
MidAtlantic Farm Credit, ACA
FIRST QUARTER 2017

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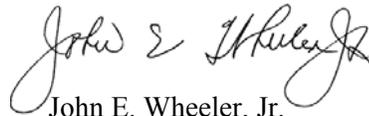
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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2017 quarterly report of 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

May 8, 2017

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.

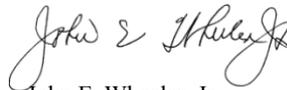
Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions 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 March 31, 2017. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

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



Thomas H. Truitt, Jr.
Chief Executive Officer



John E. Wheeler, Jr.
Chief Financial Officer

May 8, 2017

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 March 31, 2017. 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 2016 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners 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 March 31, 2017 totaled \$2,646,966 compared to \$2,607,353 at December 31, 2016, increasing \$39,613 (1.52 percent) during the first three months. The Association's allowance for loan losses of \$24,869 increased \$492 (2.02 percent) during the first three months of 2017 resulting in net loans (gross loans less allowance for loan losses) of \$2,622,097 and \$2,582,976 at March 31, 2017 and December 31, 2016, respectively. Nonaccrual loans increased \$1,624 (8.87 percent) from \$18,306 at December 31, 2016 to \$19,930 at March 31, 2017 resulting in an increase in the ratio of nonaccrual loans to total loans from 0.70 percent to 0.75 percent. In addition, Other property owned remained at \$729 consisting of three properties for December 31, 2016 and March 31, 2017.

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 0.94 percent and 0.93 percent of total loans, and 124.78 percent and 133.16 percent of Nonaccrual loans, at March 31, 2017 and December 31, 2016, respectively. See also Note 2 of "Notes to the Consolidated Financial Statements".

RESULTS OF OPERATIONS

For the three months ended March 31, 2017

Net income for the three months ended March 31, 2017 totaled \$11,839, an increase of \$1,663 (16.34 percent) compared to the three months ended March 31, 2016. Major changes in the components of net income are identified as follows:

- Net interest income increased \$1,343 (8.24 percent) for the quarter ended March 31, 2017 compared to the same period in 2016. The increase in net interest income is primarily attributable to (a) an increase in the Association's equity and a 3.04 percent increase in the interest credit rate of \$176, (b) a \$1,011 increase due to a \$185 million increase in the average daily balance of accruing portfolio volume, (c) a \$835 increase in net interest recognized attributable to nonaccruing loans, offset by (d) a \$679 decrease in the Association's portfolio margin primarily resulting from a decrease in the net interest margin.
- The risks identified in the Association's loan portfolio required a provision for loan losses of \$500 to be recorded in the first quarter of 2017 and no provision was required for first quarter 2016, respectively. The Association's Nonaccrual loans increased from 0.70 percent at December 31, 2016 to 0.75 percent of the portfolio at March 31, 2017 and decreased from 0.94 percent at March 31, 2016. See also Note 2 of "Notes to the Consolidated Financial Statements".
- At March 31, 2017 and 2016, "Patronage refunds from other Farm Credit institutions" on the Consolidated Statements of Income of \$3,855 and \$3,795, respectively, includes accruals based on first quarter operations only; management anticipates additional income for the remaining quarters in 2017. 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 2017 is due to the impact of an increase in loan volume.

- Noninterest income increase in the first quarter of \$358 (7.63 percent) included (a) an increase of \$300 in Net gains on sales of rural home loans, (b) a \$173 increase in Gains on other transactions, (c) a \$60 increase in Patronage related income, (d) an increase of \$17 from fees for financially related services, (e) an \$8 increase in Other Noninterest income, partially offset by (f) a decrease of \$182 from loan fees, and (g) an \$18 decrease in Gains on sales of premises and equipment.
- Noninterest expense for the first quarter of 2017 was \$10,306 as compared to \$10,658 for the first quarter of 2016 or a decrease of \$352 (3.30 percent).

The decrease of \$72 (0.99 percent) for Salaries and benefits is comprised of favorable deferred personnel costs net of routine annual salary and benefit increases. See also Note 7 of “Notes to the Consolidated Financial Statements”.

Insurance fund premium expense increased \$3 (0.41 percent) due to (a) the decrease in the Farm Credit System Insurance Corporation (FCSIC) premium from 16 percent of loans outstanding in 2016 to 15 percent for the first three months of 2017, offset by (b) the increase in volume during the first quarter of 2017 as compared to the first quarter of 2016.

Occupancy and equipment and Other operating expenses increased \$47 (2.06 percent) from \$2,285 to \$2,332. The increases were primarily related to travel, advertising, and communication expenses.

The \$330 decrease in Losses on other property is primarily related to a writedown on one property sold during the first quarter of 2016.

- The Association recorded a Provision for income taxes of \$55 and \$165, respectively, for the first quarters of 2017 and 2016.

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 March 31, 2017 was \$2,063,309 compared to \$2,040,901 at December 31, 2016. This increase during the period of \$22,408 (1.10 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 March 31, 2017 totaled \$577,256, an increase of \$8,726 (1.53 percent) compared to total members’ equity of \$568,530 at December 31, 2016. Total Comprehensive income of \$11,849 for the three months ended March 31, 2017 and net member capital stock/participation certificates issued of \$116, an estimated cash patronage distribution accrual for the first three months of 2017 totaling \$3,125, and net patronage distribution adjustment and retained earnings retired of \$114 account for the change.

FCA regulations require that all Farm Credit institutions maintain regulatory capital requirements. The Association exceeded the Minimum Requirement with Capital Conservation Buffer for all regulatory capital ratios at March 31, 2017. See **Regulatory Matters** for the ratios.

REGULATORY MATTERS

Capital

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

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

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

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

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

- The CET1 ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.

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

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

| Ratio | Minimum Requirement | Capital Conservation Buffer* | Minimum Requirement with Capital Conservation Buffer | Capital Ratios as of March 31, 2017 |
|------------------------------|----------------------------|-------------------------------------|---|--|
| Risk-adjusted ratios: | | | | |
| CET1 Capital | 4.5% | 0.625% | 5.125% | 19.03% |
| Tier 1 Capital | 6.0% | 0.625% | 6.625% | 19.03% |
| Total Capital | 8.0% | 0.625% | 8.625% | 20.63% |
| Permanent Capital Ratio | 7.0% | 0.0% | 7.0% | 19.89% |
| Non-risk-adjusted: | | | | |
| Tier 1 Leverage Ratio | 4.0% | 1.0% | 5.0% | 20.03% |
| UREE Leverage Ratio | 1.5% | 0.0% | 1.5% | 17.72% |

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

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

Other Regulatory Matters

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

- To strengthen the safety and soundness of System banks and associations,

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

**RECENTLY ISSUED ACCOUNTING
PRONOUNCEMENTS**

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

SHAREHOLDER INVESTMENT

Shareholder investment in the Association may be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst’s annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, www.agfirst.com. 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. Annual Reports are available 75 days after year-end.

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> | March 31, 2017 <i>(unaudited)</i> | December 31, 2016 <i>(audited)</i> |
|---|---|--|
| Assets | | |
| Cash | \$ 2,942 | \$ 3,894 |
| Loans | 2,646,966 | 2,607,353 |
| Allowance for loan losses | (24,869) | (24,377) |
| Net loans | 2,622,097 | 2,582,976 |
| Loans held for sale | 568 | 473 |
| Accrued interest receivable | 16,060 | 13,656 |
| Investments in other Farm Credit institutions | 29,193 | 29,172 |
| Premises and equipment, net | 11,674 | 11,744 |
| Other property owned | 729 | 729 |
| Accounts receivable | 4,609 | 28,166 |
| Other assets | 4,428 | 5,915 |
| Total assets | \$ 2,692,300 | \$ 2,676,725 |
| Liabilities | | |
| Notes payable to AgFirst Farm Credit Bank | \$ 2,063,309 | \$ 2,040,901 |
| Accrued interest payable | 4,469 | 4,316 |
| Patronage refunds payable | 3,798 | 18,699 |
| Accounts payable | 1,561 | 3,977 |
| Other liabilities | 41,907 | 40,302 |
| Total liabilities | 2,115,044 | 2,108,195 |
| Commitments and contingencies (Note 8) | | |
| Members' Equity | | |
| Capital stock and participation certificates | 10,380 | 10,264 |
| Retained earnings | | |
| Allocated | 332,629 | 332,358 |
| Unallocated | 234,477 | 226,148 |
| Accumulated other comprehensive income (loss) | (230) | (240) |
| Total members' equity | 577,256 | 568,530 |
| Total liabilities and members' equity | \$ 2,692,300 | \$ 2,676,725 |

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 March 31, | |
|--|---|------------------|
| | 2017 | 2016 |
| Interest Income | | |
| Loans | \$ 30,916 | \$ 28,227 |
| Interest Expense | | |
| Notes payable to AgFirst Farm Credit Bank | 13,265 | 11,919 |
| Net interest income | 17,651 | 16,308 |
| Provision for loan losses | 500 | — |
| Net interest income after provision for loan losses | 17,151 | 16,308 |
| Noninterest Income | | |
| Loan fees | 326 | 508 |
| Fees for financially related services | 421 | 404 |
| Patronage refunds from other Farm Credit institutions | 3,855 | 3,795 |
| Gains (losses) on sales of rural home loans, net | 300 | — |
| Gains (losses) on sales of premises and equipment, net | — | 18 |
| Gains (losses) on other transactions | 97 | (76) |
| Other noninterest income | 50 | 42 |
| Total noninterest income | 5,049 | 4,691 |
| Noninterest Expense | | |
| Salaries and employee benefits | 7,232 | 7,304 |
| Occupancy and equipment | 491 | 575 |
| Insurance Fund premiums | 734 | 731 |
| (Gains) losses on other property owned, net | 8 | 338 |
| Other operating expenses | 1,841 | 1,710 |
| Total noninterest expense | 10,306 | 10,658 |
| Income before income taxes | 11,894 | 10,341 |
| Provision for income taxes | 55 | 165 |
| Net income | \$ 11,839 | \$ 10,176 |

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 March 31, | |
|--|---|-------------------------|
| | 2017 | 2016 |
| Net income | \$ 11,839 | \$ 10,176 |
| Other comprehensive income net of tax | | |
| Employee benefit plans adjustments | <u>10</u> | <u>72</u> |
| Comprehensive income | <u>\$ 11,849</u> | <u>\$ 10,248</u> |

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, 2015 | \$ 9,950 | \$ 309,030 | \$ 221,238 | \$ (511) | \$ 539,707 |
| Comprehensive income | | | 10,176 | 72 | 10,248 |
| Capital stock/participation certificates issued/(retired), net | 95 | | | | 95 |
| Patronage distribution | | | | | |
| Cash | | | (3,000) | | (3,000) |
| Retained earnings retired | | (307) | 89 | | (218) |
| Patronage distribution adjustment | | 49 | (77) | | (28) |
| Balance at March 31, 2016 | \$ 10,045 | \$ 308,772 | \$ 228,426 | \$ (439) | \$ 546,804 |
| Balance at December 31, 2016 | \$ 10,264 | \$ 332,358 | \$ 226,148 | \$ (240) | \$ 568,530 |
| Comprehensive income | | | 11,839 | 10 | 11,849 |
| Capital stock/participation certificates issued/(retired), net | 116 | | | | 116 |
| Patronage distribution | | | | | |
| Cash | | | (3,125) | | (3,125) |
| Retained earnings retired | | (23) | | | (23) |
| Patronage distribution adjustment | | 294 | (385) | | (91) |
| Balance at March 31, 2017 | \$ 10,380 | \$ 332,629 | \$ 234,477 | \$ (230) | \$ 577,256 |

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, 2016, are contained in the 2016 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation

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

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

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

Significant Accounting Policies

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

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

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

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

Accounting Standards Updates (ASUs) Issued During the Period

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

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

goodwill. The amendment removes Step 2 of the goodwill impairment test. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The effective date and transition requirements for the technical corrections will be effective for reporting periods beginning after December 15, 2020 for public business entities that are not SEC filers. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

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

ASUs Pending Effective Date

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

Potential effects of ASUs issued in previous periods:

- 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business. In January, 2017, the FASB issued this update to provide a more robust framework to use in determining when a set of assets and activities is a business. It supports more consistency in applying the guidance, reduces the costs of application, and makes the definition of a business more operable. For public business entities, the ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The amendments should be applied prospectively. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2016-16 Income Taxes (Topic 740) - Intra-Entity Transfers of Assets Other Than Inventory: In October, 2016, the FASB issued this Update that requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. For public business entities, the amendments are effective, on a modified retrospective basis, for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual

reporting periods. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments: In June, 2016, the FASB issued this Update to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to better estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2016-02 Leases (Topic 842): In February, 2016, the FASB issued this Update which requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. The amendments will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities. Early adoption is permitted. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2016-01 Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities: In January, 2016, the FASB issued this Update which is intended to improve the recognition and measurement of financial instruments. The new guidance makes targeted improvements to existing GAAP. The ASU will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years for public business entities. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2014-09 Revenue from Contracts with Customers (Topic 606): In May 2014, the FASB issued this guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of

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

Accounting Standards Effective During the Period

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

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

- 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash. In November, 2016, the FASB issued this Update to clarify that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted using a retrospective transition method to each period presented. The Association elected retrospective early adoption of this guidance. The criteria of the standard were not significantly different from the Association's policy in place at adoption. Application of the guidance had no impact on the Association's Statements of Cash Flows.
- 2016-17 Consolidation (Topic 810) - Interests Held through Related Parties That Are under Common Control: In October, 2016, the FASB issued this Update to amend the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity (VIE) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary

beneficiary of that VIE. The amendments are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Application of the guidance had no impact on the Association's financial statements.

- 2016-15 Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force): In August, 2016, the FASB issued this Update to eliminate diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The Update addresses eight specific cash flow issues with the objective of reducing existing diversity in practice. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments are to be applied using a retrospective transition method to each period presented. The Association elected retrospective early adoption of this guidance. The criteria of the standard were not significantly different from the Association's policy in place at adoption. Application of the guidance had no impact on the Association's Statements of Cash Flows.

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

| | March 31, 2017 | December 31, 2016 |
|----------------------------------|---------------------|---------------------|
| Real estate mortgage | \$ 1,598,372 | \$ 1,577,039 |
| Production and intermediate-term | 786,103 | 807,630 |
| Loans to cooperatives | 36,478 | 13,362 |
| Processing and marketing | 61,136 | 48,841 |
| Farm-related business | 65,777 | 63,636 |
| Communication | 58,937 | 57,697 |
| Power and water/waste disposal | 5,011 | 4,672 |
| Rural residential real estate | 35,152 | 34,476 |
| Total Loans | \$ 2,646,966 | \$ 2,607,353 |

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

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

| | March 31, 2017 | | | | | | | |
|----------------------------------|--------------------------|---------------------|---------------------------|---------------------|----------------------------|---------------------|--------------------------|---------------------|
| | Within AgFirst District | | Within Farm Credit System | | Outside Farm Credit System | | Total | |
| | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold |
| Real estate mortgage | \$ 11,976 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 11,976 | \$ - |
| Production and intermediate-term | 64,392 | 41,465 | 19,954 | 4,656 | - | - | 84,346 | 46,121 |
| Loans to cooperatives | 9,444 | - | 27,076 | - | - | - | 36,520 | - |
| Processing and marketing | 31,044 | 15,796 | 12,577 | - | - | - | 43,621 | 15,796 |
| Farm-related business | 1,334 | - | 23,259 | - | - | - | 24,593 | - |
| Communication | 15,501 | - | 43,567 | - | - | - | 59,068 | - |
| Power and water/waste disposal | - | - | 5,021 | - | - | - | 5,021 | - |
| Total | \$ 133,691 | \$ 57,261 | \$ 131,454 | \$ 4,656 | \$ - | \$ - | \$ 265,145 | \$ 61,917 |

| | 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 | \$ 12,352 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 12,352 | \$ - |
| Production and intermediate-term | 63,477 | 40,899 | 20,414 | 6,063 | - | - | 83,891 | 46,962 |
| Loans to cooperatives | 1,616 | - | 11,775 | - | - | - | 13,391 | - |
| Processing and marketing | 30,080 | 6,421 | 9,552 | - | - | - | 39,632 | 6,421 |
| Farm-related business | 148 | - | 23,295 | - | - | - | 23,443 | - |
| Communication | 14,695 | - | 43,153 | - | - | - | 57,848 | - |
| Power and water/waste disposal | - | - | 4,683 | - | - | - | 4,683 | - |
| Total | \$ 122,368 | \$ 47,320 | \$ 112,872 | \$ 6,063 | \$ - | \$ - | \$ 235,240 | \$ 53,383 |

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

| | March 31, 2017 | | | |
|----------------------------------|----------------------|-----------------------|---------------------|---------------------|
| | Due less than 1 year | Due 1 Through 5 years | Due after 5 years | Total |
| Real estate mortgage | \$ 77,624 | \$ 514,015 | \$ 1,006,733 | \$ 1,598,372 |
| Production and intermediate-term | 147,534 | 386,475 | 252,094 | 786,103 |
| Loans to cooperatives | 200 | 30,912 | 5,366 | 36,478 |
| Processing and marketing | 5,538 | 32,304 | 23,294 | 61,136 |
| Farm-related business | 9,189 | 28,288 | 28,300 | 65,777 |
| Communication | 5,625 | 53,312 | - | 58,937 |
| Power and water/waste disposal | - | 3,138 | 1,873 | 5,011 |
| Rural residential real estate | 3,236 | 6,505 | 25,411 | 35,152 |
| Total Loans | \$ 248,946 | \$ 1,054,949 | \$ 1,343,071 | \$ 2,646,966 |
| Percentage | 9.40% | 39.86% | 50.74% | 100.00% |

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

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

| | March 31, 2017 | December 31, 2016 | | March 31, 2017 | December 31, 2016 |
|--|----------------|-------------------|--|----------------|-------------------|
| Real estate mortgage: | | | Communication: | | |
| Acceptable | 95.39% | 95.80% | Acceptable | 100.00% | 100.00% |
| OAEM | 2.67 | 2.28 | OAEM | 0.00 | 0.00 |
| Substandard/doubtful/loss | 1.94 | 1.92 | Substandard/doubtful/loss | 0.00 | 0.00 |
| | <u>100.00%</u> | <u>100.00%</u> | | <u>100.00%</u> | <u>100.00%</u> |
| Production and intermediate-term: | | | Power and water/waste disposal: | | |
| Acceptable | 95.52% | 96.20% | Acceptable | 100.00% | 100.00% |
| OAEM | 2.62 | 2.04 | OAEM | 0.00 | 0.00 |
| Substandard/doubtful/loss | 1.86 | 1.76 | Substandard/doubtful/loss | 0.00 | 0.00 |
| | <u>100.00%</u> | <u>100.00%</u> | | <u>100.00%</u> | <u>100.00%</u> |
| Loans to cooperatives: | | | Rural residential real estate: | | |
| Acceptable | 100.00% | 100.00% | Acceptable | 91.68% | 92.00% |
| OAEM | 0.00 | 0.00 | OAEM | 4.76 | 4.31 |
| Substandard/doubtful/loss | 0.00 | 0.00 | Substandard/doubtful/loss | 3.56 | 3.69 |
| | <u>100.00%</u> | <u>100.00%</u> | | <u>100.00%</u> | <u>100.00%</u> |
| Processing and marketing: | | | Total Loans: | | |
| Acceptable | 100.00% | 95.75% | Acceptable | 95.76% | 96.08% |
| OAEM | 0.00 | 4.25 | OAEM | 2.46 | 2.16 |
| Substandard/doubtful/loss | 0.00 | 0.00 | Substandard/doubtful/loss | 1.78 | 1.76 |
| | <u>100.00%</u> | <u>100.00%</u> | | <u>100.00%</u> | <u>100.00%</u> |
| Farm-related business: | | | | | |
| Acceptable | 99.45% | 99.30% | | | |
| OAEM | 0.13 | 0.26 | | | |
| Substandard/doubtful/loss | 0.42 | 0.44 | | | |
| | <u>100.00%</u> | <u>100.00%</u> | | | |

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

| | March 31, 2017 | | | | | |
|----------------------------------|-----------------------------------|-----------------------------|-------------------|--|--------------|--|
| | 30 Through 89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total Loans | Recorded Investment 90 Days or More Past Due and Accruing Interest |
| Real estate mortgage | \$ 6,347 | \$ 7,041 | \$ 13,388 | \$ 1,595,878 | \$ 1,609,266 | \$ 257 |
| Production and intermediate-term | 2,190 | 4,251 | 6,441 | 784,274 | 790,715 | — |
| Loans to cooperatives | — | — | — | 36,569 | 36,569 | — |
| Processing and marketing | — | — | — | 61,199 | 61,199 | — |
| Farm-related business | 20 | 233 | 253 | 65,744 | 65,997 | — |
| Communication | — | — | — | 58,944 | 58,944 | — |
| Power and water/waste disposal | — | — | — | 5,047 | 5,047 | — |
| Rural residential real estate | 298 | 167 | 465 | 34,824 | 35,289 | — |
| Total | \$ 8,855 | \$ 11,692 | \$ 20,547 | \$ 2,642,479 | \$ 2,663,026 | \$ 257 |

| | 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 | \$ 6,175 | \$ 5,919 | \$ 12,094 | \$ 1,573,876 | \$ 1,585,970 | \$ — |
| Production and intermediate-term | 4,377 | 4,585 | 8,962 | 802,962 | 811,924 | — |
| Loans to cooperatives | — | — | — | 13,380 | 13,380 | — |
| Processing and marketing | — | — | — | 48,894 | 48,894 | — |
| Farm-related business | 28 | 233 | 261 | 63,585 | 63,846 | — |
| Communication | — | — | — | 57,708 | 57,708 | — |
| Power and water/waste disposal | — | — | — | 4,707 | 4,707 | — |
| Rural residential real estate | 293 | 167 | 460 | 34,120 | 34,580 | — |
| Total | \$ 10,873 | \$ 10,904 | \$ 21,777 | \$ 2,599,232 | \$ 2,621,009 | \$ — |

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

| | March 31, 2017 | December 31, 2016 |
|--|------------------|-------------------|
| Nonaccrual loans: | | |
| Real estate mortgage | \$ 11,970 | \$ 11,364 |
| Production and intermediate-term | 6,797 | 6,000 |
| Farm-related business | 272 | 274 |
| Rural residential real estate | 891 | 668 |
| Total | <u>\$ 19,930</u> | <u>\$ 18,306</u> |
| Accruing restructured loans: | | |
| Real estate mortgage | \$ 9,131 | \$ 8,664 |
| Production and intermediate-term | 4,966 | 6,300 |
| Rural residential real estate | 202 | 445 |
| Total | <u>\$ 14,299</u> | <u>\$ 15,409</u> |
| Accruing loans 90 days or more past due: | | |
| Real estate mortgage | \$ 257 | - |
| Total | <u>\$ 257</u> | <u>-</u> |
| Total nonperforming loans | \$ 34,486 | \$ 33,715 |
| Other property owned | 729 | 729 |
| Total nonperforming assets | <u>\$ 35,215</u> | <u>\$ 34,444</u> |
| Nonaccrual loans as a percentage of total loans | 0.75% | 0.70% |
| Nonperforming assets as a percentage of total loans and other property owned | 1.33% | 1.32% |
| Nonperforming assets as a percentage of capital | <u>6.10%</u> | <u>6.06%</u> |

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

| | March 31, 2017 | December 31, 2016 |
|--------------------------------------|------------------|-------------------|
| Impaired nonaccrual loans: | | |
| Current as to principal and interest | \$ 6,522 | \$ 5,250 |
| Past due | 13,408 | 13,056 |
| Total | <u>\$ 19,930</u> | <u>\$ 18,306</u> |
| Impaired accrual loans: | | |
| Restructured | \$ 14,299 | \$ 15,409 |
| 90 days or more past due | 257 | - |
| Total | <u>\$ 14,556</u> | <u>\$ 15,409</u> |
| Total impaired loans | <u>\$ 34,486</u> | <u>\$ 33,715</u> |
| Additional commitments to lend | <u>\$ 24</u> | <u>\$ 23</u> |

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

| Impaired loans: | March 31, 2017 | | | Quarter Ended March 31, 2017 | |
|---|---------------------|--------------------------|-------------------|---------------------------------|--|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Impaired Loans | Interest Income Recognized on Impaired Loans |
| With a related allowance for credit losses: | | | | | |
| Real estate mortgage | \$ 6,954 | \$ 8,245 | \$ 1,296 | \$ 6,651 | \$ 172 |
| Production and intermediate-term | 4,477 | 5,271 | 1,927 | 4,282 | 111 |
| Farm-related business | 272 | 274 | 55 | 260 | 7 |
| Rural residential real estate | 767 | 827 | 185 | 734 | 19 |
| Total | <u>\$ 12,470</u> | <u>\$ 14,617</u> | <u>\$ 3,463</u> | <u>\$ 11,927</u> | <u>\$ 309</u> |
| With no related allowance for credit losses: | | | | | |
| Real estate mortgage | \$ 14,404 | \$ 16,318 | - | \$ 13,777 | \$ 357 |
| Production and intermediate-term | 7,286 | 10,418 | - | 6,970 | 180 |
| Farm-related business | - | 8 | - | - | - |
| Rural residential real estate | 326 | 454 | - | 311 | 8 |
| Total | <u>\$ 22,016</u> | <u>\$ 27,198</u> | <u>\$ -</u> | <u>\$ 21,058</u> | <u>\$ 545</u> |
| Total: | | | | | |
| Real estate mortgage | \$ 21,358 | \$ 24,563 | \$ 1,296 | \$ 20,428 | \$ 529 |
| Production and intermediate-term | 11,763 | 15,689 | 1,927 | 11,252 | 291 |
| Farm-related business | 272 | 282 | 55 | 260 | 7 |
| Rural residential real estate | 1,093 | 1,281 | 185 | 1,045 | 27 |
| Total | <u>\$ 34,486</u> | <u>\$ 41,815</u> | <u>\$ 3,463</u> | <u>\$ 32,985</u> | <u>\$ 854</u> |

| | December 31, 2016 | | | Year Ended December 31, 2016 | |
|---|------------------------|--------------------------------|----------------------|---------------------------------|--|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Impaired Loans | Interest Income Recognized on Impaired Loans |
| Impaired loans: | | | | | |
| With a related allowance for credit losses: | | | | | |
| Real estate mortgage | \$ 6,555 | \$ 7,957 | \$ 1,154 | \$ 7,171 | \$ 156 |
| Production and intermediate-term | 3,881 | 4,667 | 1,185 | 4,246 | 93 |
| Farm-related business | 274 | 276 | 55 | 300 | 7 |
| Rural residential real estate | 541 | 592 | 143 | 592 | 13 |
| Total | \$ 11,251 | \$ 13,492 | \$ 2,537 | \$ 12,309 | \$ 269 |
| With no related allowance for credit losses: | | | | | |
| Real estate mortgage | \$ 13,473 | \$ 15,470 | \$ - | \$ 14,741 | \$ 322 |
| Production and intermediate-term | 8,419 | 11,816 | - | 9,212 | 201 |
| Farm-related business | - | 8 | - | - | - |
| Rural residential real estate | 572 | 699 | - | 626 | 14 |
| Total | \$ 22,464 | \$ 27,993 | \$ - | \$ 24,579 | \$ 537 |
| Total: | | | | | |
| Real estate mortgage | \$ 20,028 | \$ 23,427 | \$ 1,154 | \$ 21,912 | \$ 478 |
| Production and intermediate-term | 12,300 | 16,483 | 1,185 | 13,458 | 294 |
| Farm-related business | 274 | 284 | 55 | 300 | 7 |
| Rural residential real estate | 1,113 | 1,291 | 143 | 1,218 | 27 |
| Total | \$ 33,715 | \$ 41,485 | \$ 2,537 | \$ 36,888 | \$ 806 |

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

| | Real Estate Mortgage | Production and Intermediate- term | Agribusiness* | Communication | Power and water/waste disposal | Rural Residential Real Estate | Total |
|---|-------------------------|---|---------------|---------------|--------------------------------------|-------------------------------------|--------------|
| Activity related to the allowance for credit losses: | | | | | | | |
| Balance at December 31, 2016 | \$ 9,715 | \$ 13,304 | \$ 634 | \$ 219 | \$ 11 | \$ 494 | \$ 24,377 |
| Charge-offs | - | (18) | - | - | - | - | (18) |
| Recoveries | 1 | 3 | 2 | - | - | 4 | 10 |
| Provision for loan losses | (24) | 372 | 182 | (1) | - | (29) | 500 |
| Balance at March 31, 2017 | \$ 9,692 | \$ 13,661 | \$ 818 | \$ 218 | \$ 11 | \$ 469 | \$ 24,869 |
| Balance at December 31, 2015 | \$ 9,959 | \$ 13,512 | \$ 540 | \$ 213 | \$ 11 | \$ 545 | \$ 24,780 |
| Charge-offs | - | (144) | - | - | - | (72) | (216) |
| Recoveries | 1 | 185 | - | - | - | 4 | 190 |
| Provision for loan losses | (122) | 53 | 25 | 13 | (2) | 33 | - |
| Loan type reclassification | - | (15) | 15 | - | - | - | - |
| Balance at March 31, 2016 | \$ 9,838 | \$ 13,591 | \$ 580 | \$ 226 | \$ 9 | \$ 510 | \$ 24,754 |
| Allowance on loans evaluated for impairment: | | | | | | | |
| Individually | \$ 1,296 | \$ 1,927 | \$ 55 | \$ - | \$ - | \$ 185 | \$ 3,463 |
| Collectively | 8,396 | 11,734 | 763 | 218 | 11 | 284 | 21,406 |
| Balance at March 31, 2017 | \$ 9,692 | \$ 13,661 | \$ 818 | \$ 218 | \$ 11 | \$ 469 | \$ 24,869 |
| Individually | \$ 1,154 | \$ 1,185 | \$ 55 | \$ - | \$ - | \$ 143 | \$ 2,537 |
| Collectively | 8,561 | 12,119 | 579 | 219 | 11 | 351 | 21,840 |
| Balance at December 31, 2016 | \$ 9,715 | \$ 13,304 | \$ 634 | \$ 219 | \$ 11 | \$ 494 | \$ 24,377 |
| Recorded investment in loans evaluated for impairment: | | | | | | | |
| Individually | \$ 11,970 | \$ 6,797 | \$ 272 | \$ - | \$ - | \$ 891 | \$ 19,930 |
| Collectively | 1,597,296 | 783,918 | 163,493 | 58,944 | 5,047 | 34,398 | 2,643,096 |
| Balance at March 31, 2017 | \$ 1,609,266 | \$ 790,715 | \$ 163,765 | \$ 58,944 | \$ 5,047 | \$ 35,289 | \$ 2,663,026 |
| Individually | \$ 11,364 | \$ 6,000 | \$ 274 | \$ - | \$ - | \$ 668 | \$ 18,306 |
| Collectively | 1,574,606 | 805,924 | 125,846 | 57,708 | 4,707 | 33,912 | 2,602,703 |
| Balance at December 31, 2016 | \$ 1,585,970 | \$ 811,924 | \$ 126,120 | \$ 57,708 | \$ 4,707 | \$ 34,580 | \$ 2,621,009 |

*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.

| Outstanding Recorded Investment | Three months ended March 31, 2017 | | | | | Charge-offs |
|----------------------------------|-----------------------------------|-----------------------|-------------------|----------|------|-------------|
| | Interest Concessions | Principal Concessions | Other Concessions | Total | | |
| Pre-modification: | | | | | | |
| Real estate mortgage | \$ 535 | \$ 636 | \$ - | \$ 1,171 | | |
| Production and intermediate-term | - | 1,218 | - | 1,218 | | |
| Total | \$ 535 | \$ 1,854 | \$ - | \$ 2,389 | | |
| Post-modification: | | | | | | |
| Real estate mortgage | \$ 535 | \$ 636 | \$ - | \$ 1,171 | \$ - | |
| Production and intermediate-term | - | 1,218 | - | 1,218 | | |
| Total | \$ 535 | \$ 1,854 | \$ - | \$ 2,389 | \$ - | |

| Outstanding Recorded Investment | Three Months Ended March 31, 2016 | | | | | Charge-offs |
|----------------------------------|-----------------------------------|-----------------------|-------------------|----------|------|-------------|
| | Interest Concessions | Principal Concessions | Other Concessions | Total | | |
| Pre-modification: | | | | | | |
| Production and intermediate-term | \$ - | \$ 3,960 | \$ - | \$ 3,960 | | |
| Total | \$ - | \$ 3,960 | \$ - | \$ 3,960 | | |
| Post-modification: | | | | | | |
| Production and intermediate-term | \$ - | \$ 3,961 | \$ - | \$ 3,961 | \$ - | |
| Total | \$ - | \$ 3,961 | \$ - | \$ 3,961 | \$ - | |

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

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

| Defaulted troubled debt restructurings: | Three Months Ended March 31, | |
|---|------------------------------|-------|
| | 2017 | 2016 |
| Production and intermediate-term | \$ 120 | \$ 77 |
| Total | \$ 120 | \$ 77 |

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 | |
|----------------------------------|----------------|-------------------|-----------------|-------------------|
| | March 31, 2017 | December 31, 2016 | March 31, 2017 | December 31, 2016 |
| Real estate mortgage | \$ 11,620 | \$ 11,238 | \$ 2,489 | \$ 2,574 |
| Production and intermediate-term | 6,750 | 8,684 | 1,784 | 2,384 |
| Farm-related business | 39 | 42 | 39 | 42 |
| Rural residential real estate | 714 | 727 | 512 | 282 |
| Total Loans | \$ 19,123 | \$ 20,691 | \$ 4,824 | \$ 5,282 |
| Additional commitments to lend | \$ 6 | \$ - | | |

The following table presents information as of period end:

| | March 31, 2017 |
|---|----------------|
| Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession | \$ 729 |
| Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process | \$ - |

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 10.53 percent of the issued stock of the Bank as of March 31, 2017 net of any reciprocal investment. As of that date, the Bank's assets totaled \$31.0 billion and shareholders' equity totaled \$2.3 billion. The Bank's earnings were \$83 million for the first three months of 2017. In addition, the Association held investments of \$2,454 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 March 31, | |
| | 2017 | 2016 |
| Employee Benefit Plans: | | |
| Balance at beginning of period | \$ (240) | \$ (511) |
| Other comprehensive income before reclassifications | — | — |
| Amounts reclassified from AOCI | 10 | 72 |
| Net current period other comprehensive income | 10 | 72 |
| Balance at end of period | \$ (230) | \$ (439) |

| | Reclassifications Out of Accumulated other Comprehensive Income (b) | | |
|---------------------------------------|---|---------|----------------------------|
| | Three Months Ended March 31, | | |
| | 2017 | 2016 | Income Statement Line Item |
| Defined Benefit Pension Plans: | | | |
| Periodic pension costs | \$ (10) | \$ (72) | See Note 7. |
| Net amounts reclassified | \$ (10) | \$ (72) | |

(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 Three Months Ended March 31, 2017 | | | | | | |
|---|-----------------------|----------|---------|--------------|------------------|--------------------------------|
| | 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 | \$ 2,300 | \$ 2,300 | \$ - | \$ - | \$ 2,300 | |
| Recurring Assets | \$ 2,300 | \$ 2,300 | \$ - | \$ - | \$ 2,300 | |
| Liabilities: | | | | | | |
| Recurring Liabilities | \$ - | \$ - | \$ - | \$ - | \$ - | |
| Nonrecurring Measurements | | | | | | |
| Assets: | | | | | | |
| Impaired loans | \$ 31,023 | \$ - | \$ - | \$ 31,023 | \$ 31,023 | \$ (934) |
| Other property owned | 729 | - | - | 823 | 823 | - |
| Nonrecurring Assets | \$ 31,752 | \$ - | \$ - | \$ 31,846 | \$ 31,846 | \$ (934) |
| Other Financial Instruments | | | | | | |
| Assets: | | | | | | |
| Cash | \$ 2,942 | \$ 2,942 | \$ - | \$ - | \$ 2,942 | |
| Loans | 2,591,642 | - | - | 2,555,444 | 2,555,444 | |
| Other Financial Assets | \$ 2,594,584 | \$ 2,942 | \$ - | \$ 2,555,444 | \$ 2,558,386 | |
| Liabilities: | | | | | | |
| Notes payable to AgFirst Farm Credit Bank | \$ 2,063,309 | \$ - | \$ - | \$ 2,048,467 | \$ 2,048,467 | |
| Other Financial Liabilities | \$ 2,063,309 | \$ - | \$ - | \$ 2,048,467 | \$ 2,048,467 | |

| At or for the Year Ended December 31, 2016 | | | | | | |
|--|-----------------------|----------|---------|--------------|------------------|--------------------------------|
| | Total Carrying Amount | Level 1 | Level 2 | Level 3 | Total Fair Value | Fair Value Effects On Earnings |
| Recurring Measurements | | | | | | |
| Assets: | | | | | | |
| Assets held in Trust funds | \$ 2,230 | \$ 2,230 | \$ - | \$ - | \$ 2,230 | |
| Recurring Assets | \$ 2,230 | \$ 2,230 | \$ - | \$ - | \$ 2,230 | |
| Liabilities: | | | | | | |
| Recurring Liabilities | \$ - | \$ - | \$ - | \$ - | \$ - | |
| Nonrecurring Measurements | | | | | | |
| Assets: | | | | | | |
| Impaired loans | \$ 31,178 | \$ - | \$ - | \$ 31,178 | \$ 31,178 | \$ 154 |
| Other property owned | 729 | - | - | 823 | 823 | (219) |
| Nonrecurring Assets | \$ 31,907 | \$ - | \$ - | \$ 32,001 | \$ 32,001 | \$ (65) |
| Other Financial Instruments | | | | | | |
| Assets: | | | | | | |
| Cash | \$ 3,894 | \$ 3,894 | \$ - | \$ - | \$ 3,894 | |
| Loans | 2,552,271 | - | - | 2,515,881 | 2,515,881 | |
| Other Financial Assets | \$ 2,556,165 | \$ 3,894 | \$ - | \$ 2,515,881 | \$ 2,519,775 | |
| Liabilities: | | | | | | |
| Notes payable to AgFirst Farm Credit Bank | \$ 2,040,901 | \$ - | \$ - | \$ 2,023,769 | \$ 2,023,769 | |
| Other Financial Liabilities | \$ 2,040,901 | \$ - | \$ - | \$ 2,023,769 | \$ 2,023,769 | |

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 March 31, 2017

| | Fair Value | Valuation Technique(s) | Unobservable Input | Range |
|---|------------|------------------------|---------------------------|-------|
| Impaired loans and other property owned | \$ 31,846 | 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 March 31, | |
|-------------------------------|---------------------------------|----------|
| | 2017 | 2016 |
| Pension | \$ 1,532 | \$ 1,561 |
| 401(k) | 246 | 277 |
| Other postretirement benefits | 299 | 304 |
| Total | \$ 2,077 | \$ 2,142 |

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

| | Actual YTD Through 3/31/17 | Projected Contributions For Remainder of 2017 | Projected Total Contributions 2017 |
|-------------------------------|-------------------------------------|--|---|
| Pension | \$ 30 | \$ 5,401 | \$ 5,431 |
| Other postretirement benefits | 160 | 462 | 622 |
| Total | \$ 190 | \$ 5,863 | \$ 6,053 |

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

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

Note 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 there were none requiring disclosure through May 8, 2017, which was the date the financial statements were issued.