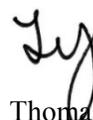

MidAtlantic Farm Credit, ACA
THIRD QUARTER 2016

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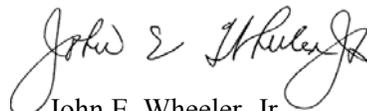
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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2016 quarterly report of MidAtlantic 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.



Thomas H. Truitt, Jr.
Chief Executive Officer



John E. Wheeler, Jr.
Chief Financial Officer



Paul D. Baumgardner
Chairman of the Board

November 8, 2016

MidAtlantic Farm Credit, ACA

Report on Internal Control Over Financial Reporting

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

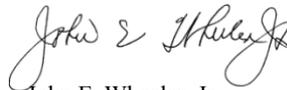
Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 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 September 30, 2016, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2016.



Thomas H. Truitt, Jr.
Chief Executive Officer



John E. Wheeler, Jr.
Chief Financial Officer

November 8, 2016

MidAtlantic Farm Credit, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of MidAtlantic Farm Credit, ACA (Association) for the period ended September 30, 2016. The comments contained in this report should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2015 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for the financing of short- and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio encompasses a well-diversified range of agricultural commodities, with cash grains, poultry and dairy representing the largest segments. In addition, the Association provides a significant amount of loans to lessors of agricultural real estate. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the opportunities for non-farm income, impacts the level of dependency on any particular commodity.

Gross loans at September 30, 2016 totaled \$2,585,621 compared to \$2,456,577 at December 31, 2015, increasing \$129,044 (5.25 percent) during the first nine months. The Association's allowance for loan losses of \$23,971 decreased \$809 (3.26 percent) during the first nine months of 2016 resulting in net loans (gross loans less allowance for loan losses) of \$2,561,650 and \$2,431,797 at September 30, 2016 and December 31, 2015, respectively. Nonaccrual loans decreased \$5,963 (23.95 percent) from \$24,893 at December 31, 2015 to \$18,930 at September 30, 2016 resulting in a decrease in the ratio of nonaccrual loans to total loans from 1.01 percent to 0.73 percent. In addition, Other property owned increased from \$290 at December 31, 2015 (one property) to \$731 at September 30, 2016 (three properties).

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

Credit administration remains satisfactory and the overall credit quality of the Association's loan portfolio has remained acceptable. The allowance for loan losses represented 0.93 percent and 1.01 percent of total loans, and 126.63 percent and 99.55 percent of Nonaccrual loans, at September 30, 2016 and December 31, 2015, respectively. See also Note 2 of "Notes to the Consolidated Financial Statements".

RESULTS OF OPERATIONS

For the three months ended September 30, 2016

Net income for the three months ended September 30, 2016 totaled \$12,142, an increase of \$859 (7.61 percent) compared to the three months ended September 30, 2015. Major changes in the components of net income are identified as follows:

- Net interest income increased \$959 (5.96 percent) for the quarter ended September 30, 2016 compared to the same period in 2015. The increase in net interest income is primarily attributable to (a) an increase in the Association's equity and a 2.07 percent increase in the interest credit rate of \$35, (b) a \$1,078 increase due to a \$307 million increase in the average daily balance of accruing portfolio volume, (c) a \$311 increase in net interest recognized attributable to nonaccruing loans, offset by (d) a \$465 decrease in the Association's portfolio margin primarily resulting from increased accruing portfolio volume.
- The risks identified in the Association's loan portfolio did not require a provision for loan losses to be recorded in the third quarters of 2016 and 2015, respectively. The Association's Nonaccrual loans decreased from 1.01 percent at December 31, 2015 to 0.93 percent of the portfolio at September 30, 2016 and decreased from 1.12 percent at September 30, 2015. See also Note 2 of "Notes to the Consolidated Financial Statements". Nonaccrual loans are the lowest since September 30, 2008 when Nonaccrual loans were \$15.8 million, or 0.82 percent of the total portfolio; this further illustrates the strong quality of the Association's portfolio.
- At September 30, 2016 and 2015, "Patronage refunds from other Farm Credit institutions" on the Consolidated Statements of Income of \$3,829 and

\$3,524, respectively, includes accruals based on third quarter operations only; management anticipates additional income for the remaining quarters in 2016. Since this income from AgFirst Farm Credit Bank (the Bank) is reasonably estimable and because there is a history of these earnings, management is of the opinion that including this income in quarterly operations provides shareholders with a more accurate forecast of annualized net income. The increase in the accrual in 2016 is due to the impact of an increase in loan volume. See also Note 9 of "Notes to the Consolidated Financial Statements".

- Noninterest income increase in the third quarter of \$631 (12.13 percent) included (a) a \$305 increase in Patronage related income, (b) an increase of \$263 from loan fees, (c) a \$147 increase in Gains on other transactions, (d) an increase of \$27 from fees for financially related services, (e) a \$21 increase in Other Noninterest income, partially offset by (f) a decrease of \$130 in Net gains on sales of rural home loans, and (g) a \$2 decrease in Gains on sales of premises and equipment.
- Noninterest expense for the third quarter of 2016 was \$10,683 as compared to \$10,152 for the third quarter of 2015 or an increase of \$531 (5.23 percent).

The decrease of \$241 (3.23 percent) for Salaries and benefits is comprised of favorable deferred personnel costs net of routine annual salary and benefit increases. See also Note 3 of "Notes to the Consolidated Financial Statements".

Insurance fund premium expense increased \$295 (50.43 percent) due to (a) the increase in the Farm Credit System Insurance Corporation (FCSIC) premium from 0.13 percent of loans outstanding in 2015 to 0.16 percent for the first six months of 2016 and increased to 0.18 percent for the second half of 2016, and (b) the increase in volume during the past twelve months.

Occupancy and equipment and Other operating expenses increased \$325 (14.69 percent) from \$2,213 to \$2,538. The increases were primarily related to public and member expenses, Farm Credit System Related expenses, travel, training, advertising, and other expenses.

The \$152 increase in Losses on other property is primarily related to sales gains on two properties sold during the quarter in 2015.

- The Association recorded a Provision for income taxes of \$53 and a Benefit for income taxes of \$147, respectively, for the third quarters of 2016 and 2015.

For the nine months ended September 30, 2016

Net income for the nine months ended September 30, 2016 totaled \$33,948 or \$1,059 (3.22 percent) greater than the nine months ended September 30, 2015. Major changes in the components of net income are identified as follows:

- Net interest income for the nine months was up \$957 (1.96 percent); there are several key factors impacting the results. The significant reduction in the nonaccrual loan volume as compared to the first nine months of 2015 resulted in a decrease of \$243 in foregone interest income for nonaccruing loan volume. In addition, the Association realized (a) a \$3,220 increase due to the increase in accruing loan volume, and (b) an increase of \$425 in the income recognized from nonaccrual volume. These increases were offset by (a) a \$2,123 decrease in the Association's portfolio margin and (b) a \$401 decrease in the Association's earnings credit due to an increase in the Association's equity which was offset by a net decrease in the average rate received.
- The risk identified in the Association's portfolio did not require a provision for loan losses to be recorded in the first nine months of 2016; whereas charge-offs and risks identified in the Association's loan portfolio required a reversal of allowance for loan losses of \$567 to be recorded in the first nine months of 2015. The \$567 was reclassified as unfunded commitments which is recorded as part of Gains (losses) on other transactions in the Noninterest Income section of the Consolidated Statements of Income.
- At the period ended September 30, 2016, the Association accrued an estimated patronage receipt of \$11,322 as compared to \$10,430 at September 30, 2015. Since this income from the Bank is reasonably estimable and because there is a history of these earnings, management is of the opinion that including this income in quarterly operations provides shareholders with a more accurate forecast of annualized net income. The increase is primarily related to the increase in outstanding loan volume. See also Note 9 of "Notes to the Consolidated Financial Statements".
- Noninterest income included (a) an \$892 increase in Patronage related income, (b) an \$812 increase in Loans fees, (c) a \$719 increase in Gains on other transactions, (d) an increase of \$211 in Fees for financially related services primarily related to Farm Credit Express processing fees, (e) a \$45 increase in Other noninterest income, and (f) a \$20 increase in Gains on sales of premises and equipment, offset by (g) an \$812 decrease in net Gains on sales of rural home loans.

- Noninterest expense increased \$1,454 (4.82 percent) for the first nine months of 2016 as compared to 2015.

The year-to-date decrease for Salaries and employee benefits of \$158 (0.73 percent) includes a decrease of \$376 due to positions not being filled, partially offset by annual salary and incentive compensation increases. The remaining Salaries and employee benefits increase of \$534 (40.54 percent) is primarily for medical benefits.

Insurance fund premium expense increased \$669 (39.42 percent) resulting from the FCSIC premium increase for 2016 and the increased loan volume.

Occupancy and equipment and Other operating expenses increased \$534 (7.75 percent) from \$6,886 to \$7,420 which includes expense increases in training, furniture and equipment, other operating expense, Farm Credit System Related expenses, and public and member expenses which were partially offset by lower director expenses.

- Losses on other property owned, net increased \$409.
- The Association recorded a Provision for income taxes of \$170 and \$406, respectively, for the nine months ended September 30, 2016 and 2015.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sectors. The Association utilizes the variable rate note to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total Notes payable to the Bank at September 30, 2016 was \$2,032,653 compared to \$1,914,310 at December 31, 2015. This increase during the period of \$118,343 (6.18 percent) corresponds to the receipt of prior year Bank patronage, current year net cash generated from operating activities reduced by the increase in the Association's loan volume and by patronage payments to stockholders.

CAPITAL RESOURCES

Members' equity at September 30, 2016 totaled \$564,371, an increase of \$24,664 (4.57 percent) compared to total members' equity of \$539,707 at December 31, 2015. Total Comprehensive income of \$34,165 for the nine months ended September 30, 2016 and net member capital stock/participation certificates issued of \$244, an estimated cash patronage distribution accrual for the first nine months of 2016 totaling \$9,375, and net patronage distribution adjustment and retained earnings retired of \$370 account for the change.

FCA regulations require that all Farm Credit institutions maintain a minimum permanent capital ratio of 7.0 percent and total surplus and core surplus ratios equal to 3.5 percent. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. At September 30, 2016, the Association exceeded the minimum regulatory standard for all of the ratios as permanent capital, total surplus and core surplus ratios equaled 19.91 percent, 19.57 percent and 19.57 percent, respectively.

REGULATORY MATTERS

On March 10, 2016, the FCA adopted a final regulation to modify the regulatory capital requirements for System banks and associations. The stated objectives of the rule are as follows:

- To modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise,
- To 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,
- To make System regulatory capital requirements more transparent, and
- To meet the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).

The final rule will replace existing core surplus and total surplus requirements with Common Equity Tier 1, Tier 1 and Total Capital risk-based capital ratio requirements. The final rule will also replace the existing net collateral ratio with a Tier 1 Leverage ratio and is applicable to all banks and associations. The Permanent Capital Ratio will remain in effect with the final rule. The following sets forth the new regulatory capital ratios:

Ratio	Primary Components of Numerator	Denominator	Minimum Requirement	Minimum Requirement with Conservation Buffer
Common Equity Tier 1 (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%

On July 28, 2016, the FCA published the final regulation in the Federal Register, and the effective date of the new capital requirements will be January 1, 2017, with a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. The Association is expected to be in compliance with the new requirements at adoption.

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 the Association.

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 2016. The proposed investment regulations are expected to have a minimal impact for the Association. 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

See discussion of the Dodd-Frank Act in the Financial Regulatory Reform section of the Association's 2015 Annual Report.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, "Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements", in the Notes to the Financial Statements, and the 2015 Annual Report to Shareholders for recently issued accounting pronouncements.

SHAREHOLDER INVESTMENT

Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 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 at their website, www.agfirst.com. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-333-7950, or writing John E. Wheeler, Jr., Chief Financial Officer, MidAtlantic Farm Credit, ACA, 45 Aileron Court, Westminster, MD 21157-3022, or accessing the website, www.mafc.com. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

WHISTLEBLOWER

Reports of suspected or actual wrongdoing involving the Association, its employees and/or Directors, can be made anonymously and confidentially through the Association's Whistleblower Hotline (SpeakUp) at 1-844-321-9164 or speakupMAFC.intercedeservices.com.

MidAtlantic Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2016 <i>(unaudited)</i>	December 31, 2015 <i>(audited)</i>
Assets		
Cash	\$ 3,064	\$ 6,578
Loans	2,585,621	2,456,577
Allowance for loan losses	(23,971)	(24,780)
Net loans	2,561,650	2,431,797
Loans held for sale	1,734	—
Accrued interest receivable	19,404	12,582
Investments in other Farm Credit institutions	27,152	27,067
Premises and equipment, net	11,605	11,802
Other property owned	731	290
Accounts receivable	12,540	26,573
Other assets	3,120	8,002
Total assets	\$ 2,641,000	\$ 2,524,691
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 2,032,653	\$ 1,914,310
Accrued interest payable	4,227	3,900
Patronage refunds payable	9,437	21,095
Accounts payable	3,219	3,816
Other liabilities	27,093	41,863
Total liabilities	2,076,629	1,984,984
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	10,194	9,950
Retained earnings		
Allocated	308,636	309,030
Unallocated	245,835	221,238
Accumulated other comprehensive income (loss)	(294)	(511)
Total members' equity	564,371	539,707
Total liabilities and members' equity	\$ 2,641,000	\$ 2,524,691

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

MidAtlantic Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Interest Income				
Loans	\$ 29,711	\$ 27,339	\$ 86,792	\$ 81,260
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	12,667	11,254	36,958	32,383
Net interest income	17,044	16,085	49,834	48,877
Provision for (reversal of allowance for) loan losses	—	—	—	(567)
Net interest income after provision for (reversal of allowance for) loan losses	17,044	16,085	49,834	49,444
Noninterest Income				
Loan fees	743	480	1,852	1,040
Fees for financially related services	1,123	1,096	2,332	2,121
Patronage refunds from other Farm Credit institutions	3,829	3,524	11,322	10,430
Gains (losses) on sales of rural home loans, net	—	130	—	812
Gains (losses) on sales of premises and equipment, net	15	17	137	117
Gains (losses) on other transactions	67	(80)	116	(603)
Other noninterest income	57	36	152	107
Total noninterest income	5,834	5,203	15,911	14,024
Noninterest Expense				
Salaries and employee benefits	7,220	7,461	21,540	21,698
Occupancy and equipment	707	680	1,813	1,808
Insurance Fund premiums	880	585	2,366	1,697
(Gains) losses on other property owned, net	45	(107)	301	(108)
Other operating expenses	1,831	1,533	5,607	5,078
Total noninterest expense	10,683	10,152	31,627	30,173
Income before income taxes	12,195	11,136	34,118	33,295
Provision (benefit) for income taxes	53	(147)	170	406
Net income	\$ 12,142	\$ 11,283	\$ 33,948	\$ 32,889

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

MidAtlantic Farm Credit, ACA
Consolidated Statements of
Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Net income	\$ 12,142	\$ 11,283	\$ 33,948	\$ 32,889
Other comprehensive income net of tax				
Employee benefit plans adjustments	72	32	217	95
Comprehensive income	\$ 12,214	\$ 11,315	\$ 34,165	\$ 32,984

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

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

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2014	\$ 9,743	\$ 292,021	\$ 216,797	\$ (534)	\$ 518,027
Comprehensive income			32,889	95	32,984
Capital stock/participation certificates issued/(retired), net	121				121
Patronage distribution					
Cash			(9,000)		(9,000)
Retained earnings retired		(190)	61		(129)
Patronage distribution adjustment		967	(1,175)		(208)
Balance at September 30, 2015	\$ 9,864	\$ 292,798	\$ 239,572	\$ (439)	\$ 541,795
Balance at December 31, 2015	\$ 9,950	\$ 309,030	\$ 221,238	\$ (511)	\$ 539,707
Comprehensive income			33,948	217	34,165
Capital stock/participation certificates issued/(retired), net	244				244
Patronage distribution					
Cash			(9,375)		(9,375)
Retained earnings retired		(443)	90		(353)
Patronage distribution adjustment		49	(66)		(17)
Balance at September 30, 2016	\$ 10,194	\$ 308,636	\$ 245,835	\$ (294)	\$ 564,371

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

MidAtlantic Farm Credit, ACA

Notes to the Consolidated Financial Statements

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

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

Organization

The accompanying financial statements include the accounts of MidAtlantic Farm Credit, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2015, are contained in the 2015 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation

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

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

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

Significant Accounting Policies

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

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and

other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

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

Accounting Standards Updates (ASUs) Issued During the Period

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

- In 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. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. 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.
- 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 companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. 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.

- In May, 2016, the FASB issued ASU 2016-12 Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The guidance addresses certain issues identified by the Transition Resource Group (TRG) in the guidance on assessing collectibility, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09).
- In April, 2016, the FASB issued ASU 2016-10 Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The Update clarifies the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09).
- In March, 2016, the FASB issued ASU 2016-08 Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). The amendments clarify the implementation guidance on principal versus agent considerations. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09).

- 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.

ASUs Pending Effective Date

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

Potential effects of ASUs issued in previous periods:

- 2016-02 Leases (Topic 842): In February, 2016, the FASB issued an update that requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2016-01 Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities: In January, 2016, the FASB issued an update that is intended to improve the recognition and measurement of financial instruments. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2015-14 Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date: In August, 2015, the FASB issued an update that defers by one year the effective date of ASU 2014-09, Revenue from Contracts with Customers. The new ASU reflects decisions reached by the FASB at its meeting on July 9, 2015. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

Accounting Standards Effective During the Period

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

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

- 2015-07 Fair Value Measurement (Topic 820): Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) – The amendment was adopted prospectively. There were no changes to the Association’s statements of financial condition or results of operations as a result of this guidance. See Note 6, *Fair Value Measurement*, for the disclosures required by this guidance.
- 2015-01 Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items – The amendment was adopted retrospectively. There were no changes to the Association’s statements of financial condition or results of operations as a result of this guidance.
- 2014-15 Income Statement – Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern: This amendment is

effective for the annual reporting period ended December 31, 2016 and interim and annual periods thereafter. It may require additional disclosures but will not have a material impact on the Association’s financial condition or results of operations.

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

	September 30, 2016	December 31, 2015
Real estate mortgage	\$ 1,551,154	\$ 1,474,701
Production and intermediate-term	808,996	766,286
Loans to cooperatives	16,335	1,133
Processing and marketing	50,621	61,888
Farm-related business	64,312	63,415
Communication	57,556	54,479
Energy and water/waste disposal	3,690	3,603
Rural residential real estate	32,957	31,072
Total Loans	<u>\$ 2,585,621</u>	<u>\$ 2,456,577</u>

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

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

	September 30, 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	\$ 12,374	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 12,374	\$ —
Production and intermediate-term	56,606	45,354	17,610	7,519	—	—	74,216	52,873
Loans to cooperatives	1,617	—	14,751	—	—	—	16,368	—
Processing and marketing	30,545	6,449	9,285	—	—	—	39,830	6,449
Farm-related business	148	—	23,342	—	—	—	23,490	—
Communication	14,745	—	42,976	—	—	—	57,721	—
Energy and water/waste disposal	—	—	3,702	—	—	—	3,702	—
Total	<u>\$ 116,035</u>	<u>\$ 51,803</u>	<u>\$ 111,666</u>	<u>\$ 7,519</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 227,701</u>	<u>\$ 59,322</u>

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	\$ 12,090	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,090	\$ -
Production and intermediate-term	44,320	46,594	13,139	12,456	-	531	57,459	59,581
Loans to cooperatives	-	-	1,166	-	-	-	1,166	-
Processing and marketing	46,976	2,300	10,544	-	-	-	57,520	2,300
Farm-related business	519	-	23,353	-	-	-	23,872	-
Communication	15,277	-	39,357	-	-	-	54,634	-
Energy and water/waste disposal	-	-	3,613	-	-	-	3,613	-
Total	\$ 119,182	\$ 48,894	\$ 91,172	\$ 12,456	\$ -	\$ 531	\$ 210,354	\$ 61,881

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

	September 30, 2016			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 73,577	\$ 489,577	\$ 988,000	\$ 1,551,154
Production and intermediate-term	167,757	399,756	241,483	808,996
Loans to cooperatives	-	14,723	1,612	16,335
Processing and marketing	5,011	31,573	14,037	50,621
Farm-related business	7,287	21,438	35,587	64,312
Communication	-	46,046	11,510	57,556
Energy and water/waste disposal	-	(3)	3,693	3,690
Rural residential real estate	3,936	7,689	21,332	32,957
Total Loans	\$ 257,568	\$ 1,010,799	\$ 1,317,254	\$ 2,585,621
Percentage	9.96%	39.09%	50.95%	100.00%

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

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

	September 30, 2016	December 31, 2015		September 30, 2016	December 31, 2015
Real estate mortgage:			Communication:		
Acceptable	95.87%	95.13%	Acceptable	100.00%	100.00%
OAEM	2.20	2.58	OAEM	0.00	0.00
Substandard/doubtful/loss	1.93	2.29	Substandard/doubtful/loss	0.00	0.00
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Energy and water/waste disposal:		
Acceptable	96.32%	95.58%	Acceptable	100.00%	100.00%
OAEM	2.03	1.86	OAEM	0.00	0.00
Substandard/doubtful/loss	1.65	2.56	Substandard/doubtful/loss	0.00	0.00
	100.00%	100.00%		100.00%	100.00%
Loans to cooperatives:			Rural residential real estate:		
Acceptable	100.00%	100.00%	Acceptable	91.02%	90.64%
OAEM	0.00	0.00	OAEM	5.29	5.48
Substandard/doubtful/loss	0.00	0.00	Substandard/doubtful/loss	3.69	3.88
	100.00%	100.00%		100.00%	100.00%
Processing and marketing:			Total Loans:		
Acceptable	100.00%	99.91%	Acceptable	96.24%	95.57%
OAEM	0.00	0.09	OAEM	2.02	2.20
Substandard/doubtful/loss	0.00	0.00	Substandard/doubtful/loss	1.74	2.23
	100.00%	100.00%		100.00%	100.00%
Farm-related business:					
Acceptable	99.42%	99.93%			
OAEM	0.14	0.00			
Substandard/doubtful/loss	0.44	0.07			
	100.00%	100.00%			

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

September 30, 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	\$ 6,401	\$ 6,460	\$ 12,861	\$ 1,550,876	\$ 1,563,737	\$ -
Production and intermediate-term	4,655	3,656	8,311	807,018	815,329	-
Loans to cooperatives	-	-	-	16,361	16,361	-
Processing and marketing	-	-	-	50,675	50,675	-
Farm-related business	7	275	282	64,266	64,548	-
Communication	-	-	-	57,561	57,561	-
Energy and water/waste disposal	-	-	-	3,724	3,724	-
Rural residential real estate	430	205	635	32,455	33,090	-
Total	\$ 11,493	\$ 10,596	\$ 22,089	\$ 2,582,936	\$ 2,605,025	\$ -

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	\$ 4,423	\$ 8,143	\$ 12,566	\$ 1,470,434	\$ 1,483,000	\$ -
Production and intermediate-term	2,857	5,642	8,499	761,716	770,215	-
Loans to cooperatives	-	-	-	1,136	1,136	-
Processing and marketing	-	-	-	61,932	61,932	-
Farm-related business	4	42	46	63,497	63,543	-
Communication	-	-	-	54,524	54,524	-
Energy and water/waste disposal	-	-	-	3,638	3,638	-
Rural residential real estate	355	317	672	30,499	31,171	-
Total	\$ 7,639	\$ 14,144	\$ 21,783	\$ 2,447,376	\$ 2,469,159	\$ -

Nonperforming assets (including the recorded investment for loans) and related credit quality statistics at period end were as follows:

	September 30, 2016	December 31, 2015
Nonaccrual loans:		
Real estate mortgage	\$ 12,153	\$ 13,763
Production and intermediate-term	5,905	10,520
Farm-related business	275	43
Rural residential real estate	597	567
Total	\$ 18,930	\$ 24,893
Accruing restructured loans:		
Real estate mortgage	\$ 8,862	\$ 9,463
Production and intermediate-term	5,676	5,643
Rural residential real estate	693	885
Total	\$ 15,231	\$ 15,991
Accruing loans 90 days or more past due:		
Total	\$ -	\$ -
Total nonperforming loans	\$ 34,161	\$ 40,884
Other property owned	731	290
Total nonperforming assets	\$ 34,892	\$ 41,174
Nonaccrual loans as a percentage of total loans	0.73%	1.01%
Nonperforming assets as a percentage of total loans and other property owned	1.35%	1.67%
Nonperforming assets as a percentage of capital	6.18%	7.63%

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

	September 30, 2016	December 31, 2015
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 6,629	\$ 8,313
Past due	12,301	16,580
Total	18,930	24,893
Impaired accrual loans:		
Restructured	15,231	15,991
90 days or more past due	-	-
Total	15,231	15,991
Total impaired loans	\$ 34,161	\$ 40,884
Additional commitments to lend	\$ 9	\$ 192

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

Impaired loans:	September 30, 2016			Quarter Ended September 30, 2016		Nine Months Ended September 30, 2016	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:							
Real estate mortgage	\$ 6,244	\$ 7,597	\$ 1,126	\$ 6,361	\$ 68	\$ 6,913	\$ 101
Production and intermediate-term	4,456	5,224	1,181	4,538	48	4,932	72
Farm-related business	275	274	55	280	3	305	4
Rural residential real estate	468	540	148	476	5	518	8
Total	\$ 11,443	\$ 13,635	\$ 2,510	\$ 11,655	\$ 124	\$ 12,668	\$ 185
With no related allowance for credit losses:							
Real estate mortgage	\$ 14,771	\$ 16,735	\$ -	\$ 15,041	\$ 160	\$ 16,349	\$ 239
Production and intermediate-term	7,125	10,592	-	7,257	78	7,888	115
Farm-related business	-	3	-	-	-	-	-
Rural residential real estate	822	951	-	839	9	911	13
Total	\$ 22,718	\$ 28,281	\$ -	\$ 23,137	\$ 247	\$ 25,148	\$ 367
Total:							
Real estate mortgage	\$ 21,015	\$ 24,332	\$ 1,126	\$ 21,402	\$ 228	\$ 23,262	\$ 340
Production and intermediate-term	11,581	15,816	1,181	11,795	126	12,820	187
Farm-related business	275	277	55	280	3	305	4
Rural residential real estate	1,290	1,491	148	1,315	14	1,429	21
Total	\$ 34,161	\$ 41,916	\$ 2,510	\$ 34,792	\$ 371	\$ 37,816	\$ 552

Impaired loans:	December 31, 2015			Year Ended December 31, 2015	
	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	\$ 7,638	\$ 9,090	\$ 1,403	\$ 8,117	\$ 263
Production and intermediate-term	7,526	10,228	2,262	7,998	258
Farm-related business	43	42	8	45	1
Rural residential real estate	565	631	172	600	19
Total	\$ 15,772	\$ 19,991	\$ 3,845	\$ 16,760	\$ 541
With no related allowance for credit losses:					
Real estate mortgage	\$ 15,588	\$ 17,158	\$ -	\$ 16,563	\$ 534
Production and intermediate-term	8,637	9,802	-	9,178	296
Farm-related business	-	4	-	-	-
Rural residential real estate	887	993	-	943	31
Total	\$ 25,112	\$ 27,957	\$ -	\$ 26,684	\$ 861
Total:					
Real estate mortgage	\$ 23,226	\$ 26,248	\$ 1,403	\$ 24,680	\$ 797
Production and intermediate-term	16,163	20,030	2,262	17,176	554
Farm-related business	43	46	8	45	1
Rural residential real estate	1,452	1,624	172	1,543	50
Total	\$ 40,884	\$ 47,948	\$ 3,845	\$ 43,444	\$ 1,402

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows. Prior to issuance of the Association's 2015 Annual Report, management identified errors in classification of the loan portfolio among the various FCA loan type categories that are used to report disaggregated loan information in footnote disclosures. As discussed in Note 3, *Loans and Allowance for Loan Losses*, of the Association's 2015 Annual Report, FCA loan type classifications prior to December 31, 2015 have been revised as necessary to reflect these loan type classifications, as adjusted. In the table below, activity for the quarter and nine months ended September 30, 2015 is presented as revised.

	Real Estate Mortgage	Production and Intermediate- term	Agribusiness*	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Activity related to the allowance for credit losses:							
Balance at June 30, 2016	\$ 9,552	\$ 13,086	\$ 593	\$ 247	\$ 10	\$ 516	\$ 24,004
Charge-offs	—	(43)	—	—	—	—	(43)
Recoveries	1	6	—	—	—	3	10
Provision for loan losses	(59)	103	(5)	(28)	—	(11)	—
Balance at September 30, 2016	\$ 9,494	\$ 13,152	\$ 588	\$ 219	\$ 10	\$ 508	\$ 23,971
Balance at December 31, 2015	\$ 9,959	\$ 13,512	\$ 540	\$ 213	\$ 11	\$ 545	\$ 24,780
Charge-offs	(198)	(757)	—	—	—	(72)	(1,027)
Recoveries	9	199	—	—	—	10	218
Provision for loan losses	(276)	213	33	6	(1)	25	—
Loan type reclassification	—	(15)	15	—	—	—	—
Balance at September 30, 2016	\$ 9,494	\$ 13,152	\$ 588	\$ 219	\$ 10	\$ 508	\$ 23,971
Balance at June 30, 2015	\$ 8,311	\$ 14,331	\$ 1,805	\$ 210	\$ 12	\$ 568	\$ 25,237
Charge-offs	—	—	—	—	—	—	—
Recoveries	—	6	—	—	—	3	9
Provision for loan losses	588	821	(1,303)	(59)	(5)	(42)	—
Balance at September 30, 2015	\$ 8,899	\$ 15,158	\$ 502	\$ 151	\$ 7	\$ 529	\$ 25,246
Balance at December 31, 2014	\$ 6,706	\$ 16,360	\$ 1,321	\$ 100	\$ 9	\$ 458	\$ 24,954
Charge-offs	(96)	(166)	—	—	—	—	(262)
Recoveries	11	119	981	—	—	10	1,121
Provision for loan losses	2,278	(1,155)	(1,800)	51	(2)	61	(567)
Balance at September 30, 2015	\$ 8,899	\$ 15,158	\$ 502	\$ 151	\$ 7	\$ 529	\$ 25,246
Allowance on loans evaluated for impairment:							
Individually	\$ 1,126	\$ 1,181	\$ 55	\$ —	\$ —	\$ 148	\$ 2,510
Collectively	8,368	11,971	533	219	10	360	21,461
Balance at September 30, 2016	\$ 9,494	\$ 13,152	\$ 588	\$ 219	\$ 10	\$ 508	\$ 23,971
Individually	\$ 1,403	\$ 2,262	\$ 8	\$ —	\$ —	\$ 172	\$ 3,845
Collectively	8,556	11,250	532	213	11	373	20,935
Balance at December 31, 2015	\$ 9,959	\$ 13,512	\$ 540	\$ 213	\$ 11	\$ 545	\$ 24,780
Recorded investment in loans evaluated for impairment:							
Individually	\$ 12,153	\$ 5,905	\$ 275	\$ —	\$ —	\$ 597	\$ 18,930
Collectively	1,551,584	809,424	131,309	57,561	3,724	32,493	2,586,095
Balance at September 30, 2016	\$ 1,563,737	\$ 815,329	\$ 131,584	\$ 57,561	\$ 3,724	\$ 33,090	\$ 2,605,025
Individually	\$ 13,763	\$ 10,520	\$ 43	\$ —	\$ —	\$ 567	\$ 24,893
Collectively	1,469,237	759,695	126,568	54,524	3,638	30,604	2,444,266
Balance at December 31, 2015	\$ 1,483,000	\$ 770,215	\$ 126,611	\$ 54,524	\$ 3,638	\$ 31,171	\$ 2,469,159

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. In the following tables, activity for the quarter and nine months ended September 30 2015 is presented as revised for FCA loan type reclassifications discussed above.

Three months ended September 30, 2016					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 131	\$ 1,222	\$ –	\$ 1,353	
Production and intermediate-term	35	2,453	–	2,488	
Rural residential real estate	242	–	–	242	
Total	\$ 408	\$ 3,675	\$ –	\$ 4,083	
Post-modification:					
Real estate mortgage	\$ 132	\$ 1,222	\$ –	\$ 1,354	\$ –
Production and intermediate-term	36	2,453	–	2,489	–
Rural residential real estate	242	–	–	242	–
Total	\$ 410	\$ 3,675	\$ –	\$ 4,085	\$ –

Nine Months Ended September 30, 2016					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 131	\$ 1,461	\$ –	\$ 1,592	
Production and intermediate-term	35	9,918	–	9,953	
Rural residential real estate	242	31	–	273	
Total	\$ 408	\$ 11,410	\$ –	\$ 11,818	
Post-modification:					
Real estate mortgage	\$ 132	\$ 1,380	\$ –	\$ 1,512	\$ –
Production and intermediate-term	36	10,049	–	10,085	–
Rural residential real estate	242	31	–	273	–
Total	\$ 410	\$ 11,460	\$ –	\$ 11,870	\$ –

Three months ended September 30 2015					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 21	\$ –	\$ –	\$ 21	
Production and intermediate-term	368	2,294	–	2,662	
Rural residential real estate	–	171	–	171	
Total	\$ 389	\$ 2,465	\$ –	\$ 2,854	
Post-modification:					
Real estate mortgage	\$ 21	\$ –	\$ –	\$ 21	\$ –
Production and intermediate-term	370	2,291	–	2,661	–
Rural residential real estate	–	171	–	171	–
Total	\$ 391	\$ 2,462	\$ –	\$ 2,853	\$ –

Nine months ended September 30 2015					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 185	\$ 1,853	\$ –	\$ 2,038	
Production and intermediate-term	610	8,157	–	8,767	
Rural residential real estate	–	171	–	171	
Total	\$ 795	\$ 10,181	\$ –	\$ 10,976	
Post-modification:					
Real estate mortgage	\$ 171	\$ 1,935	\$ –	\$ 2,106	\$ –
Production and intermediate-term	612	8,183	–	8,795	–
Rural residential real estate	–	171	–	171	–
Total	\$ 783	\$ 10,289	\$ –	\$ 11,072	\$ –

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets.

The following table presents outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

	Three Months Ended September 30		Nine Months Ended September 30	
	2015		2015	
	2016	(as revised)	2016	(as revised)
Production and intermediate-term	\$ 133	\$ —	\$ 133	\$ 1,862
Rural residential real estate	—	34	—	104
Total	\$ 133	\$ 34	\$ 133	\$ 1,966

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

	Total TDRs		Nonaccrual TDRs	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Real estate mortgage	\$ 11,506	\$ 11,783	\$ 2,644	\$ 2,320
Production and intermediate-term	8,122	11,299	2,446	5,656
Rural residential real estate	861	927	168	42
Total Loans	\$ 20,489	\$ 24,009	\$ 5,258	\$ 8,018
Additional commitments to lend	\$ —	\$ 192		

The following table presents information as of period end:

	September 30, 2016	December 31, 2015
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ 731	\$ 290
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ —	\$ 72

Note 3 — Investments

Investments in other Farm Credit Institutions

The Association is required to maintain ownership in AgFirst Farm Credit Bank (AgFirst or the Bank) of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 9.62 percent of the issued stock of the Bank as of September 30, 2016 net of any reciprocal investment. As of that date, the Bank's assets totaled \$32.7 billion and shareholders' equity totaled \$2.5 billion. The Bank's earnings were \$241 million for the first nine months of 2016. In addition, the Association held investments of \$2,433 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

	Changes in Accumulated Other Comprehensive Income by Component (a)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Employee Benefit Plans:				
Balance at beginning of period	\$ (366)	\$ (471)	\$ (511)	\$ (534)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	72	32	217	95
Net current period other comprehensive income	72	32	217	95
Balance at end of period	\$ (294)	\$ (439)	\$ (294)	\$ (439)

Reclassifications Out of Accumulated Other Comprehensive Income (b)

	Three Months Ended September 30,		Nine Months Ended September 30,		Income Statement Line Item
	2016	2015	2016	2015	
Defined Benefit Pension Plans:					
Periodic pension costs	\$ (72)	\$ (32)	\$ (217)	\$ (95)	See Note 7.
Net amounts reclassified	\$ (72)	\$ (32)	\$ (217)	\$ (95)	

(a) Amounts in parentheses indicate debits to AOCI.

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

Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

At or for the Nine Months Ended September 30, 2016

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	\$ 1,921	\$ 1,921	\$ —	\$ —	\$ 1,921	
Recurring Assets	\$ 1,921	\$ 1,921	\$ —	\$ —	\$ 1,921	
Liabilities:						
Recurring Liabilities	\$ —	\$ —	\$ —	\$ —	\$ —	
Nonrecurring Measurements						
Assets:						
Impaired loans	\$ 31,651	\$ —	\$ —	\$ 31,651	\$ 31,651	\$ 525
Other property owned	731	—	—	832	832	(230)
Nonrecurring Assets	\$ 32,382	\$ —	\$ —	\$ 32,483	\$ 32,483	\$ 295
Other Financial Instruments						
Assets:						
Cash	\$ 3,064	\$ 3,064	\$ —	\$ —	\$ 3,064	
Loans	2,531,733	—	—	2,533,572	2,533,572	
Other Financial Assets	\$ 2,534,797	\$ 3,064	\$ —	\$ 2,533,572	\$ 2,536,636	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$ 2,032,653	\$ —	\$ —	\$ 2,047,380	\$ 2,047,380	
Other Financial Liabilities	\$ 2,032,653	\$ —	\$ —	\$ 2,047,380	\$ 2,047,380	

At or for the Year Ended December 31, 2015

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	\$ 1,866	\$ 1,866	\$ -	\$ -	\$ 1,866	
Recurring Assets	\$ 1,866	\$ 1,866	\$ -	\$ -	\$ 1,866	
Liabilities:						
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	
Nonrecurring Measurements						
Assets:						
Impaired loans	\$ 37,039	\$ -	\$ -	\$ 37,039	\$ 37,039	\$ 1,059
Other property owned	290	-	-	322	322	47
Nonrecurring Assets	\$ 37,329	\$ -	\$ -	\$ 37,361	\$ 37,361	\$ 1,106
Other Financial Instruments						
Assets:						
Cash	\$ 6,578	\$ 6,578	\$ -	\$ -	\$ 6,578	
Loans	2,394,758	-	-	2,380,704	2,380,704	
Other Financial Assets	\$ 2,401,336	\$ 6,578	\$ -	\$ 2,380,704	\$ 2,387,282	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$ 1,914,310	\$ -	\$ -	\$ 1,910,358	\$ 1,910,358	
Other Financial Liabilities	\$ 1,914,310	\$ -	\$ -	\$ 1,910,358	\$ 1,910,358	

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 at September 30, 2016

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 32,483	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity

Note 7 — Employee Benefit Plans

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Pension	\$ 1,561	\$ 1,510	\$ 4,683	\$ 4,530
401(k)	247	221	756	643
Other postretirement benefits	304	401	912	1,202
Total	\$ 2,112	\$ 2,132	\$ 6,351	\$ 6,375

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

	Actual YTD Through 9/30/16	Projected Contributions For Remainder of 2016	Projected Total Contributions 2016
	Pension	\$ 62	\$ 3,235
Other postretirement benefits	415	99	514
Total	\$ 477	\$ 3,334	\$ 3,811

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2016.

Further details regarding employee benefit plans are contained in the 2015 Annual Report to Shareholders, including a discussion of benefit plan changes related to the termination of the AgFirst Farm Credit Cash Balance Retirement Plan.

Note 8 — Commitments and Contingent Liabilities

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

Note 9 — Subsequent Events

The Association evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through November 8, 2016, which was the date the financial statements were issued.

On October 17, 2016, AgFirst's Board of Directors declared a special patronage distribution to be paid on January 1, 2017. The Association will receive approximately \$12,194 which will be recorded in October 2016 as patronage refunds from other Farm Credit institutions.