.68 percent of the portfolio at March 31, 2016. Loan guarantees reduce the potential of loss in the Association's loan portfolio and help to leverage the Association's capital.

Gross loan volume of the Association as of March 31, 2017 was \$1,759,451, a decrease of \$37,064 or 2.06 percent when compared to \$1,796,515 at December 31, 2016. The decrease in loan volume primarily relates to the decrease in production and intermediate term (IT) offset in part by the increase in real estate mortgage and process and marketing volume.

From March 31, 2016 to March 31, 2017, volume increased by \$68,825 or 4.07 percent. The increase in loan volume primarily relates to an increase in real estate mortgage and process and marketing volume.

Net loans outstanding at March 31, 2017 were \$1,747,500 as compared to \$1,783,031 at December 31, 2016. Net loans accounted for 95.86 percent of total assets at March 31, 2017 as compared to 94.79 percent at December 31, 2016.

The following table summarizes the Association's risk assets (accruing volume includes accrued interest receivable):

	<u>3/31/17</u>	<u>12/31/16</u>
Nonaccrual loans	\$ 657	\$ 811
Accruing restructured loans	8,010	7,841
Accruing loans 90 days or more past due	456	-
Total high risk loans	<u>9,123</u>	<u>8,652</u>
Other property owned	-	-
Total high-risk assets	<u>\$ 9,123</u>	<u>\$ 8,652</u>
Ratios:		
Nonaccrual loans to total loans	0.04%	0.05%
High-risk assets to total assets	0.50%	0.46%

High risk assets increased during the first three months of 2017 primarily as a result of accruing loans 90 or more days past due and a reduction of stop interest on accruing restructured loans. Nonaccrual loans decreased due to charge-offs offset by loans moving to nonaccrual.

There is an inherent risk in the extension of any type of credit, and accordingly, the Association maintains an allowance for loan losses consistent with the risk measured in the portfolio.

General portfolio credit quality showed a slight decline during the first three months of 2017 when compared to December 31, 2016, but remains strong.

Credit administration is satisfactory.

During the first three months of 2017 the Association recorded charge-offs of \$236, no recoveries and reversal of allowance for loan losses of \$1,297. For the same period of 2016, the Association recorded \$4 of charge-offs, no recoveries and reversal of allowance for loan losses of \$32. The allowance for loan losses represented 0.68 percent and 0.75 percent of loans at March 31, 2017 and December 31, 2016, respectively.

## RESULTS OF OPERATIONS

### *For the three months ending March 31, 2017*

Net income for the three months ended March 31, 2017 (Q1 2017) was \$11,199, an increase of \$1,668 or 17.50 percent when compared to the net income of \$9,531 for the same period in 2016 (Q1 2016). Major changes in the components of net income when comparing Q1 2017 to Q1 2016 are identified as follows:

- Net interest income increased by \$576 or 5.02 percent. The increase resulted primarily from earnings on increased loan volume and an increase in earnings on the Association's own funds in loans.
- Provision for loan losses decreased by \$1,265. The decrease was due to the Q1 2017 reversal of allowance for loan losses (reversal) of \$1,297 and a reversal of \$32 during Q1 2016. The Q1 2017 reversal primarily resulted from a reduction in specific reserves and a reduction in management's qualitative portion of the general allowance on non-impaired loans. This was partially offset by the decline in credit quality and increased loan volume.
- Noninterest income increased by \$114 or 3.56 percent for the following reasons:

Patronage refund from other Farm Credit institutions (patronage refunds) increased by \$229 as a result of higher AgFirst Farm Credit Bank regular and participation sold patronage. The increase in the regular patronage relates to the higher loan volume previously discussed. The increase in participation sold patronage relates to increased participation sold volume.

Loan fees decreased by \$65 primarily due to decreased loan servicing, bond and new loan fees offset in part by increased originated commitment fees.

Other noninterest income decreased by \$51 primarily due to a reclassification from other noninterest income to patronage refunds.

Fees for financially related services (FRS) decreased by \$1 due to lower fees for appraisal services.

- Noninterest expense increased by \$287 or 5.56 percent primarily due to:

Salary and benefits expense increased by \$255 or 7.61 percent due to increased expenses related to scheduled salary increases, additional employees, salary related benefits, health benefits, higher incentive accrual and increased pension expense.

Occupancy and equipment increased by \$2 or 0.72 percent primarily due to increased expenses for depreciation on new buildings and equipment and utilities offset in part by decreased rental expenses and maintenance.

Farm Credit System Insurance Corporation (FCSIC) premium expenses decreased by \$13 or 3.20 percent due to decreased premium rates offset in part by increased year-over-year loan volume.

Guarantee fees increased by \$86 or 37.07 percent due to an increase in new guarantees.

Other operating expenses decreased by \$42 or 4.68 percent due to decreased expenses for directors, purchased services, data processing, training, communication and public and member relations. These decreases were offset in part by higher advertising, travel, printing and supervisory and examination expenses.

The following table shows the key results of operations ratios for the three months ended March 31, 2017 and March 31, 2016, respectively.

	<u>3/31/17</u>	<u>3/31/16</u>
Return on average assets	2.51%	2.20%
Return on average equity	15.20%	13.77%
Net interest margin	2.77%	2.71%
Members' equity to assets	16.74%	15.85%
Debt to members' equity (:1)	4.97	5.31

## CAPITAL RESOURCES

Total members' equity was \$305,131 at March 31, 2017 as compared to \$293,945 at December 31, 2016 for an increase of \$11,186 or 3.81 percent. The increase is due primarily to 2017 year-to-date earnings, Class C Stock and Participation Certificates and the issuance of additional Class A Preferred Stock. These increases were offset in part by a reduction in allocated equities.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk adjusted asset base. Risk adjusted assets mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. As of March 31, 2017, the Association exceeded minimum regulatory standards for all the ratios.

The Association's capital ratios as of March 31, along with FCA minimum requirements, are included in the following regulatory matters section.

## REGULATORY MATTERS

### Capital

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

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

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

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

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

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

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

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of March 31, 2017
Risk-adjusted ratios:				
CET1 Capital	4.5%	0.625%	5.125%	17.27%
Tier 1 Capital	6.0%	0.625%	6.625%	17.27%
Total Capital	8.0%	0.625%	8.625%	19.68%
Permanent Capital Ratio	7.0%	0.0%	7.0%	19.78%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	13.71%
UREE Leverage Ratio	1.5%	0.0%	1.5%	14.25%

\* - 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

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expects to issue a final regulation in 2017. The stated objectives of the proposed rule are as follows:

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

#### **RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

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

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**Note:** The Association obtains funding from AgFirst Farm Credit Bank (the Bank). The Association is materially affected and shareholder investment could be materially affected by the financial condition and results of operations of the Bank. Copies of the Bank’s Annual and Quarterly Reports are on the AgFirst website, [www.agfirst.com](http://www.agfirst.com) or may be obtained at no charge by calling 1-800-845-1745, extension 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202.

Copies of the Association’s Quarterly and Annual Reports are available on the Association’s website, [www.agcredit.net](http://www.agcredit.net), or may be obtained upon request free of charge by calling 1-800-837-3678, extension 1023, or writing Daniel Ebert, Chief Financial Officer, AgCredit, ACA, 610 W Lytle Street, Fostoria, OH 44830. The Association prepares an electronic version of the Quarterly Report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

# AgCredit Agricultural Credit Association

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	<b>March 31, 2017</b> <i>(unaudited)</i>	<b>December 31, 2016</b> <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 3,461	\$ 5,148
Investment securities:		
Held to maturity (fair value of \$12,614 and \$12,727, respectively)	12,530	12,720
Loans	1,759,451	1,796,515
Allowance for loan losses	(11,951)	(13,484)
Net loans	1,747,500	1,783,031
Accrued interest receivable	23,123	25,300
Investments in other Farm Credit institutions	20,811	20,747
Premises and equipment, net	7,918	7,969
Accounts receivable	3,251	21,349
Other assets	4,393	4,796
Total assets	<b>\$ 1,822,987</b>	<b>\$ 1,881,060</b>
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 1,484,548	\$ 1,551,034
Accrued interest payable	3,172	3,134
Patronage refunds payable	1,120	19,104
Accounts payable	716	2,090
Advanced conditional payments	1,548	484
Other liabilities	26,752	11,269
Total liabilities	<b>1,517,856</b>	<b>1,587,115</b>
Commitments and contingencies (Note 7)		
<b>Members' Equity</b>		
Capital stock and participation certificates	19,696	19,661
Retained earnings		
Allocated	197,562	197,649
Unallocated	87,873	76,635
Total members' equity	<b>305,131</b>	<b>293,945</b>
Total liabilities and members' equity	<b>\$ 1,822,987</b>	<b>\$ 1,881,060</b>

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

**AgCredit Agricultural Credit Association**  
**Consolidated Statements of**  
**Comprehensive Income**

*(unaudited)*

<i>(dollars in thousands)</i>	<b>For the three months ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Interest Income</b>		
Loans	\$ 21,212	\$ 20,058
Investments	175	247
Total interest income	21,387	20,305
<b>Interest Expense</b>		
Notes payable to AgFirst Farm Credit Bank	9,348	8,842
Net interest income	12,039	11,463
Provision for (reversal of allowance for) loan losses	(1,297)	(32)
Net interest income after provision for (reversal of allowance for) loan losses	13,336	11,495
<b>Noninterest Income</b>		
Loan fees	91	156
Fees for financially related services	10	11
Patronage refunds from other Farm Credit institutions	3,200	2,971
Gains (losses) on sales of premises and equipment, net	—	3
Gains (losses) on other transactions	4	(1)
Other noninterest income	10	61
Total noninterest income	3,315	3,201
<b>Noninterest Expense</b>		
Salaries and employee benefits	3,607	3,352
Occupancy and equipment	278	276
Insurance Fund premiums	393	406
Guarantee fees	318	232
(Gains) losses on other property owned, net	—	1
Other operating expenses	856	898
Total noninterest expense	5,452	5,165
Net income	11,199	9,531
Other comprehensive income	—	—
Comprehensive income	\$ 11,199	\$ 9,531

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



**AgCredit Agricultural Credit Association**  
**Consolidated Statements of Changes in**  
**Members' Equity**

*(unaudited)*

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
		Allocated	Unallocated	
Balance at December 31, 2015	\$ 19,505	\$ 177,063	\$ 72,324	\$ 268,892
Comprehensive income			9,531	9,531
Capital stock/participation certificates issued/(retired), net	62			62
Dividends declared/paid			(47)	(47)
Retained earnings retired		(1)		(1)
Patronage distribution adjustment		(130)	130	—
Balance at March 31, 2016	\$ 19,567	\$ 176,932	\$ 81,938	\$ 278,437
<b>Balance at December 31, 2016</b>	<b>\$ 19,661</b>	<b>\$ 197,649</b>	<b>\$ 76,635</b>	<b>\$ 293,945</b>
<b>Comprehensive income</b>			<b>11,199</b>	<b>11,199</b>
<b>Capital stock/participation certificates issued/(retired), net</b>	<b>35</b>			<b>35</b>
<b>Dividends declared/paid</b>			<b>(46)</b>	<b>(46)</b>
<b>Retained earnings retired</b>		<b>(2)</b>		<b>(2)</b>
<b>Patronage distribution adjustment</b>		<b>(85)</b>	<b>85</b>	<b>—</b>
<b>Balance at March 31, 2017</b>	<b>\$ 19,696</b>	<b>\$ 197,562</b>	<b>\$ 87,873</b>	<b>\$ 305,131</b>

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

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*AgCredit Agricultural Credit Association*

# 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 AgCredit Agricultural Credit Association 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 5, *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: For the first three bullets, the Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- In March 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.
- 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.
- 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 are listed in the following bullets. For the first five bullets, the Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 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.
- 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.
- 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.

- 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.

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.

- 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:

- 2016-15 Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force): In August, 2016, the FASB issued this Update to eliminate diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The Update addresses eight specific cash flow issues with the objective of reducing existing diversity in practice. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments are to be applied using a retrospective transition method to each period presented. The Association elected retrospective early adoption of this guidance. The criteria of the standard

were not significantly different from the Association's policy in place at adoption. Application of the guidance had no impact on the Association's Statements of Cash Flows.

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

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

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

A summary of loans outstanding at period end follows:

	March 31, 2017	December 31, 2016
Real estate mortgage	\$ 1,029,605	\$ 1,018,631
Production and intermediate-term	561,060	610,584
Loans to cooperatives	382	382
Processing and marketing	27,274	24,410
Farm-related business	16,302	16,951
Communication	2,366	2,409
Rural residential real estate	121,272	121,788
Lease receivables	1,190	1,360
<b>Total loans</b>	<b>\$ 1,759,451</b>	<b>\$ 1,796,515</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:

	March 31, 2017							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 5,877	\$ 52,338	\$ —	\$ —	\$ 1,266	\$ —	\$ 7,143	\$ 52,338
Production and intermediate-term	16,143	185,515	178	710	2,457	—	18,778	186,225
Loans to cooperatives	382	—	—	—	—	—	382	—
Processing and marketing	12,316	2,873	—	6,613	—	—	12,316	9,486
Farm-related business	—	24,000	—	—	—	—	—	24,000
Communication	2,371	—	—	—	—	—	2,371	—
<b>Total</b>	<b>\$ 37,089</b>	<b>\$ 264,726</b>	<b>\$ 178</b>	<b>\$ 7,323</b>	<b>\$ 3,723</b>	<b>\$ —</b>	<b>\$ 40,990</b>	<b>\$ 272,049</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	\$ 5,924	\$ 56,217	\$ -	\$ -	\$ 1,275	\$ -	\$ 7,199	\$ 56,217
Production and intermediate-term	15,457	157,614	176	702	3,085	-	18,718	158,316
Loans to cooperatives	383	-	-	-	-	-	383	-
Processing and marketing	14,731	1,637	-	-	-	-	14,731	1,637
Communication	2,415	-	-	-	-	-	2,415	-
Total	\$ 38,910	\$ 215,468	\$ 176	\$ 702	\$ 4,360	\$ -	\$ 43,446	\$ 216,170

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

	March 31, 2017			
	Due less than 1 year	Due 1 through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 5,005	\$ 54,062	\$ 970,538	\$ 1,029,605
Production and intermediate-term	198,701	261,092	101,267	561,060
Loans to cooperatives	-	-	382	382
Processing and marketing	1,369	13,737	12,168	27,274
Farm-related business	2,843	4,047	9,412	16,302
Communication	-	2,366	-	2,366
Rural residential real estate	413	3,123	117,736	121,272
Lease receivables	209	911	70	1,190
Total loans	\$ 208,540	\$ 339,338	\$ 1,211,573	\$ 1,759,451
Percentage	11.85%	19.29%	68.86%	100.00%

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

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

	March 31, 2017	December 31, 2016		March 31, 2017	December 31, 2016
<b>Real estate mortgage:</b>			<b>Communication:</b>		
Acceptable	97.29%	97.57%	Acceptable	100.00%	100.00%
OAEM	1.33	1.38	OAEM	-	-
Substandard/doubtful/loss	1.38	1.05	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
<b>Production and intermediate-term:</b>			<b>Rural residential real estate:</b>		
Acceptable	90.35%	93.28%	Acceptable	93.19%	93.03%
OAEM	6.68	4.95	OAEM	6.09	6.25
Substandard/doubtful/loss	2.97	1.77	Substandard/doubtful/loss	0.72	0.72
	100.00%	100.00%		100.00%	100.00%
<b>Loans to cooperatives</b>			<b>Lease receivables:</b>		
Acceptable	100.00%	100.00%	Acceptable	100.00%	100.00%
OAEM	-	-	OAEM	-	-
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
<b>Processing and marketing</b>			<b>Total loans:</b>		
Acceptable	100.00%	100.00%	Acceptable	94.86%	95.86%
OAEM	-	-	OAEM	3.33	2.88
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	1.81	1.26
	100.00%	100.00%		100.00%	100.00%
<b>Farm-related business</b>					
Acceptable	98.98%	98.92%			
OAEM	0.07	0.16			
Substandard/doubtful/loss	0.95	0.92			
	100.00%	100.00%			

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

March 31, 2017							
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest	
Real estate mortgage	\$ 3,969	\$ 423	\$ 4,392	\$ 1,039,615	\$ 1,044,007	\$ 403	
Production and intermediate-term	6,805	316	7,121	561,915	569,036	53	
Loans to cooperatives	—	—	—	382	382	—	
Processing and marketing	—	—	—	27,327	27,327	—	
Farm-related business	156	—	156	16,314	16,470	—	
Communication	—	—	—	2,367	2,367	—	
Rural residential real estate	338	—	338	121,337	121,675	—	
Lease receivables	—	—	—	1,190	1,190	—	
Total	\$ 11,268	\$ 739	\$ 12,007	\$ 1,770,447	\$ 1,782,454	\$ 456	

December 31, 2016							
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest	
Real estate mortgage	\$ 1,472	\$ 194	\$ 1,666	\$ 1,032,973	\$ 1,034,639	\$ —	
Production and intermediate-term	1,754	417	2,171	617,096	619,267	—	
Loans to cooperatives	—	—	—	382	382	—	
Processing and marketing	—	—	—	24,446	24,446	—	
Farm-related business	22	—	22	17,067	17,089	—	
Communication	—	—	—	2,410	2,410	—	
Rural residential real estate	358	—	358	121,791	122,149	—	
Lease receivables	—	—	—	1,360	1,360	—	
Total	\$ 3,606	\$ 611	\$ 4,217	\$ 1,817,525	\$ 1,821,742	\$ —	

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

	March 31, 2017	December 31, 2016
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 225	\$ 285
Production and intermediate-term	432	526
Total	\$ 657	\$ 811
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 320	\$ 320
Production and intermediate-term	7,690	7,521
Total	\$ 8,010	\$ 7,841
<b>Accruing loans 90 days or more past due:</b>		
Real estate mortgage	\$ 403	\$ —
Production and intermediate-term	53	—
Total	\$ 456	\$ —
Total nonperforming loans	\$ 9,123	\$ 8,652
Other property owned	—	—
Total nonperforming assets	\$ 9,123	\$ 8,652
Nonaccrual loans as a percentage of total loans	0.04%	0.05%
Nonperforming assets as a percentage of total loans and other property owned	0.52%	0.48%
Nonperforming assets as a percentage of capital	2.99%	2.94%

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

	March 31, 2017	December 31, 2016
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 281	\$ 141
Past due	376	670
Total	\$ 657	\$ 811
<b>Impaired accrual loans:</b>		
Restructured	\$ 8,010	\$ 7,841
90 days or more past due	456	—
Total	\$ 8,466	\$ 7,841
Total impaired loans	\$ 9,123	\$ 8,652
Additional commitments to lend	\$ 3	\$ —

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

Impaired loans:	March 31, 2017			Quarter Ended March 31, 2017	
	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>					
Production and intermediate-term	\$ 104	\$ 103	\$ 46	\$ 127	\$ 3
Total	\$ 104	\$ 103	\$ 46	\$ 127	\$ 3
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 948	\$ 1,004	\$ -	\$ 1,149	\$ 31
Production and intermediate-term	8,071	18,326	-	9,784	264
Total	\$ 9,019	\$ 19,330	\$ -	\$ 10,933	\$ 295
<b>Total:</b>					
Real estate mortgage	\$ 948	\$ 1,004	\$ -	\$ 1,149	\$ 31
Production and intermediate-term	8,175	18,429	46	9,911	267
Total	\$ 9,123	\$ 19,433	\$ 46	\$ 11,060	\$ 298

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>					
Production and intermediate-term	\$ 405	\$ 400	\$ 310	\$ 526	\$ 51
Total	\$ 405	\$ 400	\$ 310	\$ 526	\$ 51
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 605	\$ 689	\$ -	\$ 786	\$ 76
Production and intermediate-term	7,642	17,799	-	9,925	961
Farm-related business	-	196	-	-	-
Total	\$ 8,247	\$ 18,684	\$ -	\$ 10,711	\$ 1,037
<b>Total:</b>					
Real estate mortgage	\$ 605	\$ 689	\$ -	\$ 786	\$ 76
Production and intermediate-term	8,047	18,199	310	10,451	1,012
Farm-related business	-	196	-	-	-
Total	\$ 8,652	\$ 19,084	\$ 310	\$ 11,237	\$ 1,088

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	Rural Residential Real Estate	Lease Receivables	Other	Total
<b>Activity related to the allowance for credit losses:</b>								
Balance at December 31, 2016	\$ 2,550	\$ 10,140	\$ 220	\$ 10	\$ 561	\$ 3	\$ -	\$ 13,484
Charge-offs	-	(236)	-	-	-	-	-	(236)
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	(160)	(1,183)	48	-	(2)	-	-	(1,297)
Balance at March 31, 2017	\$ 2,390	\$ 8,721	\$ 268	\$ 10	\$ 559	\$ 3	\$ -	\$ 11,951
Balance at December 31, 2015	\$ 2,583	\$ 10,319	\$ 384	\$ 11	\$ 554	\$ 4	\$ 3	\$ 13,858
Charge-offs	-	(4)	-	-	-	-	-	(4)
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	114	(182)	37	-	(3)	(1)	3	(32)
Balance at March 31, 2016	\$ 2,697	\$ 10,133	\$ 421	\$ 11	\$ 551	\$ 3	\$ 6	\$ 13,822
<b>Allowance on loans evaluated for impairment:</b>								
Individually	\$ -	\$ 46	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46
Collectively	2,390	8,675	268	10	559	3	-	11,905
Balance at March 31, 2017	\$ 2,390	\$ 8,721	\$ 268	\$ 10	\$ 559	\$ 3	\$ -	\$ 11,951
Individually	\$ -	\$ 310	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 310
Collectively	2,550	9,830	220	10	561	3	-	13,174
Balance at December 31, 2016	\$ 2,550	\$ 10,140	\$ 220	\$ 10	\$ 561	\$ 3	\$ -	\$ 13,484
<b>Recorded investment in loans evaluated for impairment:</b>								
Individually	\$ 948	\$ 8,175	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,123
Collectively	1,043,059	560,861	44,179	2,367	121,675	1,190	-	1,773,331
Balance at March 31, 2017	\$ 1,044,007	\$ 569,036	\$ 44,179	\$ 2,367	\$ 121,675	\$ 1,190	\$ -	\$ 1,782,454
Individually	\$ 605	\$ 8,047	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,652
Collectively	1,034,034	611,220	41,917	2,410	122,149	1,360	-	1,813,090
Balance at December 31, 2016	\$ 1,034,639	\$ 619,267	\$ 41,917	\$ 2,410	\$ 122,149	\$ 1,360	\$ -	\$ 1,821,742

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. There were no TDRs that occurred during the three months ended March 31, 2016. The following table provides TDR activity information for the period shown.

Outstanding Recorded Investment	Three months ended March 31, 2017				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
<b>Pre-modification:</b>					
Real estate mortgage	\$ -	\$ 172	\$ -	\$ 172	
Production and intermediate-term	-	296	-	296	
Total	\$ -	\$ 468	\$ -	\$ 468	
<b>Post-modification:</b>					
Real estate mortgage	\$ -	\$ 152	\$ -	\$ 152	\$ -
Production and intermediate-term	-	315	-	315	(236)
Total	\$ -	\$ 467	\$ -	\$ 467	\$ (236)

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.

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during periods presented. Payment default is defined as a payment that was thirty days or more past due.

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	
	March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016
Real estate mortgage	\$ 473	\$ 320	\$ 153	\$ -
Production and intermediate-term	7,770	7,521	80	-
Total Loans	\$ 8,243	\$ 7,841	\$ 233	\$ -
Additional commitments to lend	\$ -	\$ -		



The following table presents information as of period end:

	March 31, 2017
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ -
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ -

### Note 3 — Investments

#### Investment Securities

The Association's investments 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 probability of default scale used to also grade loans, falls below 9. The FCA requires System institutions to provide notification when a security becomes ineligible. At March 31, 2017, the Association held no RABs whose credit quality had deteriorated beyond the program limits.

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

	March 31, 2017				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 12,530	\$ 273	\$ (189)	\$ 12,614	5.40%

	December 31, 2016				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 12,720	\$ 205	\$ (198)	\$ 12,727	5.39%

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

	March 31, 2017		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ -	\$ -	-%
After one year through five years	1,726	1,761	5.13
After five years through ten years	3,638	3,574	5.33
After ten years	7,166	7,279	5.50
Total	\$ 12,530	\$ 12,614	5.40%

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.

	March 31, 2017			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	\$ 3,574	\$ (64)	\$ 888	\$ (125)

	December 31, 2016			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	\$ 3,640	\$ (74)	\$ 894	\$ (124)

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

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

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

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

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

#### ***Investments in other Farm Credit Institutions***

The Association is required to maintain ownership in AgFirst Farm Credit Bank (AgFirst or the Bank) of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 8.03 percent of the issued stock of the Bank as of March 31, 2017 net of any reciprocal investment. As of that date, the Bank's assets totaled \$31.0 billion and shareholders' equity totaled \$2.3 billion. The Bank's earnings were \$83 million for the first three months of 2017. In addition, the Association held investments of \$422 related to other Farm Credit institutions.

#### **Note 4 — Debt**

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

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

#### **Note 5— Fair Value Measurement**

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

At or for the Three Months Ended March 31, 2017							
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings	
<b>Recurring Measurements</b>							
<b>Assets:</b>							
Assets held in Trust funds	\$ 67	\$ 67	\$ -	\$ -	\$ 67		
Recurring Assets	\$ 67	\$ 67	\$ -	\$ -	\$ 67		
<b>Liabilities:</b>							
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -		
<b>Nonrecurring Measurements</b>							
<b>Assets:</b>							
Impaired loans	\$ 9,077	\$ -	\$ -	\$ 9,077	\$ 9,077	\$	28
Other property owned	-	-	-	-	-	-	-
Nonrecurring Assets	\$ 9,077	\$ -	\$ -	\$ 9,077	\$ 9,077	\$	28
<b>Other Financial Instruments</b>							
<b>Assets:</b>							
Cash	\$ 3,461	\$ 3,461	\$ -	\$ -	\$ 3,461		
Investment securities, held-to-maturity	12,530	-	-	12,614	12,614		
Loans	1,738,423	-	-	1,696,463	1,696,463		
Other Financial Assets	\$ 1,754,414	\$ 3,461	\$ -	\$ 1,709,077	\$ 1,712,538		
<b>Liabilities:</b>							
Notes payable to AgFirst Farm Credit Bank	\$ 1,484,548	\$ -	\$ -	\$ 1,445,973	\$ 1,445,973		
Other Financial Liabilities	\$ 1,484,548	\$ -	\$ -	\$ 1,445,973	\$ 1,445,973		

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	\$ 78	\$ 78	\$ -	\$ -	\$ 78		
Recurring Assets	\$ 78	\$ 78	\$ -	\$ -	\$ 78		
<b>Liabilities:</b>							
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -		
<b>Nonrecurring Measurements</b>							
<b>Assets:</b>							
Impaired loans	\$ 8,343	\$ -	\$ -	\$ 8,343	\$ 8,343	\$	(38)
Other property owned	-	-	-	-	-	-	(7)
Nonrecurring Assets	\$ 8,343	\$ -	\$ -	\$ 8,343	\$ 8,343	\$	(45)
<b>Other Financial Instruments</b>							
<b>Assets:</b>							
Cash	\$ 5,148	\$ 5,148	\$ -	\$ -	\$ 5,148		
Investment securities, held-to-maturity	12,720	-	-	12,727	12,727		
Loans	1,774,688	-	-	1,730,216	1,730,216		
Other Financial Assets	\$ 1,792,556	\$ 5,148	\$ -	\$ 1,742,943	\$ 1,748,091		
<b>Liabilities:</b>							
Notes payable to AgFirst Farm Credit Bank	\$ 1,551,034	\$ -	\$ -	\$ 1,509,018	\$ 1,509,018		
Other Financial Liabilities	\$ 1,551,034	\$ -	\$ -	\$ 1,509,018	\$ 1,509,018		

## 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. 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	\$ 9,077	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

### Information about Other Financial Instrument Fair Value Measurements

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

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**Note 6 — Employee Benefit Plans**

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

	Three Months Ended	
	March 31,	
	2017	2016
Pension	\$ 399	\$ 397
401(k)	155	144
Other postretirement benefits	107	109
Total	<u>\$ 661</u>	<u>\$ 650</u>

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
	3/31/17	of 2017	2017
Pension	\$ -	\$ 1,308	\$ 1,308
Other postretirement benefits	44	129	173
Total	<u>\$ 44</u>	<u>\$ 1,437</u>	<u>\$ 1,481</u>

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

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

**Note 7 — 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 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 8 — Subsequent Events**

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