2016 ANNUAL REPORT

AgCarolina Farm Credit

FARM CREDIT 100 ESTABLISHED 1916

Financial Highlights

Cash Patronage Refund
dollars in millions

2012	$6.4
2013	$12.5
2014	$12.0
2015	$10.6
2016	**$11.2**

Net Loans
dollars in millions

2012	$881.3
2013	$903.3
2014	$968.6
2015	$1,009.1
2016	**$1,079.9**

Net Income
dollars in millions

2012	$17
2013	$28
2014	$31
2015	$23
2016	**$24**

Return on Assets

2012	1.81%
2013	2.97%
2014	3.06%
2015	2.20%
2016	**2.17%**

Return on Equity

2012	9.01%
2013	13.48%
2014	13.66%
2015	9.26%
2016	**9.37%**

Permanent Capital Ratio

2012	19.85%
2013	22.96%
2014	22.35%
2015	23.00%
2016	**23.22%**

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AgCarolina FARM CREDIT

FARM CREDIT 100 ESTABLISHED 1916

Message from the President & Chief Executive Officer

Anniversaries give us opportunity to pause and reflect on choices we have made, revel a bit in successes, re–evaluate challenges, and especially give hope and renew optimism for the future.

We are now on the edge of moving forward into the first year following our 100 year anniversary in 2016.

It is definitely one of the most exciting times in the history of the Farm Credit System, and AgCarolina has come to the table prepared, with our team and leadership, for you and your families to be partners in the leap forward.

The goal of AgCarolina has been to provide the best customer service possible to those who produce the bounty for our country and the world. By consistently responding and catering to the needs of the agricultural industry, our yield has been a legacy of excellence.

The 100-year anniversary is really about you — the AgCarolina family.

Through our dedication we have been solid in maintaining stability in good times and bad, just as you have. We have weathered the storms — the ones from the cloudy skies and the ones from Wall Street and Washington — by your side. We have celebrated the harvests and have worked hard to support and help you achieve your dreams.

We have all worked to protect the heritage of family. We have developed and maintained youth programs, community donation programs, educational efforts to promote agriculture, and programs to address specific needs with the knowledge that change must be taken head on or we will be left behind.

Today — 100 years old — we are strong — stronger than ever.

Just like a wedding anniversary can be a time to re–visit vows, we can go back and re-visit our mission statement with the focus on buillding, growing, and achieving our goals.

Our mission pledge is: To enhance the quality of life for those in the rural communities of North Carolina by providing exceptional value and service.

To me, that says it all.

David W. Corum

David W. Corum
President & Chief Executive Officer

Consolidated Five-Year Summary of Selected Financial Data

(dollars in thousands)	2016	2015	December 31, 2014	2013	2012
Balance Sheet Data					
Cash	**$ 3,465**	$ 2,066	$ 2,275	$ 4,040	$ 3,915
Loans	**1,092,080**	1,021,011	980,181	916,947	895,947
Allowance for loan losses	**(12,143)**	(11,913)	(11,602)	(13,697)	(14,669)
Net loans	**1,079,937**	1,009,098	968,579	903,250	881,278
Investments in other Farm Credit institutions	**12,248**	11,549	11,227	11,077	11,299
Other property owned	**—**	—	—	403	861
Other assets	**46,180**	44,917	47,053	62,493	68,538
Total assets	**$ 1,141,830**	$1,067,630	$1,029,134	$ 981,263	$ 965,891
Notes payable to AgFirst Farm Credit Bank*	**$ 846,527**	$ 798,928	$ 768,069	$ 741,353	$ 752,785
Accrued interest payable and other liabilities with maturities of less than one year	**31,151**	28,380	32,307	30,315	22,159
Total liabilities	**877,678**	827,308	800,376	771,668	774,944
Capital stock and participation certificates	**46,646**	35,171	34,944	34,109	30,556
Retained earnings					
Allocated	**150,444**	138,340	126,501	110,215	96,256
Unallocated	**67,062**	66,811	67,313	65,271	64,135
Total members' equity	**264,152**	240,322	228,758	209,595	190,947
Total liabilities and members' equity	**$ 1,141,830**	$1,067,630	$1,029,134	$ 981,263	$ 965,891
Statement of Income Data					
Net interest income	**$ 28,971**	$ 26,996	$ 28,825	$ 25,688	$ 24,984
Provision for (reversal of allowance for) loan losses	**668**	—	(2,068)	(395)	3,171
Noninterest income (expense), net	**(4,124)**	(4,348)	(137)	1,980	(4,594)
Net income	**$ 24,179**	$ 22,648	$ 30,756	$ 28,063	$ 17,219
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.17%**	2.20%	3.06%	2.97%	1.81%
Total members' equity	**9.37%**	9.26%	13.66%	13.48%	9.01%
Net interest income as a percentage of average earning assets	**2.70%**	2.71%	2.96%	2.81%	2.73%
Net (chargeoffs) recoveries to average loans	**(0.041)%**	0.031%	(0.003)%	(0.064)%	(0.157)%
Total members' equity to total assets	**23.13%**	22.51%	22.23%	21.36%	19.77%
Debt to members' equity (:1)	**3.32**	3.44	3.50	3.68	4.06
Allowance for loan losses to loans	**1.11%**	1.17%	1.18%	1.49%	1.64%
Permanent capital ratio	**23.22%**	23.00%	22.35%	22.96%	19.85%
Total surplus ratio	**19.00%**	19.22%	18.58%	18.58%	16.21%
Core surplus ratio	**19.00%**	19.22%	18.58%	18.58%	16.21%
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 11,183**	$ 10,643	$ 12,031	$ 12,545	$ 6,407
Nonqualified retained earnings	**11,875**	11,024	16,337	13,960	9,610

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

100 Years of Service to Agriculture and Rural Communities

On July 17, 2016, the Farm Credit System celebrated a rare milestone by reaching 100 years of service to agriculture and rural communities. AgCarolina Farm Credit is proud to be a part of this tradition of service that has helped thousands of farmers throughout the state of North Carolina and countless more throughout the country. The Farm Credit cooperative structure, which allows for customer ownership and governance, has stood the test of time and has allowed us to meet emerging needs and opportunities.

The Farm Credit System has played an integral role in the success of American agriculture over the past century. The same principles on which Farm Credit was founded remain true today: farmer-ownership, expertise in the industries

July 17, 1916
Founding the System

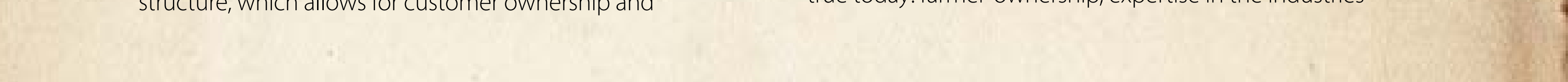
President Wilson signs legislation creating the Federal Land Bank System—the first loan is made less than a year later.

June 16, 1933
The Great Depression

In the midst of a great depression, even worse for agriculture, the System is rescued and expanded, which helps save countless American farms.

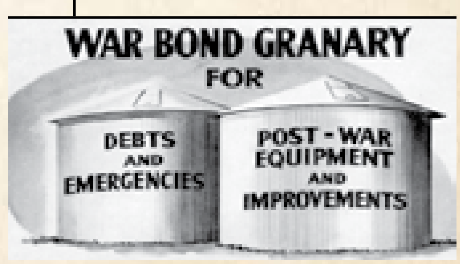
December 4, 1953
An Independent Path

The Farm Credit Act of 1953 makes the Farm Credit Administration an agency of the executive branch and sets the System on a path towards independence.



March 4, 1923
New Credit, New Service, Better Funding

The Agricultural Credits Act of 1923 extends service and provides for short-term and intermediate operating credit, while the System strengthens its funding capability.



December 10, 1941
Production for the War

Three days after Pearl Harbor, officials of the banks for cooperatives meet to set new priorities—the entire Farm Credit System prepares to fight inflation and feed a nation at war.

served and commitment to farmers' success. For the past century, we have held firm on our promise to serve agriculture through good times and bad. Building AgCarolina's legacy into the next century means the Association will continue to adapt and to make the necessary investments to create value for our customers today and tomorrow, just as we have done for the past 100 years.

December 24, 1980

Expanding Authority, Greater Responsibility

The Farm Credit Act Amendments of 1980 broaden the System's lending authority, provide for the creation of service organizations and reorganize the System's commitment to young, beginning and small farmers.

October 1, 1999

Associations Restructure for the Future

After more than a decade of experimentation, the "Parent ACA" arrangement is developed, setting the pattern for subsequent mergers on the Association level.

December 2, 1971

Full Borrower-Ownership, New Charter

Comprehensive legislation completely updates the charter of the newly borrower-owned System, broadening its lending authority.

January 6, 1988

Farm Crisis: Toward Solvency and a New Structure

In the midst of an extended farm crisis, the Agricultural Credit Act of 1987—the second important piece of legislation in as many years—provides federal financial assistance and requires the System to reorganize.

April 11, 2016

AgCarolina Returns 28 Consecutive Patronage Refunds to Customer-Owners, Positioned for Future Success

AgCarolina pays out $10.6 million to its customer-owners in 2016 and more than $213 million since 1988.

Legacy of Excellence – Patronage

AgCarolina's legacy of excellence includes many success stories from generations of farmers. The legacy also extends to the impact AgCarolina has on the local economy of North Carolina.

Operating as a cooperative offers many advantages to AgCarolina and its membership. A cornerstone principle of a cooperative is the distribution of profits to customers. AgCarolina has distributed patronage funds for 28 consecutive years totaling $213 million. These profits could be retained by the Association, yet the leadership and board members of AgCarolina Farm Credit elect to annually put a portion of profits back into the pockets of customers. This isn't the end of the story, though. Patronage distributions create an opportunity to provide stimulus funds into the communities in which we serve.

Once a dollar enters the community, how many times does it turn over? Posing this question to Dr. David Kohl, Professor Emeritus of Agricultural Finance and Small Business Management and Entrepreneurship at Virginia Tech, reveals an interesting answer to Farm Credit's role in the local economy of North Carolina.

According to Dr. Kohl, "Patronage is the effect of an efficiently run cooperative with their board of directors, management, and employees delivering quality service to each member of the agricultural and rural communities it serves. Using a multiplier effect of five to ten dollars for every dollar of patronage as a result of possible investment, spending, and employment, one can quickly surmise how $213 million in patronage dividends could equate to over $1 billion of activity."

Using Dr. Kohl's estimate of a multiplier of 5, economic analysis indicates the money will bounce to at least five businesses in one manner or another, benefitting the region by over $1 billion since 1988. Talk about an ag stimulus package for eastern North Carolina!

AgCarolina Farm Credit is proud to serve the agribusinesses, farmers, and rural residents of eastern North Carolina. We are committed to our cooperative principles in which we return a form of ag stimulus to our local economy. For 28 years the proof is in the pockets of those who have chosen to partner with AgCarolina for their financial needs. AgCarolina Farm Credit will continue to build its legacy as a reliable and stable force for financial needs to the farmers and rural residents in eastern North Carolina.

Board of Directors

(l-r) Jack E. Finley, Outside Director; Clifton L. Keel, III, Martin County; Bundy H. Lane, Gates County; Rodney D. Smith, Lenoir County; Audie M. Murphy, Greene County; Paul A. Drake, Vice Chairman, Edgecombe County; Ellis W. Taylor, Board Chairman, Halifax County; Robert H. Bazemore, Jr., Outside Director; B. Derek Potter, Pamlico County; Eldridge T. Westbrook, Johnston County; S. Stuart Pierce, Jr., Hertford County, and Jackie E. Thompson, Sr., Wake County.

Senior Management

(l-r) Timothy M. Pace, Senior Vice President Branch Lending – West Region; Roy P. Robertson, Jr., Senior Vice President – Corporate Lending; Arthur R. Spruill, Senior Vice President Branch Lending – East Region; David W. Corum, President and Chief Executive Officer; David C. Morris, Senior Vice President and Chief Credit Officer; Matthew J. Currin, Senior Vice President and Chief Financial Officer; and Linda J. Strickland, Senior Vice President – Marketing.

Report of Management

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

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

The consolidated financial statements have been audited by independent public auditors, whose report appears elsewhere in this annual report. The Association is also subject to examination by the Farm Credit Administration.

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

Ellis W. Taylor
Chairman of the Board

David W. Corum
President and Chief Executive Officer

Matthew J. Currin
Senior Vice President and Chief Financial Officer

March 13, 2017

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and disposition of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2016. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of December 31, 2016, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2016. This annual report does not include an attestation report of the Association's external accounting firm regarding internal control over financial reporting as none was required.

David W. Corum
President and Chief Executive Officer

Matthew J. Currin
Senior Vice President and Chief Financial Officer

March 13, 2017

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

(dollars in thousands, except where noted)

GENERAL OVERVIEW

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

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

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

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

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, *www.AgCarolina.com*, or by calling 1-800-951-3276, or writing Matt Currin, AgCarolina Farm Credit, P.O. Box 14789, Raleigh, NC 27620. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report is prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

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

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

AGRICULTURAL OUTLOOK

The following United States Department of Agriculture (USDA) analysis provides a general understanding of the U.S. agricultural economic outlook. However, this outlook does not take into account all aspects of the Association's business. References to USDA information in this section refer to the U.S. agricultural market data and are not limited to information/data in the AgFirst District.

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

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

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

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

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES

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

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

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

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

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

- *Pensions* — The Bank and its related Associations participate in defined benefit retirement plans. These plans are noncontributory and benefits are based on salary and years of service. In addition, the Bank and its related Associations also participate in defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits expense. Pension expense for the defined benefit retirement plans is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of future benefit obligations. The discount rate is selected by reference to Hewitt's above-median corporate bond index, actuarial analyses, and industry norms.

LOAN PORTFOLIO

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

The diversification of the Association loan volume by type for each of the past three years is shown below.

	December 31,		
Loan Type	**2016**	**2015**	**2014**
Real estate mortgage	55.99%	53.97%	57.88%
Production and intermediate term	37.28	39.49	35.04
Loans to cooperatives	.23	.07	.07
Processing and marketing	2.45	2.18	1.86
Farm-related business	.45	.22	.91
Communication	.17	–	–
Power and water/waste disposal	.01	.01	.01
Rural residential real estate	3.42	4.06	4.23
Total	100.00%	100.00%	100.00%

See Note 3, *Loans and Allowance for Loan Losses*, of the Consolidated Financial Statements, for further information concerning reclassification of loan types for all years presented.

While loans and financially related services are provided to qualified borrowers in the agricultural and rural sectors and to certain related entities, the loan portfolio is diversified.

The geographic distribution of the loan volume by branch in the 34 county territories for the past three years is as follows:

Region	**12/31/16**	**12/31/15**	**12/31/14**
Greenville	15.9%	16.3%	16.3%
Smithfield	12.4	12.2	12.7
Elizabeth City	9.9	9.1	8.3
Rocky Mount	9.8	9.5	10.0
Louisburg	8.4	8.2	8.1
La Grange	6.9	6.6	5.8
Williamston	6.7	6.8	6.3
Swan Quarter	6.5	6.8	6.2
Halifax	5.1	5.2	5.2
New Bern	4.9	5.4	5.3
Raleigh	4.8	5.2	5.6
Ahoskie	3.9	3.9	3.9
Other	4.8	4.8	6.3
Total	100.0%	100.0%	100.0%

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

The major commodities in the Association loan portfolio are shown below. The five predominant commodities are tobacco, forestry, soybeans, poultry and corn, which constitute 54 percent of the entire 2016 portfolio.

	Percent of Portfolio		
Commodity Group	**2016**	**2015**	**2014**
Tobacco	18%	17%	17%
Forestry	10	10	10
Soybeans	9	9	9
Poultry	9	8	8
Corn	8	9	9
Cotton	7	8	9
Rural Rental Real Estate	7	7	9
Swine	6	7	7
Sweet Potatoes	6	6	5
Farm Services	4	4	4
Home Loans	4	3	4
Livestock	3	4	3
Horticulture	2	2	2
Vegetables/Fruits	2	1	1
Peanuts	1	1	1
Other	4	4	2
Total	100%	100%	100%

As growth has continued in sweet potatoes for the Association in the past few years, this grouping was segmented independently of the commodity field crops group, where it was presented in prior years. The remainder of the field crops sector was reclassified into the other category for all years presented.

Repayment ability is closely related to the profitability of commodities produced by borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a relatively large concentration of tobacco, forestry, soybean, poultry and corn producers. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are diversified beyond a single crop or enterprise, which reduces overall risk exposure. Consumer demand, expected production, and international trade are some of the factors affecting the price of these commodities.

The Association has experienced an increase in the concentration of large loans over the past several years; however the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

Gross loan volume as of December 31, 2016 was $1,092,080, a 6.96 percent increase from the same period in 2015. Net loan volume was $1,079,937 as of December 31, 2016, for a 7.02 percent increase from the previous year. The increase in gross and net loan volume during the reporting period is primarily attributed to new loans closed during 2016. During 2016, the Association targeted certain segments of our business with hopes of increasing market share. Continued efforts are being made to expand services, increase public knowledge of our services, and streamline current delivery of products to enhance and grow the loan portfolio.

The Association loan portfolio is significantly impacted by loan seasonality. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak balance in August and declines in the fall months as commodities are marketed and proceeds are applied to repay operating loans.

Participation loans provide a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which can strengthen the capital position.

Loan Participations	**2016**	**2015**	**2014**
Participations Purchased – FCS Institutions	$ 47,609	$ 43,958	$ 50,706
Participations Purchased – Non-FCS Institutions	–	151,635	158,655
Participations Sold	(268,073)	(279,867)	(250,142)
Total	$ (220,464)	$ (84,274)	$ (40,781)

The decrease in participations purchased is due to one large syndicated deal in 2016 in which the Association became the co-lead and, therefore, its interest was no longer considered purchased from a non-FCS (System) institution. This credit was syndicated entirely within the System, with the Association's entire portion being sold within the System.

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

The Association also participates in the Farmer Mac Long Term Stand-By program. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2016, the Association had loans amounting to $405, which were 100 percent guaranteed by Farmer Mac. The Association additionally has portions of loans that are guaranteed by the Farm Service Agency. These guarantees are made for the purpose of reducing credit risk. At December 31, 2016, the balance of these guarantees was $13,458, compared to $10,679 at December 31, 2015 and $9,438 at December 31, 2014.

MISSION RELATED INVESTMENTS

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

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

Consolidated Balance Sheets depending on the nature of the investment. As of December 31, 2016, December 31, 2015, and December 31, 2014, the Association had $277, $314 and $349, respectively, in Rural America Bonds, and they are classified as Loans on the Consolidated Balance Sheets.

Effective December 31, 2016, the FCA will conclude each pilot program approved as part of the Investment in Rural America program. Each institution participating in such programs may continue to hold its investment through the maturity dates for the investments, provided the institution continues to meet all approval conditions. Although the pilot programs are concluding, the FCA can consider future requests on a case-by-case basis.

INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for the purposes of reducing interest rate risk and managing surplus short-term funds. The Bank is responsible for approving the investment policies of the Association, and annually reviews the investment portfolio of every Association that it funds. A typical investment securities portfolio held by a Farm Credit Association would consist of asset-backed securities and mortgage-backed securities. Due to the potential risks involved in holding such investments the Association does not hold a portfolio of investment securities. Refer to Note 2, *Summary of Significant Accounting Policies,* item H, *Investment Securities*, for further information concerning investment securities.

CREDIT RISK MANAGEMENT

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

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

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loans of more than $1 million. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

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

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

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

Credit Quality	2016	2015	2014
Acceptable & OAEM	96.38%	96.23%	96.67%
Substandard	3.62%	3.77%	3.33%
Doubtful	–%	–%	–%
Loss	–%	–%	–%
Total	100.00%	100.00%	100.00%

Nonperforming Assets

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

	December 31,		
Nonperforming Assets	**2016**	**2015**	**2014**
Nonaccrual loans	$ 18,497	$ 15,095	$ 11,460
Restructured loans	2,434	2,627	2,940
Accruing loans 90 days or more past due	–	–	–
Total nonperforming loans	20,931	17,222	14,400
Other property owned	–	–	–
Total nonperforming assets	$ 20,931	$ 17,222	$ 14,400
Ratios			
Nonaccrual loans to total loans	1.69 %	1.48 %	1.17%
Nonperforming assets to total loans and other property owned	1.92 %	1.74 %	1.47%
Nonperforming assets to capital	7.92 %	7.37 %	6.29%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans increased $3,402 or 22.54 percent in 2016 and the ratio of nonaccrual loans to total loans was 1.69 percent as of December 31, 2016. The increase in nonaccrual loans during the year is primarily due to the transfer of relationships into nonaccrual net of liquidations and pay downs. The level of nonaccrual loans has increased in 2016 due to the declining agriculture economy.

Loan restructuring is available to financially distressed borrowers. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the Association and the borrower.

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio.

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

	Year Ended December 31,		
Allowance for Loan Losses Activity:	**2016**	**2015**	**2014**
Balance at beginning of year	$ 11,913	$ 11,602	$ 13,697
Charge-offs			
Agribusiness	–	–	–
Rural Residential Real Estate	–	–	–
Real estate mortgage	(329)	(93)	(1)
Production and intermediate term	(819)	(120)	(199)
Total charge-offs	(1,148)	(213)	(200)
Recoveries			
Agribusiness	–	–	–
Rural Residential Real Estate	–	–	–
Real estate mortgage	567	29	57
Production and intermediate term	143	495	116
Total recoveries	710	524	173
Net (charge-offs) recoveries	(438)	311	(27)
Provision for loan losses	668	–	(2,068)
Balance at end of year	$ 12,143	$ 11,913	$ 11,602
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.041)%	0.031%	(0.003)%

The net loan charge-offs were associated with various crops and industries. The allowance for loan losses by loan type for the most recent three years is as follows:

	December 31,		
Allowance for Loan Losses by Type	**2016**	**2015**	**2014**
Real estate mortgage	$ 7,345	$ 7,197	$ 7,981
Production and intermediate term	4,136	4,056	3,027
Agribusiness	307	249	238
Communication	17	–	–
Energy	–	1	1
Rural residential real estate	338	410	355
Total loans	$ 12,143	$ 11,913	$ 11,602

See Note 3, *Loans and Allowance for Loan Losses*, of the Consolidated Financial Statements, for further information concerning reclassification of loan types for all years presented.

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

Allowance for Loan Losses	December 31,		
as a Percentage of:	**2016**	**2015**	**2014**
Total loans	1.11%	1.17%	1.18%
Nonperforming loans	58.01%	69.17%	80.57%
Nonaccrual loans	65.65%	78.92%	101.24%

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

RESULTS OF OPERATIONS

Net Income

Net income for the year ended December 31, 2016, totaled $24,179, an increase of $1,531 or 6.76 percent, as compared to $22,648 for the same period of 2015. The increase in net income during 2016 when compared to 2015 resulted primarily from a $1,975 increase in net interest income and an increase in noninterest income of $1,333. The increase in net interest income was mainly due to growth in the loan portfolio. The increase in noninterest income was mainly the result of an increase in patronage from Other Farm Credit Institutions in the amount $824 and an increase in fee income of $417. Operating expense also increased by $1,119 as compared to 2015. Major components of the changes in net income for the past two years are outlined in the following table:

Changes in Net Income:	**2016-2015**	**2015-2014**
Net income (prior year)	$ 22,648	$ 30,756
Increase (decrease) in net income due to:		
Interest income	4,293	(1,099)
Interest expense	2,318	(729)
Net interest income	1,975	(1,828)
Provision for loan losses	(668)	(2,068)
Noninterest income	1,333	(4,315)
Noninterest expense	(1,119)	110
Provision for income taxes	10	(7)
Total changes in income	1,531	(8,108)
Net income	$ 24,179	$ 22,648

Net Interest Income

Net interest income was $29.0 million, $27.0 million, and $28.8 million in 2016, 2015, and 2014, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets, and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

Change in Net Interest Income:

	Volume*	Rate	Total
12/31/15 - 12/31/16			
Interest income	$ 3,535	$ 758	$ 4,293
Interest expense	1,568	750	2,318
Change in net interest income	$ 1,967	$ 8	$ 1,975
12/31/14 - 12/31/15			
Interest income	$ 1,062	$ (2,161)	$ (1,099)
Interest expense	89	640	729
Change in net interest income	$ 973	$ (2,801)	$ (1,828)

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

Noninterest Income

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

	For the Year Ended December 31,			Percentage Increase/(Decrease)	
Noninterest Income	**2016**	**2015**	**2014**	**2016/ 2015**	**2015/ 2014**
Loan fees	$ 3,003	$ 2,586	$ 2,586	16.13 %	– %
Fees for financially related services	806	957	1,001	(15.78)	(4.40)
Patronage refund from other Farm Credit Institutions	12,402	11,578	15,472	7.12	(25.17)
Gains (losses) from sales of premises and equipment, net	41	96	67	(57.29)	43.28
Gains (losses) on other Transactions	254	(45)	282	(664.44)	(115.96)
Other noninterest income	–	1	72	(100.00)	(98.61)
Total noninterest income	$ 16,506	$ 15,173	$ 19,480	8.79 %	(22.11)%

The Patronage refund from other Farm Credit Institutions increased as a result of growth in the loan portfolio in 2016. The Bank distributed $5,202 in special patronage in 2016. This distribution was due to an excess of capital at the Bank level that was distributed to all Associations in the district. The amount distributed to each Association was based on each institution's level of borrowing from the Bank. While significant special patronage has been provided in the past three years, the Association recognizes that special patronage is subject to the financial performance and condition of the Bank and, if provided in future years, will fluctuate based on current conditions.

Noninterest Expense

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

	For the Year Ended December 31,			Percentage Increase/(Decrease)	
Noninterest Expense	**2016**	**2015**	**2014**	**2016/ 2015**	**2015/ 2014**
Salaries and employee benefits	$ 14,305	$ 13,880	$ 13,896	3.06%	(0.12)%
Occupancy and equipment expense	1,103	1,127	1,075	(2.13)	4.84
Insurance Fund premium	1,424	999	921	42.54	8.47
(Gains) losses on other property owned, net	–	–	39	–	(100.00)
Other operating expense	3,800	3,507	3,685	8.35	(4.83)
Total noninterest expense	$ 20,632	$ 19,513	$ 19,616	5.73%	(0.53)%

Salaries and employee benefits increased $425 in 2016, as compared with 2015, resulting in an increase of 3.06 percent. The increase is related to additional salary expense due to additional hiring and increased incentive payments, which was offset by a decrease in employee benefits related to lower insurance costs for employees and retirees in 2016.

Insurance Fund premiums increased by 42.54 percent for the twelve months ended December 31, 2016, compared to the same period of 2015. The FCSIC set premiums at and average of 17 basis points on adjusted insured debt outstanding in 2016, an increase from 13 basis points charged during 2015. The increase in premiums was mainly attributable the increase in the premium factor but also increased due to growth in the loan portfolio. For 2017, the FCSIC has indicated that the premium will be approximately 15 basis points based on expected System loan growth in 2017.

Occupancy and equipment expense decreased by 2.13 percent while other operating expense increased by 8.35 percent for the twelve months ended December 31, 2016. The decrease in occupancy and equipment expense is due to decreased depreciation, utility, and maintenance costs related to buildings and equipment. The increase in other operating expense is primiarily due to increases in expenses related to regulatory oversight as well as increased marketing expenses in 2016.

Income Taxes

The Association recorded a benefit for income tax in the amount of $2 for the year ended December 31, 2016, as compared to $8 provision for 2015 and $1 provision for 2014. Refer to Note 2, *Summary of Significant Accounting Policies,(item K - Income Taxes)*, and Note 12, *Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

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

	For the 12 Months Ended		
Key Results of Operations Comparisons	**12/31/16**	**12/31/15**	**12/31/14**
Return on average assets	2.17%	2.20%	3.06%
Return on average members' equity	9.37%	9.26%	13.66%
Net interest income as a percentage of average earning assets	2.70%	2.71%	2.96%
Net (charge-offs) recoveries to average loans	(0.041)%	0.031%	(0.003)%

The 2016 return on average assets (ROA) decreased from 2015 by three basis points and return on average member's equity (ROE) increased by 11 basis points in 2016. The primary reason for the decrease in ROA was the fact that the increase in net earnings in 2016 was outpaced by the growth in assets. ROE increased mainly due to additional earnings. Net interest income as a percentage of average earning assets, or net interest margin, decreased by one basis point from 2015 to 2016. The decrease was primarily a result of increased competition which compressed overall loan spreads.

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

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The GFA has a one year term and is renewable each year. The current agreement expires on December 31, 2017, and the Association has no reason to believe the GFA will not be renewed upon expiration. The Bank advances the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

As of December 31, 2016 the Association had $280,174 in loanable funds outstanding. The Association is able to effectively deploy these funds as working capital to boost profitability and patronage refunds. Through AgFirst's direct note pricing accounting for the calculation of interest expense the Association is given an interest rate credit for loanable funds based on the prevailing average direct note rate of the Association's entire portfolio. The Association, however, had an option to lock in a portion of this interest rate credit at fixed rates through a fixed rate loanable funds lock program administered by AgFirst in previous years. The Association has certain positions locked with this program for three more years. As of December 31, 2016, $9,000 of loanable funds remained locked at fixed rates. These fixed positions are expected to mature by the end of 2017.

Total notes payable to the Bank at December 31, 2016, was $846,527 as compared to $798,928 at December 31, 2015 and $768,069 at December 31, 2014. The increase in 2016 of 5.96 percent as compared to December 31, 2015 was attributable to an increase in Association loan volume. The average volume of outstanding notes payable to the Bank was $834,990 and $767,536 for the years ended December 31, 2016 and 2015, respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

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

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

Funds Management

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

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable, and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate, 90-day London Interbank Offered Rate (LIBOR), or the 30-day LIBOR rate. Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

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

Relationship with the Bank

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

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

CAPITAL RESOURCES

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

The Association's Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2016 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings. During 2010, the Association's Board approved use of financial parameters or guidelines to assist in capital planning and in determining the appropriate level of patronage to distribute. These patronage parameters were also included in the 2016 capital adequacy plan.

Total members' equity at December 31, 2016, increased 9.92 percent to $264,152 from the December 31, 2015, total of $240,322. At December 31, 2015, total members' equity increased 5.06 percent from the December 31, 2014 total of $228,758. The increase in both 2016 and 2015 is primarily attributed to net income earned during the respective years, offset by patronage refunds to customers. Preferred stock also increased in 2016.

Preferred stock was $43,250 as of December 31, 2016, an increase of 35.78 percent over the December 31, 2015 level of $31,853. This Preferred stock is a non-voting, at-risk Class of stock that is only available to Association stockholders. Dividends are paid quarterly on outstanding shares of preferred stock, and for the year ended December 31, 2016, $484 in dividends were declared and paid in shares of stock, as compared to $473 for the same period in 2015. The average dividend rate paid on shares of preferred stock during 2016 was 1.25 percent, which was unchanged from 2015. Member stock and participation certificates were $3,396 on December 31, 2016, compared to $3,317 on December 31, 2015. The increase is attributed to a growth in the number of loans outstanding.

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

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

	2016	2015	2014	Regulatory Minimum
Permanent capital ratio	23.22%	23.00%	22.35%	7.00%
Total surplus ratio	19.00%	19.22%	18.58%	7.00%
Core surplus ratio	19.00%	19.22%	18.58%	3.50%

The increase in the Association's permanent capital ratio was mainly due to earnings and increased capital as of December 31, 2016. The total surplus ratio and core surplus ratio for December 31, 2016 decreased due to an increased amount of preferred stock, which is counted for permanent capital but not for total or core surplus. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

The Association is currently not prohibited from retiring stock or distributing earnings by statutory and regulatory restrictions, nor knows of any reason such prohibitions may apply for the foreseeable future.

See Note 7, *Members' Equity*, of the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to non-patronage sourced business the remaining consolidated net earnings are eligible for allocation to borrower\patrons. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of $11,183 in 2016, $10,643 in 2015, and $12,031 in 2014.

REGULATORY MATTERS

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

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

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

The following sets forth the new regulatory capital ratios:

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

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

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

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

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

FINANCIAL REGULATORY REFORM

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

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

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

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

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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


OLIVER

Disclosure Required by Farm Credit Administration Regulations

(dollars in thousands, except where noted)

Description of Business

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

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

Unincorporated Business Entities

The Association is the sole shareholder/owner of an Unincorporated Business Entity (UBE) as defined by FCA regulations. The UBE, ACF Acquisitions, LLC (ACF), is a wholly owned limited liability company organized in the state of North Carolina. ACF was organized to acquire real estate subsequent to Association foreclosure proceedings and ACF acquires and holds the Association's real estate acquired property.

In addition the UBE described above, the Association is also an owner in Ethanol Holdings, LLC, a limited liability company organized to hold a specific acquired property.

Description of Property

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

Location	Description	Form of Ownership
408 NC Hwy 561 W Ahoskie	Branch	Owned
426 McArthur Drive Elizabeth City	Vacant Building	Owned
101 Impact Boulevard Elizabeth City	Branch	Owned
100 E. First Street Greenville	Branch	Owned
419 S. King Street Halifax	Branch	Owned
7900 Hwy 70 West La Grange	Branch	Owned
1654 NC Hwy 39 N Louisburg	Branch	Owned
1309 S. Glenburnie Road New Bern	Branch	Owned
2472 Woodruff Road Rocky Mount	Branch	Owned
2850 US Hwy 70 Business East Smithfield	Branch	Owned
13191 U.S. Hwy 264 Swan Quarter	Branch	Owned
1105 Garrett Road Williamston	Branch	Owned
4000 Poole Road Raleigh	Branch/ Administrative	Owned
5201 Old Poole Road, Ste. 114 Raleigh	Agribusiness	Leased*

**Lease term is through 2019. Lease payments are $2,650 per month.*

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in this Annual Report and is to be disclosed in this section, is incorporated herein by reference.

Senior Officers

The following represents certain information regarding the senior officers of the Association. The president and CEO and all other senior officers of the Association, together with their length of service at their present position, as well as positions held during the last five years, are as follows:

Name and Title	Time in Position	Prior Experience	Other Business Interests
David W. Corum, *President and CEO*	5 years	Director of Financial Analysis and Systems at Farm Credit Services of Mid America from 1986 to 1993. Executive Vice President and Chief Financial Officer with AgCarolina Farm Credit from 1993 to March 2012. Total of 35 years of employment in the Farm Credit System, including 23 years with AgCarolina Farm Credit.	He serves on the AgFirst/FCBT Plan Fiduciary Committee and is a member of the North Carolina State University Ag Foundation Board, the North Carolina State University Agricultural Institute Advisory Board, the board of the North Carolina Foundation for Soil and Water Conservation, the board of the North Carolina Agribusiness Council, and the University of Mount Olive Agricultural Advisory Board.
Matthew J. Currin *Senior Vice President and Chief Financial Officer*	5 years	Senior Vice President and Chief Financial Officer with Cape Fear Farm Credit from 2006 until 2011 and Associate with a local accounting firm from November 2011 to April 2012. A total of 12 years of employment in the Farm Credit System including five years with AgCarolina Farm Credit.	
David C. Morris, *Senior Vice President and Chief Credit Officer*	6 years	Senior Vice President of Credit Services from 2008 until 2011. Total of 38 years of employment in the Farm Credit System, all with AgCarolina Farm Credit.	
Roy P. Robertson, Jr., *Senior Vice President - Corporate Lending*	5 years	Senior Vice President Financial Services from 2008 until 2011 and Executive Vice President and Chief Lending Officer from 2011 to March 2012. Total of 17 years of employment in the Farm Credit System, all with AgCarolina Farm Credit.	
Arthur R. (Buck) Spruill, III, *Senior Vice President –Branch Lending East*	2 years	Loan officer with East Carolina Farm Credit from 1989 to 1993. Agribusiness Executive with two commercial banks from 1993 to 2013. Agribusiness Loan Officer from 2013 to 2015. Total of seven years of employment in the Farm Credit System, all with AgCarolina Farm Credit.	He is a co-owner of a closely held family farming operation and also serves as a board member of Coastal Carolina Cotton Gin, a cotton processing facility.
Timothy M. Pace, *Senior Vice President –Branch Lending West*	5 years	Financial Services Officer from 1999 to 2008 and Senior Vice President Financial Services from 2008 to March 2012. Total of 18 years of employment in the Farm Credit System, all with AgCarolina Farm Credit.	
Linda J. Strickland, *Senior Vice President Marketing*	16 years	Marketing Manager and Executive Assistant prior to 1999. Total of 42 years of employment in the Farm Credit System, all with AgCarolina Farm Credit.	She serves as a board member of the North Carolina State University College of Agricultural and Life Sciences Research Foundation.

The total amount of compensation (in whole dollars) earned by the CEO and senior officers (excluding the CEO) as a group during the years ended December 31, 2016, 2015, and 2014, is presented in the following tables. The first table presented illustrates actual compensation received in cash in the form of salary and bonus.

		Received Compensation		
Name of Individual or Number in Group	Year	Salary	Bonus	Total Received Compensation (a)
David W. Corum	2016	$ 273,027	$ 85,456	$ 358,483
David W. Corum	2015	$ 260,851	$ 74,724	$ 335,575
David W. Corum	2014	$ 246,492	$ 94,834	$ 341,326
6 Officers	2016	$ 876,534	$ 261,068	$ 1,137,602
6 Officers	2015	$ 842,240	$ 216,938	$ 1,059,178
6 Officers	2014	$ 813,948	$ 286,720	$ 1,100,668

The table below discloses forms of perquisites and other noncash compensation and these items are described in detail in the subsequent paragraphs, which do not reflect actual cash compensation received by the CEO or officers presented. The total of all cash (a) and noncash (b) compensation for the CEO and officers is also presented here.

Perquisites and Noncash Compensation

Name of Individual or Number in Group	Year	Change in Pension*	Perquisites	Other	Total Perquisites and Noncash (b)	Total Received and Noncash Compensation (a+b)
David W. Corum	2016	$ 224,999	$ 5,956	$ 42,000	$ 272,955	$ 631,438
David W. Corum	2015	$ 980	$ 5,359	$ 40,000	$ 46,339	$ 381,914
David W. Corum	2014	$ 444,712	$ 5,593	$ 30,000	$ 480,305	$ 821,631
6 Officers	2016	$ 459,272	$ 27,146	$ 120,000	$ 606,418	$ 1,744,020
6 Officers	2015	$ 62,540	$ 23,070	$ 120,000	$ 205,610	$ 1,264,789
6 Officers	2014	$ 1,085,033	$ 24,153	$ 120,000	$ 1,229,186	$ 2,329,854

** This figure is a third party actuarial determination of the change in the present value of the estimated pension cash flows for employees as of December 31, 2016. This does not represent any actual cash compensation provided to any employee but is simply a change in the calculation that is affected by a number of assumptions and inputs.*

The table below illustrates the present value of pension benefits for the CEO and other officers presented. This value represents the third party actuarial determination of the present value of the estimated pension cash flows for employees as of December 31, 2016. This does not represent any actual cash compensation provided to any employee but is simply a calculation that is affected by a number of assumptions and inputs. Actual funds received can differ based on how actual events compare to assumptions used in the calculation.

Pension Benefits Table
As of December 31, 2016

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2016
CEO:					
David W. Corum	2016	AgFirst Retirement Plan	37.50	$ 2,723,641	$ –
			Total	$ 2,723,641	$ –
Senior Officers					
4 Officers, excluding the CEO	2016	AgFirst Retirement Plan	30.17*	$ 4,488,004	$ –
2 Officers, excluding the CEO	2016	AgFirst Cash Balance Retirement Plan	7.29*	$ 13,580	$ –
			Total	$ 4,501,584	$ –

** Represents the average years of credited service for the group*

In addition to a base salary, employees earn additional compensation under a bonus or incentive plan. The Association incentive plan is designed to motivate employees to exceed business goals during the fiscal year. Each region or business unit's incentive plan is tailored to meet the specific goals of that unit. These goals typically include loan volume, financially related services income, fee income, credit quality, credit administration, net earnings, and other key measurements. All employees in good standing are included for incentive plan eligibility. The incentive bonus is earned over the twelve-month calendar year period and is normally paid in the first quarter of the following year. In addition to the year-end incentive bonus plan described above, certain employees involved in the direct lending function are eligible for a quarterly sales incentive bonus. The sales incentive bonus is paid on new loan volume generated each quarter after a threshold amount of new loan volume is met. The President and Senior Vice Presidents do not participate in the sales incentive bonus.

The amounts included under the column heading "Change in Pension" represents the amount of year over year change in the present value of senior officers' *Actuarial Value of Accumulated Benefits,* also known as the pension accumulated benefit obligation (ABO). The ABO is an estimate of the present value of the employee's future cash flows associated with their pension, which assumes that the employee ceases to work for the company at the time the estimation is made. The ABO is unique to each participant in the plan and is calculated using a number of factors and assumptions including, but not limited to, the number of years of service in the plan, the discount rate used in the present value calculation, retirement eligibility, life expectancy of the participant, the participant's compensation basis and changes in beneficiary elections by the participant. These assumptions will almost certainly change from year to year depending on the information present at a given measurement date. The amount of the change in pension for Mr. Corum was $224,999 and the amount for the remaining officers presented above is $459,272. The main reason for the increase in each person's ABO amount is a decrease in the discount rate from 4.6% in 2015 to 4.3% in 2016. The reduction in this interest rate assumption inherently increases the ABO present value calculation for all participants in the plan.

The amounts included under the column "Perquisites" include group life insurance, spousal travel, service awards, and the unreimbursed portion of the value of the personal use of an Association provided vehicle.

The amounts included under the column heading "Other" are funds that have been invested in a nonqualified long-term deferred compensation program for certain Association employees. The program provides deferred compensation benefits to encourage focus on strategies that are in the long-term best interest of the Association and its shareholders. Under the program the funds are placed in a Trust owned by the Association. Compensation is deferred until a later date upon which the employee meets certain vesting guidelines and employment is terminated. All current and future assets used by the Association to fund this program will remain general assets of the Association until payment or distribution is made.

Amounts disclosed in the *Pension Benefits Table* represent the retirement plan(s) which CEO and other senior officers participate in and details about certain aspects of the plan(s). As illustrated, the CEO and four senior officers participate in the AgFirst Retirement Plan and two senior officers participate in the AgFirst Cash Balance Plan. The number of years of credited service for the Association's CEO is 37.50 years. The average of the four officers in the AgFirst Retirement Plan, exclusive of the CEO, is shown at 30.17 years, with a range of credited service within the plan from 17 to 44 years. The two officers who participate in the AgFirst Cash Balance Plan have an average of 7.29 years of credited service as of December 31, 2016.

The "Actuarial Present Value of Accumulated Benefits" column in the *Pension Benefits Table* represents the present value of the future cash flows related to the pension plans for the CEO and other senior officers as a group (exclusive of the CEO), also known as the ABO. The ABO is affected by a number of factors and assumptions, as described earlier. The ABO amount represents a point-in-time valuation and the actual amounts paid in retirement could be considerably less if all assumptions made in the calculation are not realized.

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

Additional Compensation Information

On March 31, 2014, the FCA published an interim final rule rescinding all requirements for nonbinding advisory votes on senior officer compensation at System banks and associations. The comment period for the interim rule ended on April 30, 2014 and the final rule became effective on June 18, 2014.

On February 4, 2015, the FCA Board approved the final rule, "Disclosure to Shareholders; Pension Benefit Disclosures." The rule amends FCA regulations to exclude employee compensation from being reported in the Summary Compensation Table if the employee would be considered a "highly compensated employee" solely because of payments related to or change(s) in value of the employee's qualified pension plan provided that the plan was available to all similarly situated employees on the same basis at the time the employee joined the plan. The rule will be effective 30 days after publication in the Federal Register during which time either one or both Houses of Congress are in session. System banks and associations were to comply with the rule for compensation reported in the table for the fiscal year ending 2015, and may implement the rule retroactively for the fiscal year ended 2014. The Association applied the rule retroactively to 2014 but this application had no effect on the 2014 amounts as previously reported in the 2014 Annual Report. All amounts reported in 2015 and 2016 were applied using the aforementioned approach to this rule.

Directors

The following chart details the number of meetings, other activities, current committee assignments, the current term, additional compensation paid for other activities (if applicable), and total cash compensation paid for each director (all amounts are in whole dollars):

Name of Director	Year of Original Election/ Appointment	Days Served: Regular Board Meetings	Days Served: Other Official Activities*	2016 Committee Assignments	Current Term*	Comp. Paid for other Activities**	Total Comp. Paid During 2016
Ellis W. Taylor, *Chairman*	2007	6	19	Executive, Governance	2015-2018	$9,500	$17,500
Paul A. Drake, *Vice Chairman*	2007	6	20	Audit, Executive, Governance	2015-2018	10,000	18,000
Robert H. Bazemore, Jr.	2011	6	14	Audit, Compensation	2016-2019	7,000	15,000
Jack E. Finley	2006	5	18	Audit, Compensation, Governance	2014-2017	9,000	16,500
Clifton L. Keel	2007	6	9	Compensation	2015-2018	4,500	12,500
Bundy H. Lane	2008	5	7	Credit, Governance	2016-2019	3,500	11,000
Audie M. Murphy	2006	6	17	Executive, Credit	2014-2017	8,500	16,500
S. Stuart Pierce	2005	6	21	Audit, Compensation, Governance	2017-2020	10,500	18,500
B. Derek Potter	2009	6	14	Audit	2014-2017	7,000	15,000
Rodney D. Smith	2012	6	13	Credit	2017-2020	6,500	14,500
Jackie E. Thompson, Sr.	2016	5	10	Credit	2016-2019	5,000	12,500
Eldridge T. Westbrook	2002	6	18	Credit	2017-2020	9,000	17,000
TOTAL						$90,000	$184,500

**Term effective dates were changed in 2013 from the Annual Meeting date to the beginning of the subsequent year after election. All directors elected in 2016 officially began their current term January 1, 2017 and will complete their current term on December 31, 2020.*
***Includes board committee meetings and other board activities other than regular board meetings, including Director training and participation in conferences.*

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

The aggregate amount (in whole dollars) of reimbursement for travel, subsistence and other related expenses for all directors as a group was $81,197 for 2016, $103,805 for 2015 and $96,203 for 2014. Subject to approval by the board, the Association may provide payment to directors of $500 per day for attendance at meetings, committee meetings, or special assignments. In addition to the per day payment, directors are paid a quarterly retainer fee of $1,250. Total compensation paid to directors as a group was $184,500. Association directors also benefited from non-cash compensation related to premiums that were paid on their behalf for accidental death and dismemberment insurance for Association related travel and business. Total non-cash compensation for directors as a group was $1,119 during 2016.

The following sets forth certain information regarding the directors of the Association who served during 2016 and their principal occupation for the past five years:

Ellis W. Taylor, *Chairman*, is a row crop farmer in Halifax County who also serves on the boards of the Federal Farm Credit Banks Funding Corporation, the funding agent for the Farm Credit System, AgFirst Farm Credit Bank, the district Farm Credit Bank, Northampton County Farm Bureau and Roanoke Cotton Company LLC.

Paul A. Drake*, Vice Chairman* is a row crop and livestock farmer in Edgecombe County who also serves on the boards of Edgecombe Volunteer Ag District, South Edgecombe Rural Fire Department, and the board of several closely held family farming entities. He also serves as a director and as treasurer of the East Carolina Livestock Arena and is supervisor of the Edgecombe County Soil & Water Conservation Board.

Robert H. Bazemore, Jr., Outside Director, is the former Vice President of Audit Services, and previously served as the Controller and Chief Accounting Officer, of Progress Energy, Inc.

Jack E. Finley, Outside Director, is a former Banking Industry Senior Advisor and partner with the public accounting firm Grant Thornton, is a former managing partner of the Oklahoma City office of the public accounting firm KPMG, and serves on the board of the North Carolina Theatre, Haven House Services, a nonprofit, and the Research Triangle Chapter of the National Association of Corporate Directors.

Clifton L. Keel is a row crop farmer in Martin County.

Bundy H. Lane is a row crop and livestock farmer in Gates County who serves on the board of Gates Cotton Gin and is a Board member and officer of several closely held family farming entities.

Audie M. Murphy is a row crop and poultry farmer in Greene County who also serves as secretary of the Greene Gin and Cotton Company, the Farm Bureau Board, and serves as an officer and director on several closely held family farming entities.

S. Stuart Pierce is a row crop farmer in Hertford County who also serves on the board of Producers Gin of Murfreesboro, manages Ahoskie Fertilizer Co, Inc., is currently serving as President of the Hertford County Farm Bureau and serves on the North Carolina Farm Bureau Board.

B. Derek Potter is a row crop farmer in Pamlico County who also serves on the board of a closely held farming corporation, the United Soybean Board, the North Carolina Soybean Board, the Pamlico County Soil & Water Board, the Pamlico County Voluntary Ag District and the Pamlico County Extension Advisory Committee.

Rodney D. Smith is a row crop and livestock farmer in Lenoir County.

Jackie E. Thompson, Sr. is a row crop and produce farmer in Wake County who also serves on the boards of Wake County Farm Bureau, North Carolina Farm Bureau, and the North Carolina Tobacco Growers Association.

Eldridge T. Westbrook is a row crop and livestock farmer in Johnston County.

Transactions with Senior Officers and Directors

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

Involvement in Certain Legal Proceedings

There were no matters which came to the attention of management or the board of directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

Relationship with Independent Auditor

There were no changes in or material disagreements with the independent auditor on any matter of accounting principles or financial statement disclosure during this period.

Aggregate fees incurred by the Association for services rendered by its independent auditor for the year ended December 31, 2016 were as follows (in whole dollars):

	2016
Independent Auditor	
Dixon Hughes Goodman LLP	
Audit services	$ 78,500
Nonaudit services	25,400
Total	$ 103,900

Dixon Hughes Goodman LLP audit fees were for the annual audit of the consolidated financial statements. Of the $78,500, $8,000 was for additional work performed on loan type classifications during the 2015 audit. The Association also paid Dixon Hughes Goodman LLP $25,400 for nonaudit services during 2016 including a voluntary review of its information technology systems ($22,000) and also for assistance with the tabulation of ballots for the Association's annual Director Election ($3,400).

All nonaudit service fees incurred by the Association were approved by the Board Audit Committee.

Preferred Stock Insider Transactions

The following describes transactions related to the purchase/sale of Association preferred stock by senior officers or directors who are considered Insiders which occurred during the 12-month period ended December 31, 2016. An Insider is defined to include any one or more of the following: (1) the Association's directors, officers, employees and agents; (2) any corporation, partnership, limited liability company or other entity of which any of the Association's directors, officers, employees or agents, or nominees of any of the foregoing, are a director, officer, partner or the holder of a majority of the equity ownership of the entity; and (3) the spouse and any other person who regularly resides in the same household of any officer, director, employee or agent.

There were no transactions with any senior officer or director related to the purchase or retirement of preferred stock of the Association for the year ended December 31, 2016 and the average dividend rate paid on shares of preferred stock during 2016 was 1.25 percent.

Consolidated Financial Statements

The consolidated financial statements, together with the report of Dixon Hughes Goodman LLP dated March 13, 2017 and the report of management, which appear in this Annual Report, are included herein.

Copies of the Association's quarterly reports are available upon request free of charge by calling 1-800-951-3276 or writing Matt Currin, AgCarolina Farm Credit, P.O. Box 14789, Raleigh, NC 27620, or accessing the website, *www.AgCarolina.com.* The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

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

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

Shareholder Investment

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

Young, Beginning, and Small Farmers and Ranchers Program

The Association's mission includes providing sound and constructive credit and related services to young, beginning, and small (YBS) farmers and ranchers. Annual marketing goals are established to increase market share of loans to YBS farmers and ranchers. To facilitate our lending programs, financing programs and use of government guaranteed loan programs have been adopted and implemented. Educational opportunities, leadership training, business financial training, and insurance services for YBS farmers and ranchers have been developed or sponsored.

YBS farmers and ranchers are defined as:

Young Farmer: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the date the loan is originally made.

Beginning Farmer: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the date the loan is originally made.

Small Farmer: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than $250 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

The following tables outline the loan volume (in thousands) and number of outstanding YBS loans as of December 31, 2016 and new YBS loans made in 2016 as compared to the annual marketing goals set forth in the Association's annual business plan.

Total Portfolio Goals and Progress
As of December 31, 2016

	Number of Loans		Amount of Loans	
	2016 Goal	2016 Actual	2016 Goal	2016 Actual
Young	843	808	$127,076	$127,897
Beginning	993	999	134,100	139,924
Small	1,950	1,960	167,668	162,806

New Loan Goals and Progress
December 31, 2016

	Number of Loans		Amount of Loans	
	2016 Goal	2016 Actual	2016 Goal	2016 Actual
Young	230	279	$40,050	$70,832
Beginning	258	338	37,474	67,944
Small	530	650	41,066	57,019

The following table shows the Association's YBS loans as a percent of the total number of loans as of December 31, 2016, and comparable demographics from the 2012 Agricultural Census. The Association's percentages vary from the Census percentages because the Association's methodology uses number of loans and the Census uses number of farmers.

	Association 12/31/16 Number of Loans	2012 Ag Census Number of Farmers
Young	11.76%	4.54%
Beginning	14.54%	18.14%
Small	28.53%	77.13%

As part of the Association's YBS program, the Association has established the following mission statement, qualitative goals, and methods to ensure credit and services are provided in a safe and sound manner. These program components are described below along with a status report of each component.

YBS Program Component	Status
Mission Statement: AgCarolina Farm Credit recognizes that young, beginning, and small farmers and ranchers face many challenges and obstacles. Our organization is dedicated to improving the future of agriculture and rural America by supporting young, beginning, and small farmers and ranchers through educational and leadership opportunities as well as providing competitive lending.	The Association is meeting its mission statement by fulfilling the credit needs of YBS farmers in the Association's territory.
Qualitative Goals: The following qualitative goals were set for 2016: • Become the lender of choice among all eligible and creditworthy farmers, agribusiness owners and rural homeowners in the AgCarolina market. • Increase brand awareness in the young, beginning, small, and minority segment. • Serve as a resource to the young, beginning, small, and minority segment as they make major financial decisions impacting their ag operations. • Reach individuals involved in retail agriculture and non-traditional ag markets through our participation in events (i.e. trade shows, fairs, sponsorships) targeting these markets. • Assist women in becoming better business and financial managers in their farming operation through programs and events.	The Association participated in the following YBS activities during 2016 in meeting its qualitative goals: • Supported the commodity groups including those that benefit the diverse segments of the ag community: NC Junior Beef Roundup, NC Dairy Association, NC Minority Landowners Conference, and the Center for Environmental Farming Systems. • Sponsorship of livestock shows • Supported the North Carolina FFA and 4-H groups by providing financial assistance and sponsorships. • Sponsor of 4-H Public Speaking program • Session sponsor at annual FFA State Convention • Partnered with the Tobacco Farm Life Museum in recognizing a young producer with the "Innovative Young Farmer" award. • Provided scholarships to North Carolina State University and other North Carolina colleges and universities, including the North Carolina State University Ag Institute. • Grants presented to organizations across eastern North Carolina for programs that included FFA projects, as well as 4-H projects. • Provided an online educational program, Ag Biz Planner, for young, beginning, small, and minority producers. • Sponsor of NC Choices Carolina Meat Conference and the Farm to Fork Picnic • Participated in pilot program, Ag Biz Basics for Farmer Veterans. • Ag Leadership Institute, with Dr. Dave Kohl, providing financial training, as well as information for better farm management for young couples. • Supported the NC Ag Leadership Program • Sponsor of Ag Day at North Carolina State University • Sponsor of AgFest at University of Mount Olive • Supported the NC Farm School • Sponsor of the Northeast Regional Ag Expo • Conducted customer Grain Marketing breakfast meetings • Conducted customer Agricultural Economic Forums
Credit & Service Methods: Ensure methods are in place to make sure that credit and services offered to YBS farmers are provided in a safe and sound manner, and within the Association's risk-bearing capacity.	The Association's YBS program includes customized loan underwriting standards, loan guarantees, additional co-makers, and other credit enhancements to ensure that credit and services are provided in a safe and sound manner, and within the Association's risk-bearing capacity.

Report of the Audit Committee

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

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

Dixon Hughes Goodman LLP (DHG), the Association's independent auditor for 2016, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with DHG the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance)*. DHG has provided to the Committee the written disclosures required by professional standards, and the Committee has discussed with DHG that firm's independence.

The Committee discussed with DHG its independence from AgCarolina Farm Credit, ACA. The Committee also reviewed the non-audit services provided by DHG and concluded that these services were not incompatible with maintaining DHG's independence.

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

Robert H. Bazemore, Jr.

Robert H. Bazemore, Jr.
Chairman of the Audit Committee

Members of Audit Committee

Robert H. Bazemore, Jr.
Paul A. Drake
Jack E. Finley
S. Stuart Pierce
B. Derek Potter

March 13, 2017

Independent Auditors' Report

DIXON HUGHES GOODMAN LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members
AgCarolina Farm Credit, ACA
Raleigh, North Carolina

We have audited the accompanying consolidated financial statements of AgCarolina Farm Credit, ACA (the "Association") which comprise the consolidated balance sheets as of December 31, 2016, 2015, and 2014, and the related consolidated statements of comprehensive income, changes in members' equity and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AgCarolina Farm Credit, ACA as of December 31, 2016, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

Raleigh, North Carolina

March 13, 2017

Consolidated Balance Sheets

(dollars in thousands)	2016	December 31, 2015	2014
Assets			
Cash	**$ 3,465**	$ 2,066	$ 2,275
Loans	**1,092,080**	1,021,011	980,181
Allowance for loan losses	**(12,143)**	(11,913)	(11,602)
Net loans	**1,079,937**	1,009,098	968,579
Accrued interest receivable	**14,913**	13,595	12,590
Investments in other Farm Credit institutions	**12,248**	11,549	11,227
Premises and equipment, net	**10,011**	9,995	9,650
Accounts receivable	**12,434**	11,579	15,501
Other assets	**8,822**	9,748	9,312
Total assets	**$ 1,141,830**	$ 1,067,630	$ 1,029,134
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 846,527**	$ 798,928	$ 768,069
Accrued interest payable	**1,728**	1,586	1,484
Patronage refunds payable	**11,225**	10,708	12,097
Accounts payable	**2,627**	2,015	2,608
Other liabilities	**15,571**	14,071	16,118
Total liabilities	**877,678**	827,308	800,376
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**46,646**	35,171	34,944
Retained earnings			
Allocated	**150,444**	138,340	126,501
Unallocated	**67,062**	66,811	67,313
Total members' equity	**264,152**	240,322	228,758
Total liabilities and members' equity	**$ 1,141,830**	$ 1,067,630	$ 1,029,134

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2016	2015	2014
Interest Income			
Loans	**$ 49,132**	$ 44,839	$ 45,909
Investments	**—**	—	30
Total interest income	**49,132**	44,839	45,939
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**20,161**	17,843	17,114
Net interest income	**28,971**	26,996	28,825
Provision for (reversal of allowance for) loan losses	**668**	—	(2,068)
Net interest income after provision for (reversal of allowance for) loan losses	**28,303**	26,996	30,893
Noninterest Income			
Loan fees	**3,003**	2,586	2,586
Fees for financially related services	**806**	957	1,001
Patronage refunds from other Farm Credit institutions	**12,402**	11,578	15,472
Gains (losses) on sales of premises and equipment, net	**41**	96	67
Gains (losses) on other transactions	**254**	(45)	282
Other noninterest income	**—**	1	72
Total noninterest income	**16,506**	15,173	19,480
Noninterest Expense			
Salaries and employee benefits	**14,305**	13,880	13,896
Occupancy and equipment	**1,103**	1,127	1,075
Insurance Fund premiums	**1,424**	999	921
(Gains) losses on other property owned, net	**—**	—	39
Other operating expenses	**3,800**	3,507	3,685
Total noninterest expense	**20,632**	19,513	19,616
Income before income taxes	**24,177**	22,656	30,757
Provision (benefit) for income taxes	**(2)**	8	1
Net income	**24,179**	22,648	30,756
Other comprehensive income	**—**	—	—
Comprehensive income	**$ 24,179**	$ 22,648	$ 30,756

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

Consolidated Statements of Changes In Members' Equity

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2013	$ 34,109	$ 110,215	$ 65,271	$ 209,595
Comprehensive income			30,756	30,756
Capital stock/participation certificates issued/(retired), net	401			401
Dividends declared/paid	434		(434)	—
Patronage distribution				
Cash			(12,031)	(12,031)
Nonqualified retained earnings		16,337	(16,337)	—
Patronage distribution adjustment		(51)	88	37
Balance at December 31, 2014	$ 34,944	$ 126,501	$ 67,313	$ 228,758
Comprehensive income			22,648	22,648
Capital stock/participation certificates issued/(retired), net	(246)			(246)
Dividends declared/paid	473		(473)	—
Patronage distribution				
Cash			(10,643)	(10,643)
Nonqualified retained earnings		11,024	(11,024)	—
Patronage distribution adjustment		815	(1,010)	(195)
Balance at December 31, 2015	$ 35,171	$ 138,340	$ 66,811	$ 240,322
Comprehensive income			**24,179**	**24,179**
Capital stock/participation certificates issued/(retired), net	**10,991**			**10,991**
Dividends declared/paid	**484**		**(484)**	**—**
Patronage distribution				
Cash			**(11,183)**	**(11,183)**
Nonqualified retained earnings		**11,875**	**(11,875)**	**—**
Patronage distribution adjustment		**229**	**(386)**	**(157)**
Balance at December 31, 2016	**$ 46,646**	**$ 150,444**	**$ 67,062**	**$ 264,152**

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2016	2015	2014
Cash flows from operating activities:			
Net income	**$ 24,179**	$ 22,648	$ 30,756
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**851**	826	819
Premium amortization (discount accretion) on investments	**—**	—	(30)
Provision for (reversal of allowance for) loan losses	**668**	—	(2,068)
(Gains) losses on other property owned	**—**	—	19
(Gains) losses on sales of premises and equipment, net	**(41)**	(96)	(67)
(Gains) losses on other transactions	**(254)**	45	(282)
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	**(1,318)**	(1,005)	(474)
(Increase) decrease in accounts receivable	**(855)**	3,922	306
(Increase) decrease in other assets	**926**	(436)	354
Increase (decrease) in accrued interest payable	**142**	102	30
Increase (decrease) in accounts payable	**612**	(593)	1,768
Increase (decrease) in other liabilities	**1,754**	(2,092)	997
Total adjustments	**2,485**	673	1,372
Net cash provided by (used in) operating activities	**26,664**	23,321	32,128
Cash flows from investing activities:			
Net (increase) decrease in loans	**(71,507)**	(40,519)	(63,261)
(Increase) decrease in investment in other Farm Credit institutions	**(699)**	(322)	(150)
Proceeds from payments received on other investments	**—**	—	16,186
Purchases of premises and equipment	**(897)**	(1,428)	(1,709)
Proceeds from sales of premises and equipment	**71**	353	55
Proceeds from sales of other property owned	**—**	—	384
Net cash provided by (used in) investing activities	**(73,032)**	(41,916)	(48,495)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**47,599**	30,859	26,716
Capital stock and participation certificates issued/(retired), net	**10,991**	(246)	401
Patronage refunds and dividends paid	**(10,823)**	(12,227)	(12,515)
Net cash provided by (used in) financing activities	**47,767**	18,386	14,602
Net increase (decrease) in cash	**1,399**	(209)	(1,765)
Cash, beginning of period	**2,066**	2,275	4,040
Cash, end of period	**$ 3,465**	$ 2,066	$ 2,275
Supplemental schedule of non-cash activities:			
Estimated cash dividends or patronage distributions declared or payable	**$ 11,183**	$ 10,643	$ 12,031
Dividends declared or payable in shares of preferred stock	**484**	473	434
Supplemental information:			
Interest paid	**20,019**	17,741	17,084
Taxes (refunded) paid, net	**—**	(3)	—

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except where noted)

Note 1 — Organization and Operations

A. **Organization:** AgCarolina Farm Credit, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Beaufort, Bertie, Camden, Carteret, Chowan, Craven, Currituck, Dare, Edgecombe, Franklin, Gates, Granville, Greene, Halifax, Hertford, Hyde, Johnston, Jones, Lenoir, Martin, Nash, Northampton, Onslow, Pamlico, Pasquotank, Perquimans, Pitt, Tyrrell, Vance, Wake, Warren, Washington, Wayne, and Wilson in the state of North Carolina.

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

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

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

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

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

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

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

The Bank primarily lends to the District Associations in the form of a line of credit to fund the Associations' earning assets. These lines of credit (or Direct Notes) are collateralized by a pledge of substantially all of each Association's assets. The terms of the Direct Notes are governed by a lending agreement between the Bank and Association. Each advance is structured such that the principal cash flow, repricing characteristics, and underlying index (if any) of the advance match those of the assets being funded. By match-funding the Association loans, the Associations' exposure to interest rate risk is minimized.

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

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

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

Note 2 — Summary of Significant Accounting Policies

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

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

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

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

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

   Loans are carried at their principal amount outstanding adjusted for charge-offs, premiums, discounts, deferred loan fees or costs, and derivative instruments and hedging valuation adjustments, if any. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

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

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

   When loans are in nonaccrual status, the interest portion of payments received in cash is recognized as interest income if collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it. Otherwise, loan payments are applied against the recorded investment in the loan. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified "doubtful" or "loss."

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

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

   The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified. The allowance for loan losses is a valuation account used to reasonably estimate loan losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss.

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

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

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

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

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

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

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

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

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

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

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

Other Investments
As discussed in Note 8, certain investments, consisting primarily of mutual funds, are held in trust and investment accounts and are reported at fair value. Holding period gains and losses are included within other noninterest income on the Consolidated Statements of Comprehensive Income and the balance of these investments, totaling $2,255, is included in Other Assets on the accompanying Consolidated Balance Sheet as of December 31, 2016.

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

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

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

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

maximum deferral as determined and adjusted by the Internal Revenue Service. Company contributions to the 401(k) Plan are expensed as funded.

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

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

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

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

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

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

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

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

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

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

J. **Accounts Receivable:** The Association records patronage refunds from the Bank on an accrual basis. Patronage refunds due from the Bank for the years ended December 31, 2016, December 31, 2015, and December 31, 2014 of $12,284, $11,466, and $15,410, respectively, are reflected in Accounts Receivable on the Consolidated Balance Sheet.

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

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

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

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

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

A number of methodologies may be employed to value items for which an observable active market does not exist. Examples of these items include: impaired loans, other property owned, and certain derivatives, investment securities and other financial instruments. Inputs to these valuations can involve estimates and assumptions that require a substantial degree of judgment. Some of the assumptions used include, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing, and liquidation values. The use of different assumptions could produce significantly different asset or liability values, which could have material positive or negative effects on results of operations.

Please see further discussion in Note 8.

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

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

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

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

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

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

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

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

In August, 2016, the FASB issued ASU 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). Stakeholders had indicated there was diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The Update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments are to be applied using a retrospective transition method to each period presented. Application of this guidance is not expected to have a material impact on the Association's financial condition or results of operations.

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

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

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

In February, 2016, the FASB issued ASU 2016-02 Leases (Topic 842). The Update is intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, airplanes, and manufacturing equipment. The ASU will require organizations that lease assets—referred to as "lessees"—to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. A lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current guidance, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, the new ASU will require both types of leases to be recognized on the balance sheet. The Update also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The accounting by organizations that own the assets leased by the lessee—also known as lessor accounting—will remain largely unchanged from current guidance. However, the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in 2014. The amendments are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early application will be permitted for all organizations. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

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

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

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

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

In November, 2014, the FASB issued ASU 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity. Under GAAP, features such as conversion rights, redemption rights, dividend payment preferences, and others that are included in instruments issued in the form of shares may qualify as derivatives. If so, the shares issued are considered hybrid financial instruments. To determine the proper accounting for hybrid financial instruments, investors and issuers in the instruments must determine whether the nature of the host contract containing the feature is more akin to debt or equity as well as whether the economic characteristics and risks of the embedded derivative feature are clearly and closely related to the host contract. The purpose of the Update is to eliminate diversity in accounting for hybrid financial instruments by both issuers and investors. When evaluating the host contract to determine whether it is more akin to debt or equity, the reporting entity should consider all relevant terms and features of the contract, including the embedded derivative feature that is being evaluated for separation. The amendments in this Update were effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Adoption of this guidance was applied on a modified retrospective basis and did not have a material impact on the Association's financial condition or results of operations.

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

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

Note 3 — Loans and Allowance for Loan Losses

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

Credit risk arises from the potential inability of an obligor to meet its repayment obligation which exists in outstanding loans.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A summary of loans outstanding at period end follows:

	December 31,		
	2016	2015	2014
Real estate mortgage	$ 611,456	$ 551,018	$ 567,305
Production and intermediate-term	407,165	403,230	343,435
Loans to cooperatives	2,482	745	684
Processing and marketing	26,709	22,221	18,228
Farm-related business	4,946	2,262	8,881
Communication	1,892	–	–
Power and water/waste disposal	14	72	105
Rural residential real estate	37,416	41,463	41,543
Total Loans	$ 1,092,080	$ 1,021,011	$ 980,181

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

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

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

	December 31, 2016							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 3,896	$ 41,048	$ –	$ 1,279	$ –	$ –	$ 3,896	$ 42,327
Production and intermediate-term	21,697	70,965	4,137	140,263	–	–	25,834	211,228
Loans to cooperatives	2,485	–	–	–	–	–	2,485	–
Processing and marketing	11,867	14,518	320	–	–	–	12,187	14,518
Farm-related business	1,294	–	–	–	–	–	1,294	–
Communication	1,899	–	–	–	–	–	1,899	–
Power and water/waste disposal	14	–	–	–	–	–	14	–
Total	$ 43,152	$ 126,531	$ 4,457	$ 141,542	$ –	$ –	$ 47,609	$ 268,073

	December 31, 2015							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 3,457	$ 40,211	$ –	$ 8,851	$ –	$ –	$ 3,457	$ 49,062
Production and intermediate-term	17,234	213,731	3,685	8,417	151,635	–	172,554	222,148
Loans to cooperatives	521	–	–	–	–	–	521	–
Processing and marketing	16,894	8,657	481	–	–	–	17,375	8,657
Farm-related business	1,686	–	–	–	–	–	1,686	–
Total	$ 39,792	$ 262,599	$ 4,166	$ 17,268	$ 151,635	$ –	$ 195,593	$ 279,867

	December 31, 2014							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 8,326	$ 30,578	$ –	$ 1,757	$ –	$ –	$ 8,326	$ 32,335
Production and intermediate-term	20,575	69,565	3,500	138,273	151,795	–	175,870	207,838
Loans to cooperatives	578	–	–	–	–	–	578	–
Processing and marketing	14,244	9,969	641	–	6,860	–	21,745	9,969
Farm-related business	2,842	–	–	–	–	–	2,842	–
Total	$ 46,565	$ 110,112	$ 4,141	$ 140,030	$ 158,655	$ –	$ 209,361	$ 250,142

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

	December 31, 2016			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 25,871	$ 111,181	$ 474,404	$ 611,456
Production and intermediate term	186,181	158,449	62,535	407,165
Loans to cooperatives	–	2,482	–	2,482
Processing and marketing	5,242	12,054	9,413	26,709
Farm-related business	1,123	1,777	2,046	4,946
Communication	–	629	1,263	1,892
Power and water/waste disposal	–	14	–	14
Rural residential real estate	518	3,211	33,687	37,416
Total Loans	$ 218,935	$ 289,797	$ 583,348	$ 1,092,080
Percentage	20.05%	26.53%	53.42%	100.00%

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

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

	December 31, 2016	2015	2014
Real estate mortgage:			
Acceptable	89.11%	89.30%	91.58%
OAEM	6.47	5.70	3.82
Substandard/doubtful/loss	4.42	5.00	4.60
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	87.42%	90.83%	93.66%
OAEM	9.84	7.13	4.62
Substandard/doubtful/loss	2.74	2.04	1.72
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	96.98%	99.19%	98.71%
OAEM	–	0.81	1.29
Substandard/doubtful/loss	3.02	–	–
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%

	December 31, 2016	2015	2014
Communication:			
Acceptable	100.00%	–%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	–%	–%
Power and water/waste disposal:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	97.84%	96.84%	95.76%
OAEM	0.89	1.67	2.63
Substandard/doubtful/loss	1.27	1.49	1.61
	100.00%	100.00%	100.00%
Total Loans:			
Acceptable	89.05%	90.12%	92.70%
OAEM	7.33	6.11	3.97
Substandard/doubtful/loss	3.62	3.77	3.33
	100.00%	100.00%	100.00%

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

December 31, 2016

	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 3,358	$ 4,371	$ 7,729	$ 612,126	$ 619,855	$ –
Production and intermediate-term	2,057	2,334	4,391	409,032	413,423	–
Loans to cooperatives	–	–	–	2,484	2,484	–
Processing and marketing	–	809	809	25,993	26,802	–
Farm-related business	–	–	–	4,980	4,980	–
Communication	–	–	–	1,893	1,893	–
Power and water/waste disposal	–	–	–	14	14	–
Rural residential real estate	17	115	132	37,410	37,542	–
Total	$ 5,432	$ 7,629	$ 13,061	$ 1,093,932	$ 1,106,993	$ –

December 31, 2015

	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 4,178	$ 1,697	$ 5,875	$ 552,659	$ 558,534	$ –
Production and intermediate-term	1,269	349	1,618	407,390	409,008	–
Loans to cooperatives	–	–	–	747	747	–
Processing and marketing	–	–	–	22,312	22,312	–
Farm-related business	–	–	–	2,275	2,275	–
Power and water/waste disposal	–	–	–	72	72	–
Rural residential real estate	132	135	267	41,391	41,658	–
Total	$ 5,579	$ 2,181	$ 7,760	$ 1,026,846	$ 1,034,606	$ –

	December 31, 2014					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 1,742	$ 688	$ 2,430	$ 572,727	$ 575,157	$ –
Production and intermediate-term	911	1,093	2,004	345,760	347,764	–
Loans to cooperatives	–	–	–	684	684	–
Processing and marketing	–	–	–	18,302	18,302	–
Farm-related business	–	–	–	9,033	9,033	–
Power and water/waste disposal	–	–	–	105	105	–
Rural residential real estate	677	–	677	41,049	41,726	–
Total	$ 3,330	$ 1,781	$ 5,111	$ 987,660	$ 992,771	$ –

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

	December 31,		
	2016	2015	2014
Nonaccrual loans:			
Real estate mortgage	$ 13,534	$ 13,180	$ 9,667
Production and intermediate-term	3,871	1,425	1,262
Processing and marketing	809	–	–
Rural residential real estate	283	490	531
Total	$ 18,497	$ 15,095	$ 11,460
Accruing restructured loans:			
Real estate mortgage	$ 2,300	$ 2,627	$ 2,940
Production and intermediate-term	134	–	–
Total	$ 2,434	$ 2,627	$ 2,940
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 20,931	$ 17,722	$ 14,400
Other property owned	–	–	–
Total Nonperforming assets	$ 20,931	$ 17,722	$ 14,400
Nonaccrual loans as a percentage of total loans	1.69%	1.48%	1.17%
Nonperforming assets as a percentage of total loans and other property owned	1.92%	1.74%	1.47%
Nonperforming assets as a percentage of capital	7.92%	7.37%	6.29%

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

	December 31,		
	2016	2015	2014
Impaired nonaccrual loans:			
Current as to principal and interest	$ 8,400	$ 8,847	$ 8,722
Past due	10,097	6,248	2,738
Total	18,497	15,095	11,460
Impaired accrual loans:			
Restructured	2,434	2,627	2,940
90 days or more past due	–	–	–
Total	2,434	2,627	2,940
Total impaired loans	$ 20,931	$ 17,722	$ 14,400
Additional commitments to lend	$ –	$ –	$ –

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

	December 31, 2016			Year Ended December 31, 2016	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 5,907	$ 7,489	$ 1,799	$ 5,231	$ 281
Production and intermediate-term	1,990	2,819	437	1,762	95
Processing and marketing	–	–	–	–	–
Rural residential real estate	69	69	2	61	3
Total	$ 7,966	$ 10,377	$ 2,238	$ 7,054	$ 379
With no related allowance for credit losses:					
Real estate mortgage	$ 9,927	$ 12,573	$ –	$ 8,789	$ 473
Production and intermediate-term	2,015	3,327	–	1,784	96
Processing and marketing	809	824	–	716	39
Rural residential real estate	214	367	–	190	10
Total	$ 12,965	$ 17,091	$ –	$ 11,479	$ 618
Total:					
Real estate mortgage	$ 15,834	$ 20,062	$ 1,799	$ 14,020	$ 754
Production and intermediate-term	4,005	6,146	437	3,546	191
Processing and marketing	809	824	–	716	39
Rural residential real estate	283	436	2	251	13
Total	$ 20,931	$ 27,468	$ 2,238	$ 18,533	$ 997

	December 31, 2015			Year Ended December 31, 2015	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 4,967	$ 6,127	$ 1,702	$ 4,368	$ 149
Production and intermediate-term	169	300	32	149	5
Rural residential real estate	–	–	–	–	–
Total	$ 5,136	$ 6,427	$ 1,734	4,517	154
With no related allowance for credit losses:					
Real estate mortgage	$ 10,841	$ 13,663	$ –	$ 9,535	$ 324
Production and intermediate-term	1,255	3,090	–	1,104	37
Rural residential real estate	490	809	–	431	15
Total	$ 12,586	$ 17,562	$ –	11,070	376
Total:					
Real estate mortgage	$ 15,808	$ 19,790	$ 1,702	$ 13,903	$ 473
Production and intermediate-term	1,424	3,390	32	1,253	42
Rural residential real estate	490	809	–	431	15
Total	$ 17,722	$ 23,989	$ 1,734	$ 15,587	$ 530

	December 31, 2014			Year Ended December 31, 2014	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 7,124	$ 8,590	$ 3,093	$ 9,576	$ 1,205
Production and intermediate-term	91	295	72	123	15
Rural residential real estate	–	–	–	–	–
Total	$ 7,215	$ 8,885	$ 3,165	$ 9,699	$ 1,220
With no related allowance for credit losses:					
Real estate mortgage	$ 5,483	$ 7,431	$ –	$ 7,370	$ 927
Production and intermediate-term	1,171	3,216	–	1,574	198
Rural residential real estate	531	776	–	714	90
Total	$ 7,185	$ 11,423	$ –	$ 9,658	$ 1,215
Total:					
Real estate mortgage	$ 12,607	$ 16,022	$ 3,093	$ 16,947	$ 2,132
Production and intermediate-term	1,262	3,510	72	1,696	213
Rural residential real estate	531	776	–	714	90
Total	$ 14,400	$ 20,308	$ 3,165	$ 19,357	$ 2,435

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

	Year Ended December 31,		
	2016	2015	2014
Interest income which would have been recognized under the original loan terms	$ 1,955	$ 1,360	$ 3,236
Less: interest income recognized	997	530	2,435
Foregone interest income	$ 958	$ 830	$ 801

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and water/waste disposal	Rural Residential Real Estate	Total
Activity related to the allowance for credit losses:							
Balance at December 31, 2015	$ 7,197	$ 4,056	$ 249	$ –	$ 1	$ 410	$ 11,913
Charge-offs	(329)	(819)	–	–	–	–	(1,148)
Recoveries	567	143	–	–	–	–	710
Provision for loan losses	(90)	756	58	17	(1)	(72)	668
Balance at December 31, 2016	$ 7,345	$ 4,136	$ 307	$ 17	$ –	$ 338	$ 12,143
Balance at December 31, 2014	$ 7,981	$ 3,027	$ 238	$ –	$ 1	$ 355	$ 11,602
Charge-offs	(93)	(119)	–	–	–	–	(212)
Recoveries	29	494	–	–	–	–	523
Provision for loan losses	(720)	654	11	–	–	55	–
Balance at December 31, 2015	$ 7,197	$ 4,056	$ 249	$ –	$ 1	$ 410	$ 11,913
Balance at December 31, 2013	$ 9,745	$ 3,286	$ 274	$ –	$ 3	$ 389	$ 13,697
Charge-offs	(1)	(199)	–	–	–	–	(200)
Recoveries	57	116	–	–	–	–	173
Provision for loan losses	(1,820)	(176)	(36)	–	(2)	(34)	(2,068)
Balance at December 31, 2014	$ 7,981	$ 3,027	$ 238	$ –	$ 1	$ 355	$ 11,602
Allowance on loans evaluated for impairment:							
Individually	$ 1,799	$ 437	$ –	$ –	$ –	$ 2	$ 2,238
Collectively	5,546	3,699	307	17	–	336	9,905
Balance at December 31, 2016	$ 7,345	$ 4,136	$ 307	$ 17	$ –	$ 338	$ 12,143
Individually	$ 1,702	$ 32	$ –	$ –	$ –	$ –	$ 1,734
Collectively	5,495	4,024	249	–	1	410	10,179
Balance at December 31, 2015	$ 7,197	$ 4,056	$ 249	$ –	$ 1	$ 410	$ 11,913
Individually	$ 3,093	$ 72	$ –	$ –	$ –	$ –	$ 3,165
Collectively	4,888	2,955	238	–	1	355	8,437
Balance at December 31, 2014	$ 7,981	$ 3,027	$ 238	$ –	$ 1	$ 355	$ 11,602
Recorded investment in loans evaluated for impairment:							
Individually	$ 15,834	$ 4,005	$ 809	$ –	$ –	$ 283	$ 20,931
Collectively	604,021	409,418	33,457	1,893	14	37,259	1,086,062
Balance at December 31, 2016	$ 619,855	$ 413,423	$ 34,266	$ 1,893	$ 14	$ 37,542	$ 1,106,993
Individually	$ 15,808	$ 1,424	$ –	$ –	$ –	$ 490	$ 17,722
Collectively	542,727	407,584	25,333	–	72	41,168	1,016,884
Balance at December 31, 2015	$ 558,535	$ 409,008	$ 25,333	$ –	$ 72	$ 41,658	$ 1,034,606
Individually	$ 12,607	$ 1,262	$ –	$ –	$ –	$ 531	$ 14,400
Collectively	562,550	346,502	28,019	–	105	41,195	978,371
Balance at December 31, 2014	$ 575,157	$ 347,764	$ 28,019	$ –	$ 105	$ 41,726	$ 992,771

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

To mitigate risk of loan losses, the Association may enter into guarantee arrangements with certain GSEs, including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was $11,990, $11,152, and $9,979 at December 31, 2016, 2015, and 2014, respectively. Fees paid for such guarantee commitments totaled $2, $2, and $0 for 2016, 2015, and 2014, respectively. These amounts are classified as noninterest expense.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. There were no new TDRs for the years ended December 31, 2016, 2015, and 2014.

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 the periods presented. Payment default is defined as a payment that was thirty days or more past due.

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

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2016	2015	2014	2016	2015	2014
Real estate mortgage	$ 9,553	$ 10,230	$ 10,959	$ 7,253	$ 7,603	$ 8,020
Production and intermediate-term	74	136	166	(60)	136	165
Total Loans	$ 9,627	$ 10,366	$ 11,125	$ 7,193	$ 7,739	$ 8,185
Additional commitments to lend	$ –	$ –	$ –			

The following table presents information as of period end:

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

Note 4 — Investments

Investments in other Farm Credit Institutions

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

The Association's investment in the Bank totaled $11,588, $10,915, and $10,620 at December 31, 2016, 2015, and 2014, respectively. The Association owns 4.58 percent of the issued stock of the Bank as of December 31, 2016 net of any reciprocal investment. As of that date, the Bank's assets totaled $32.1 billion (audited by another firm) and shareholders' equity totaled $2.2 billion (audited by another firm). The Bank's earnings were $342 million (audited by another firm) for 2016. In addition, the Association had an investment of $660 related to other Farm Credit institutions at December 31, 2016.

Note 5 — Premises and Equipment and Other Property Owned

Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2016	2015	2014
Land	$ 2,076	$ 2,076	$ 2,114
Buildings and improvements	9,714	9,590	9,012
Furniture and equipment	4,385	3,995	4,020
	16,175	15,661	15,146
Less: accumulated depreciation	6,164	5,666	5,496
Total	$ 10,011	$ 9,995	$ 9,650

Other Property Owned

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

	December 31,		
	2016	2015	2014
(Gains) losses on sale, net	$ –	$ –	$ (27)
Carrying value unrealized (gains) losses	–	–	46
Operating (income) expense, net	–	–	20
(Gains) losses on other property owned, net	$ –	$ –	$ 39

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

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank

Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The borrowing relationship is established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The GFA has a one year term which expires on December 31 and is renewable each year. The Association has no reason to believe the GFA will not be renewed upon expiration. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2016, the Association's notes payable were within the specified limitations.

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

The weighted average interest rates on the variable rate advances were 1.88 percent for LIBOR-based loans and 1.96 percent for Prime-based loans, and the weighted average remaining maturities were 1.9 years and 3.3 years, respectively, at December 31, 2016. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 2.65 percent, and the weighted average remaining maturity was 9.7 years at December 31, 2016. The weighted-average interest rate on all interest-bearing notes payable was 2.44 percent and the weighted-average remaining maturity was 7.6 years at December 31, 2016. Variable rate and fixed rate notes payable represent approximately 3.91 percent and 96.09 percent, respectively, of total notes payable at December 31, 2016. The weighted average maturities described above are related to matched-funded loans. The direct note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

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

   The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but does not always make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation, the total balance of which would not exceed $3,396, representing the total outstanding value of capital stock and participation certificates at December 31, 2016.

   The Association retains a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

   The Association provides customers, through its Preferred Stock Program, the ability to purchase Class A Preferred Stock (Preferred Stock) at the Preferred Stock's par value of five dollars per share to holders of any class of Association common stock or participation certificates. The minimum initial subscription of Preferred Stock is two hundred shares for a total of one thousand dollars. Preferred Stock is a non-voting class of stock that pays a quarterly dividend based on dividend rates set in advance by the Board of Directors. All dividends are paid in shares of stock at par value at the end of the record date, normally each quarter end, provided that holders have a Preferred Stock outstanding balance at the time of the record date. Holders of Preferred Stock must also have an outstanding loan with the Association, and upon loan payoff must retire all shares of Preferred Stock within 90 days.

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

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

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

	2016	2015	2014	Regulatory Minimum
Permanent capital ratio	23.22%	23.00%	22.35%	7.00%
Total surplus ratio	19.00%	19.22%	18.58%	7.00%
Core surplus ratio	19.00%	19.22%	18.58%	3.50%

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

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

C. **Description of Equities:** The Association is authorized to issue or have outstanding Class A and Class D Preferred Stock, Class E and Class C Common Stock, Class C Participation Certificates, and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association's business. All stock and participation certificates have a par or face value of five dollars ($5.00) per share.

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

		Shares Outstanding	
Class	**Protected**	**Number**	**Aggregate Par Value**
A Preferred/Nonvoting	No	8,650,063	$ 43,250
C Common/Voting	No	616,720	3,084
C Participation Certificates/Nonvoting	No	62,383	312
Total Capital Stock and Participation Certificates		9,329,166	$ 46,646

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

Retained Earnings

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

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

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

Qualified allocated equities shall be retired for a cash distribution solely at the discretion of the Board, provided that minimum capital standards established by the FCA and the Board are met. Nonqualified retained surplus is considered to be permanently invested in the Association and as such, there is no plan to revolve or retire this surplus. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2016, allocated members' equity consisted of no qualified surplus and $150,444 of nonqualified retained surplus.

Patronage Distributions

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

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

Dividends

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

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

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. During 2016 stock dividends of $484 were declared and distributed on Class A Preferred Stock.

All qualified and nonqualified surplus may only be retired at the discretion of the Board. Nonqualified retained surplus is considered to be permanently invested in the Association and as such, there is no plan to revolve or retire this surplus. All nonqualified distributions are tax deductible only when redeemed.

Transfer

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

Impairment

Any net losses recorded by the Association shall first be applied against unallocated members' equity. To the extent that such losses would exceed unallocated members' equity, such losses would be applied consistent with the Association's bylaws and distributed pro rata to each share and/or unit outstanding in the class, in the following order:

a) ***First***, to allocated surplus evidenced by nonqualified written notices of allocation, in its entirety, with application to most recent allocation first and then in reverse order until all such allocated surplus has been exhausted;

b) ***Second***, to allocated surplus evidenced by qualified written notices of allocation, in its entirety, with application to most recent allocation first and then in reverse order until all such allocated surplus has been exhausted;

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

d) ***Fourth***, to Class D Preferred Stock issued and outstanding, if any; and

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

Liquidation

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

a) ***First,*** to the holders of Class A Preferred Stock, if any, pro rata, until an amount equal to the aggregate par value of all shares then issued and outstanding, plus declared but unpaid dividends, has been distributed to such holders;

b) ***Second,*** to the holders of Class D Preferred Stock, if any, pro rata, until an amount equal to the aggregate par value of all such shares then issued and outstanding has been distributed to such holders;

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

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

e) ***Fifth,*** to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed; and

f) ***Sixth,*** insofar as is practicable, all unallocated surplus issued after January 1, 1995, shall be distributed to patrons of the Association from the period beginning January 1, 1995 through the date of liquidation.

Note 8 — Fair Value Measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	At or for the Year ended December 31, 2016					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Mutual funds	$ 2,255	$ 2,255	$ –	$ –	$ 2,255	
Recurring Assets	$ 2,255	$ 2,255	$ –	$ –	$ 2,255	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans*	$ 3,799	$ –	$ –	$ 3,799	$ 3,799	$ (943)
Nonrecurring Assets	$ 3,799	$ –	$ –	$ 3,799	$ 3,799	$ (943)
Other Financial Instruments						
Assets:						
Cash	$ 3,465	$ 3,465	$ –	$ –	$ 3,465	
Loans	1,076,138	–	–	1,052,451	1,052,451	
Accounts Receivable	12,434	12,434	–	–	12,434	
Other Financial Assets	$ 1,092,037	$ 15,899	$ –	$ 1,052,451	$ 1,068,350	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 846,527	$ –	$ –	$ 833,936	$ 833,936	
Other Financial Liabilities	$ 846,527	$ –	$ –	$ 833,936	$ 833,936	

	At or for the Year ended December 31, 2015					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Mutual funds	$ 2,018	$ 2,018	$ –	$ –	$ 2,018	
Recurring Assets	$ 2,018	$ 2,018	$ –	$ –	$ 2,018	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans**	$ 3,962	$ –	$ –	$ 3,962	$ 3,962	$ 1,742
Nonrecurring Assets	$ 3,962	$ –	$ –	$ 3,962	$ 3,962	$ 1,742
Other Financial Instruments						
Assets:						
Cash	$ 2,066	$ 2,066	$ –	$ –	$ 2,066	
Loans	1,005,136	–	–	1,000,218	1,000,218	
Accounts receivable	11,579	11,579	–	–	11,579	
Other Financial Assets	$ 1,018,781	$ 13,645	$ –	$ 1,000,218	$ 1,013,863	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 798,928	$ –	$ –	$ 798,115	$ 798,115	
Other Financial Liabilities	$ 798,928	$ –	$ –	$ 798,115	$ 798,115	

	At or for the Year ended December 31, 2014					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Mutual funds	$ 1,943	$ 1,943	$ –	$ –	$ 1,943	
Recurring Assets	$ 1,943	$ 1,943	$ –	$ –	$ 1,943	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans***	$ 4,050	$ –	$ –	$ 4,050	$ 4,050	$ 1,348
Other property owned	–	–	–	–	–	(19)
Nonrecurring Assets	$ 4,050	$ –	$ –	$ 4,050	$ 4,050	$ 1,329
Other Financial Instruments						
Assets:						
Cash	$ 2,275	$ 2,275	$ –	$ –	$ 2,275	
Loans	964,529	–	–	950,047	950,047	
Accounts receivable	15,501	15,501	–	–	15,501	
Other Financial Assets	$ 982,305	$ 17,776	$ –	$ 950,047	$ 967,823	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 768,069	$ –	$ –	$ 759,085	$ 759,085	
Other Financial Liabilities	$ 768,069	$ –	$ –	$ 759,085	$ 759,085	

**Carrying value of impaired loans is the balance of loans with a related specific reserve ($5,683) less related specific reserves ($2,238) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off ($354).*

***Carrying value of impaired loans is the balance of loans with a related specific reserve ($5,136) less related specific reserves ($1,734) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off ($560).*

****Carrying value of impaired loans is the balance of loans with a related specific reserve ($7,215) less related specific reserves ($3,165) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off ($0).*

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.

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	$ 3,799	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*
			Collateral Discounts	10-50%

** 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 forecast Probability of default Loss severity
Accounts receivable	Carrying value	Par/Principal
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

Note 9 — Employee Benefit Plans

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

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

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

3. If the Association chooses to stop participating in some of its multiemployer plans, the Association may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

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

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

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

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

4. The CB Plan was terminated effective as of December 31, 2015.

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

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

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

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

Pension Plan	Percentage Funded to Projected Benefit Obligation			Contributions			Percentage of Total Contributions		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
AgFirst Farm Credit Retirement Plan	86.96%	85.73%	84.56%	$1,372	$3,020	$2,211	4.81%	5.23%	5.82%
AgFirst Farm Credit Cash Balance Retirement Plan	100.21%	102.72%	100.07%	$–	$–	$196	0.00%	0.00%	3.93%

Other Postretirement Benefit Plan	Percentage Funded to Accumulated Postretirement Benefit Obligation			Contributions			Percentage of Total Contribution		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plans	0.00%	0.00%	0.00%	$362	$338	$360	5.03%	4.96%	4.65%

The District's multiemployer plans are not subject to ERISA and no Form 5500 is required to be filed. As such, the following information is not available for the plans:

1. The Employee Identification Number (EIN) and three-digit Pension Plan Number
2. The most recent Pension Protection Act (PPA) zone status. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.
3. The "FIP/RP Status" indicating whether a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.
4. The expiration date(s) of collective-bargaining agreement(s).

Substantially all employees of the Association hired before November 4, 2014 are eligible to participate in either the FAP Plan or the CB Plan. These two plans are noncontributory and include eligible Association and other District employees. For participants hired prior to January 1, 2003, benefits are provided under the FAP Plan and are based on eligible compensation and years of service. For participants hired on or after January 1, 2003 through November 3, 2014, benefits are provided under the CB Plan and are determined using a percent of eligible compensation formula. Prior to January 1, 2015, when employer contributions were discontinued as discussed above, the employer contribution into the CB Plan was based on a formula of 3.00-5.00 percent of eligible compensation (depending on years of service) and interest credits as allocated to an employee's theoretical account balance. The actuarially-determined costs of these plans are allocated to each participating entity, including the Association, by multiplying the plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all plan participants. Plan expenses included in employee benefit costs were $2,571 for 2016, $2,600 for 2015, and $2,760 for 2014. The cumulative excess of amounts funded by the Association over the cost allocated to the Association is reflected as prepaid retirement expense, a component of Other Assets in the Consolidated Balance Sheets. At December 31, 2016, 2015, and 2014 the Association had a prepaid retirement expense of $4,929, $6,128, and $5,708, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. Certain Association charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability. This plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs were $538 for 2016, $754 for 2015, and $462 for 2014. The cumulative excess of cost allocated to the Association over the amounts funded by the Association is reflected as postretirement benefits other than pensions, a component of other liabilities in the Association's Consolidated Balance Sheets. At December 31, 2016, 2015, and 2014 the Association had liabilities for postretirement benefits other than pensions of $7,686, $7,509, and $7,093, respectively.

The Association also participates in a defined contribution Districtwide 401(k) plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. This 401(k) plan requires the Association to match 100 percent of employee optional contributions up to a maximum employee contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $600, $568, and $437 for the years ended December 31, 2016, 2015, and 2014, respectively. Beginning in 2015, contributions include additional amounts related to the discontinuation of the CB Plan as discussed above.

The Association sponsors a nonqualified long-term deferred compensation program for certain Association employees. The program provides deferred compensation benefits to encourage focus on strategies that are in the long-term best interest of the Association and its shareholders. Under the program the funds are set up in a Trust owned by the Association. Compensation is deferred until a later date upon which the employee meets certain vesting guidelines, employment is terminated, or by Board approval. All current and future assets used by the Association to fund this program will remain general assets of the Association until payment or distribution is made. Employer contributions to this plan were $180, $180, and $180 for the years ended December 31, 2016, 2015, and 2014, respectively. At December 31, 2016, 2015, and 2014, the Association had a deferred compensation liability related to this plan of $2,085, $1,867 and $1,813 included within Other Liabilities on the Consolidated Balance Sheets.

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

Note 10 — Related Party Transactions

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

Total loans to such persons at December 31, 2016 amounted to $23,757. During 2016, $15,491 of new loans were made and repayments totaled $16,060. In addition, $2,297 of net loan transfers were classified as related party transactions. In the opinion of management, none of these loans outstanding at December 31, 2016 involved more than a normal risk of collectability.

Note 11 — Commitments and Contingencies

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

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

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2016, $201,355 of commitments to extend credit and $21 of commercial letters of credit were outstanding.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2016, standby letters of credit outstanding totaled $613 with expiration dates ranging from January 1, 2017 to January 14, 2019. The maximum potential amount of future payments that may be required under these guarantees was $613.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2016	2015	2014
Current:			
Federal	$ 1	$ 3	$ –
State	(3)	5	1
Total Current	(2)	8	1
Deferred:			
Federal	–	–	–
State	–	–	–
Total Deferred	–	–	–
Total provision (benefit) for income taxes	$ (2)	$ 8	$ 1

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

	December 31,		
	2016	2015	2014
Federal tax at statutory rate	$ 8,462	$ 7,930	$ 10,765
State tax, net	–	–	2
Effect of non-taxable FLCA subsidiary	(5,232)	(4,470)	(6,084)
Patronage distributions	(3,258)	(3,725)	(4,211)
Change in deferred tax asset valuation allowance	34	302	(517)
Other	(8)	(29)	46
Provision (benefit) for income taxes	$ (2)	$ 8	$ 1

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

	December 31,		
	2016	2015	2014
Deferred income tax assets:			
Allowance for loan losses	$ 2,215	$ 2,287	$ 2,171
Nonaccrual loan interest	1,229	1,123	942
Gross deferred tax assets	3,444	3,410	3,113
Less: valuation allowance	(3,444)	(3,410)	(3,109)
Gross deferred tax assets, net of valuation allowance	–	–	4
Deferred income tax liabilities:			
Other	–	–	4
Gross deferred tax asset (liability)	–	–	–
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2016, deferred income taxes have not been provided by the Association on approximately $5.5 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of $3,444, $3,410, and $3,109 as of December 31, 2016, 2015 and 2014, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

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

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

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2016				
	First	Second	Third	Fourth	Total
Net interest income	$ 7,140	$ 6,954	$ 7,722	$ 7,155	$ 28,971
Provision for loan losses	58	226	33	351	668
Noninterest income (expense), net and taxes	(2,287)	(1,960)	(2,142)	2,265	(4,124)
Net income	$ 4,795	$ 4,768	$ 5,547	$ 9,069	$ 24,179

	2015				
	First	Second	Third	Fourth	Total
Net interest income	$ 6,438	$ 6,657	$ 7,118	$ 6,783	$ 26,996
Provision for loan losses	–	–	–	–	–
Noninterest income (expense), net and taxes	(2,367)	(2,387)	(2,070)	2,476	(4,348)
Net income	$ 4,071	$ 4,270	$ 5,048	$ 9,259	$ 22,648

	2014				
	First	Second	Third	Fourth	Total
Net interest income	$ 6,599	$ 6,788	$ 7,383	$ 8,055	$ 28,825
Provision for loan losses	75	(158)	(38)	(1,947)	(2,068)
Noninterest income (expense), net and taxes	(2,219)	(2,048)	(1,984)	6,114	(137)
Net income	$ 4,305	$ 4,898	$ 5,437	$ 16,116	$ 30,756

Note 14 — Subsequent Events

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

AgCarolina Farm Credit | PO Box 14789 | Raleigh, NC 27620

AgCarolina
FARM CREDIT

4000 Poole Road | Raleigh, NC 27610
Phone: 919-250-9500
Toll-free: 1-800-951-3276
www.agcarolina.com