CONNECT

AND DISCOVER THE POSSIBILITIES

2017 ANNUAL REPORT

AgSouth
Farm Credit, ACA

Loans for land, farms and homes

"Our members are the reason we are here. Your decision to do business with AgSouth is the foundation of our strength and prosperity."

CONTENTS

FINANCIALS

MESSAGE FROM OUR CEO

PAT CALHOUN
Chief Executive Officer

On behalf of the board, management and staff of AgSouth Farm Credit, I am pleased to present your 2017 Annual Report, which reflects another year of exceptional performance. Net earnings of your cooperative were $55.3 million. The cooperative's loan volume grew approximately 5 percent and member equity exceeded $365 million. In keeping with the cooperative principles that guide your Association, your board has, for the 30th consecutive year, declared a patronage refund from 2017's operations. Approximately $32.4 million of 2017's earnings were designated for this important cooperative purpose. This represents an increase of nearly $4 million over the distribution declared in 2016. This distribution, scheduled for March 2018, is strong evidence of the tangible value of doing business the cooperative way here at AgSouth.

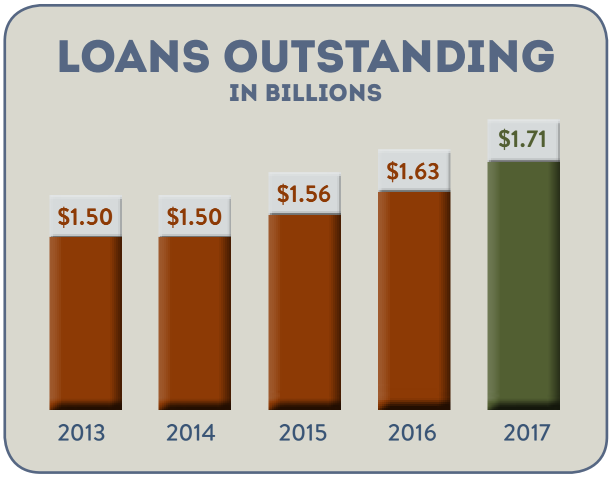
Our 2018 theme is "Connect – And Discover the Possibilities." We will connect with the communities we serve. We will connect with each other here at the Association. Most importantly, however, we will connect with you, our customers, to bring you the products and services needed for your success. We are hopeful you will connect with us as well, be it at a local branch, a community event or at your annual meeting. We want to see you and to hear from you!

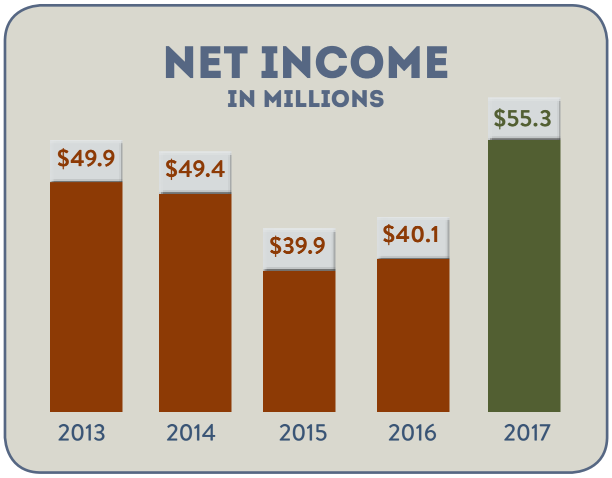
The Association has made some transitions in the past year, and those transitions will continue into 2018. Long-time CFO, Lisa Gunter, has announced her retirement at the end of the first quarter. The Association is extremely grateful to Lisa for her 36 plus years of dedicated, exemplary service. We have hired Bo Fennell to take the reins from Lisa upon her retirement. Bo has more than 20 years of financial experience, most of which were spent serving as a CFO. We look forward to Bo's service and are hopeful that many of you will have the opportunity to meet him in 2018.

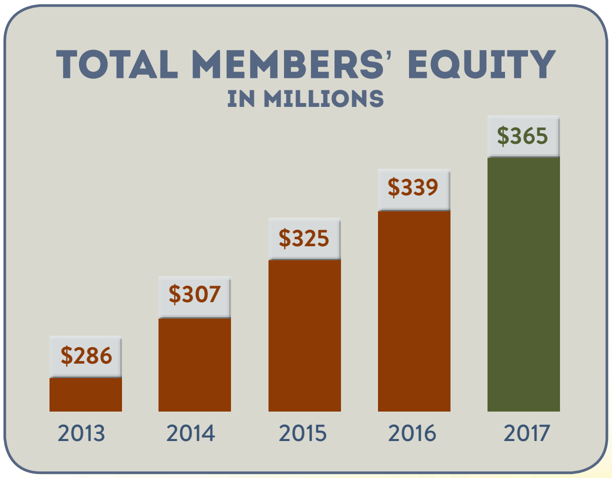
I am pleased to report that your Association is in excellent shape going into 2018. It is well capitalized, has adequate reserves and has an exceptional staff that is ready to help you meet your financial needs. Whether you're in the market for a loan, a lease, an insurance product or a residential mortgage, our dedicated and trained employees are eager to bring solid solutions to the table for our members and prospective customers.

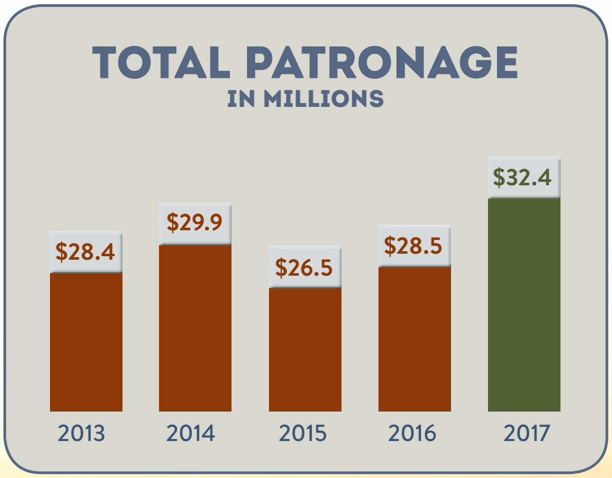
Finally, I want to thank you for your business. Our members are the reason we are here. Your decision to do business with AgSouth is the foundation of our strength and prosperity. I encourage you to continue to use your cooperative and to refer others to give them the same opportunity to Connect – And Discover the Possibilities of doing business with AgSouth!

Pat Calhoun
Chief Executive Officer


LOANS OUTSTANDING
IN BILLIONS
$1.50
$1.50
$1.56
$1.63
$1.71
2013
2014
2015
2016
2017


NET INCOME
IN MILLIONS
$49.9
$49.4
$39.9
$40.1
$55.3
2013
2014
2015
2016
2017


TOTAL MEMBERS' EQUITY
IN MILLIONS
$286
$307
$325
$339
$365
2013
2014
2015
2016
2017


TOTAL PATRONAGE
IN MILLIONS
$28.4
$29.9
$26.5
$28.5
$32.4
2013
2014
2015
2016
2017

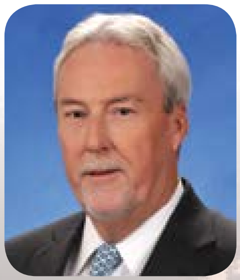
LEADERSHIP TEAM

AgSouth Farm Credit is led by a team of senior management and directors with deep roots in agriculture and decades of financial and agricultural experience. Our directors also have a strong connection to AgSouth — all but the three outside appointed directors are also customer-owners. You can count on our leadership team to make sound decisions for the future of our organization and for the generations of farmers to come. The possibilities are endless.

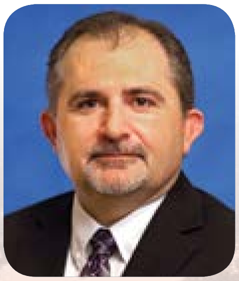
SENIOR MANAGEMENT

Pat Calhoun
Chief Executive Officer
29 years of service

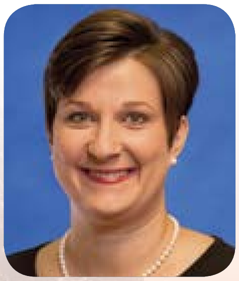
Alisa D. Gunter
Chief Financial Officer
36 years of service
Retiring 3/31/18



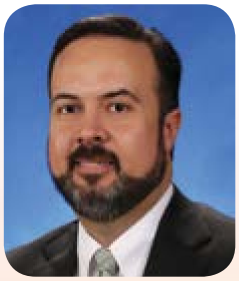
P. Craig Peebles
Chief Lending Officer
36 years of service



J. Stacy Anderson
Chief Credit Officer
14 years of service



Debbie W. Sikes
Chief Compliance and Risk Officer
16 years of service



Wesley D. Sutton
General Counsel
16 years of service

J. Theron Anderson
Director of Secondary Market and Related Services
26 years of service

BOARD OF DIRECTORS

William T. Robinson
Chairman
Elected to Board 2011
6 years of service

James C. Carter, Jr.
Vice Chairman
Elected to Board 1979
38 years of service

H. Frank Ables, Jr.
Elected to Board 2015
2 years of service

Arthur Q. Black
Elected to Board 1995
22 years of service

Thomas H. Coward
Elected to Board 1986
31 years of service

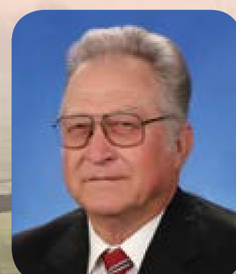
Loy D. Cowart
Elected to Board 1968
49 years of service

Lee H. DeLoach
Elected to Board 2002
15 years of service

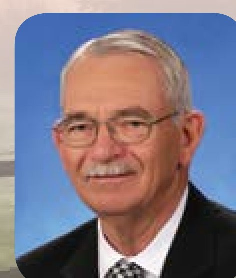
Walter W. Douglas
Elected to Board 2012
5 years of service

Sean F. Lennon
Elected to Board 2017
1 year of Service

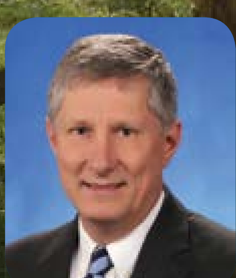
Phillip E. Love, Jr.
Elected to Board 2014
3 years of service



Jimmy B. Metts
Elected to Board 1978
39 years of service



Jerrome G. Parker
Elected to the board 1987
30 years if service



J. Jay Peay
Elected to Board 2015
2 years of service

Charles C. Rucks
Elected to Board 1988
29 years of service

Hugh E. Weathers
Elected to Board 1998
19 years of service

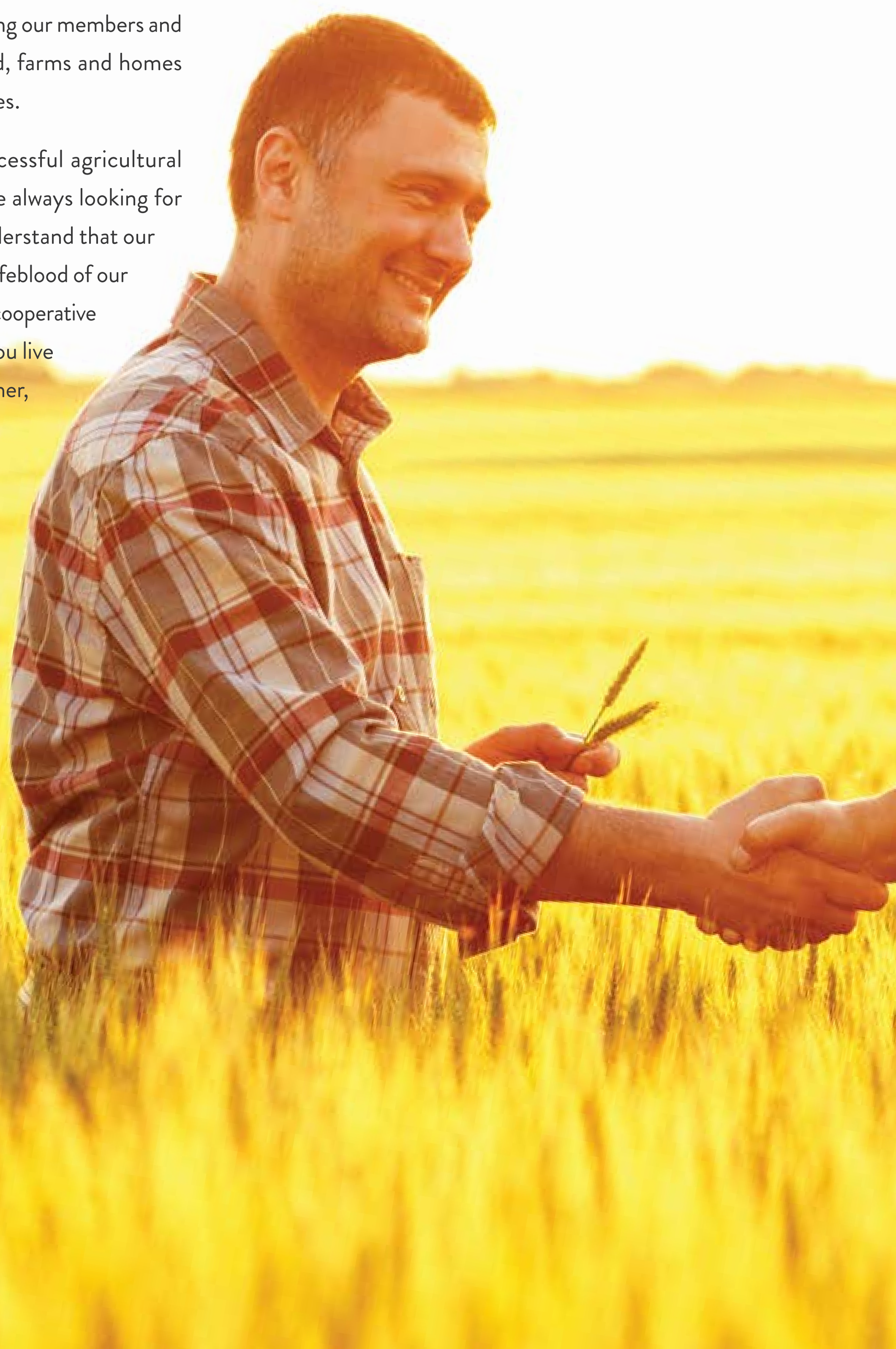
David H. Womack
Elected to Board 1991
26 years of service

CONNECTING WITH OUR MEMBERS AND OUR COMMUNITIES

At AgSouth, we are dedicated to serving our members and rural communities with loans for land, farms and homes and by providing other related services.

As one of the largest and most successful agricultural cooperatives in the Southeast, we are always looking for new ways to serve you better. We understand that our more than 10,000 members are the lifeblood of our organization. When you succeed, your cooperative and all of the communities in which you live and work thrive. When we come together, we are all better.

Your Board of Directors and management work together to ensure the success of your cooperative so you can discover all the future has to offer. We do that by keeping our rates competitive, paying a healthy patronage return, revolving allocated surplus on a timely basis, and educating the public and new farmers about agriculture.



PATRONAGE

AgSouth Farm Credit shares our profits directly with our members through our cooperative model. For you, that means cash back in your hands every year that we are profitable. That's money that helps you explore your dreams and support your community.

In the spring of 2017, AgSouth returned nearly 28 percent of our profits to our members for the year ending December 2016. The disbursement equaled more than $28.5 million — $8.6 million in cash and $19.9 million in allocated surplus that will be distributed at a future date.

Additionally, the Association returned another $19 million in allocated surplus from the year ending December 2011. The total amount returned in cash to our members this year was more than $27.6 million.

If you're a longtime customer, you know that cash back is the rule, rather than the exception. Since we began returning profits to our members in 1991, AgSouth has distributed more than $559 million to members, including nearly $462 million in cash.

In the spring of 2018, AgSouth plans another significant return to our members of $32.4 million for the year ending December 2017, and an allocated surplus return of more than $19 million from fiscal year 2012.

GOOD FOR YOU, GOOD FOR THE COMMUNITY

Patronage not only benefits you as a member of our cooperative, it also benefits our connected communities. When you use that money to purchase goods and services locally, it benefits your friends and neighbors. In turn, those merchants use the money to buy goods and services from other local businesses. This ripple effect connects the entire community, creating a win-win for everyone.

YOUR BOARD OF DIRECTORS AND MANAGEMENT WORK TOGETHER TO ENSURE THE SUCCESS OF YOUR COOPERATIVE SO YOU CAN DISCOVER ALL THE FUTURE HAS TO OFFER.

DISCOVERING THE POSSIBILITIES WITH AGSOUTH

Lending is the foundation on which we build a successful organization to support agriculture and rural living within the communities we serve. With rates still low and the economy on the rise in recent years, we have seen growth in land loans for agricultural and recreational purposes. Our home loan department had a record year in 2017, and we saw an upward trend in leasing.

As a member, you're already aware of many of the benefits of doing business with the cooperative you own and govern. But there may be products and services left for you to discover. Find a new dream or reignite an old one with:

LOANS FOR REAL ESTATE

- Farms/Large Acreage
- Residential Lots
- Timberland

LOANS FOR HOMES

- Home Purchases
- Home Construction
- Home Improvements
- Refinances

LOANS FOR AGRICULTURE

- Equipment
- Farm Improvements
- Operating Expenses
- Barns
- Fencing
- Vehicles
- Livestock
- Personal Expenses

SECONDARY MARKET DIVISION

AgSouth Mortgages offers loans to farmers and non-farmers for:

- Home Purchases in town or out in the country
- Construction-to-Perm Loans with one closing and the ability to lock in a fixed rate (Certain restrictions may apply)
- Homes for Investment Purposes
- Second Homes
- Vacation Properties

ADDITIONAL SERVICES

AGSOUTH HAS OTHER SERVICES TO HELP YOU CONNECT AND DISCOVER EVEN MORE POSSIBILITIES OF MAKING YOUR FINANCES WORK FOR YOU:

AccountAccess

Securely view your AgSouth Farm Credit account details, balances and recent transactions and even make payments and transfer funds 24 hours a day, 7 days a week through AccountAccess. Sign up today under our Member Services tab at **AgSouthFC.com**.

AgSouth Farm Credit Mobile

If you have or sign up for AgSouth's AccountAccess, you can now get our secure and safe mobile app to keep up with the same information. Just search for the "AgSouth Farm Credit" app on your iPhone or Android device. (Note: This product was formerly called "Mobile Roots.")

AGAware®

Our national award-winning program continues to provide training to young, beginning, small and under served farmers to help them successfully start or take over a farming operation. For information about our workshops, visit our AGAware page on our website.

AutoDraft

AutoDraft automatically deducts payments from your checking or savings account, whether you have monthly, quarterly or annual payments, helping protect your credit by making sure your payments are made on time. You can also schedule special principal payments with Autodraft!

Crop Insurance

When Mother Nature takes its toll on your crops, you don't have to worry if you have AgSouth behind you. And when you purchase your crop insurance from AgSouth, you're also included in our exclusive crop insurance patronage pool. Since the crop insurance patronage program began in 2004, AgSouth has distributed $4,951,852 to our crop insurance customers. That's an average of 38.64 percent of the profits we earn from the program.

Farm Credit EXPRESS

AgSouth works with participating dealers to provide financing right in the dealership. It is a convenient way to get an equipment loan that is serviced by your local branch office.

FastCash

Use FastCash to withdraw funds from your line of credit with a simple phone call to your local office or through AgSouthFC.com under Products & Services, Member Services. We'll electronically transfer funds from your line of credit to your checking or savings account at no cost to you.

Leasing

Need new equipment or a building? Save valuable time and money by leasing your vehicles, buildings and equipment through the Association. For the benefits of leasing, go to the Products & Services tab at the top of our home page and click to the Leasing tab.

Life Insurance

Protect what's important to you – even if you're not there to do it yourself – with life insurance from AgSouth. Ask your loan officer about our life insurance plans.

MEMBER REFERRAL PROGRAM

Referrals are our most effective and least expensive method of growing our Association. When you refer a new customer to AgSouth, you win two ways!

1) You strengthen your Association and the potential for larger patronage distributions.

2) You receive your choice of $100 or a free AgSouth jacket ***immediately***.

Simply refer one of your connections to AgSouth Farm Credit, and if your referral results in a new business relationship (loan or lease of $10,000 or more*), we'll mail you a check for $100 or send you a jacket in your size.

Connect to AgSouth and discover all of the ways we can help you live the life of your dreams. Open yourself up to the possibilities!

** Home loans and other loans subject to RESPA are NOT eligible for this promotion.*

REPORT OF MANAGEMENT

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

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

The Consolidated Financial Statements have been audited by independent auditors, whose report appears elsewhere in this annual report. The Association is also subject to examination by the Farm Credit Administration.

The Consolidated Financial Statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2017 Annual Report of AgSouth 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.

William T. Robinson
Chairman of the Board

Pat Calhoun
Chief Executive Officer

Alisa D. Gunter
Chief Financial Officer

March 13, 2018

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 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 December 31, 2017, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2017.

Pat Calhoun
Chief Executive Officer

Alisa D. Gunter
Alisa D. Gunter
Chief Financial Officer

March 13, 2018

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(dollars in thousands)	2017	2016	December 31, 2015	2014	2013
Balance Sheet Data					
Cash	**$ 4,949**	$ 5,160	$ 4,191	$ 4,976	$ 7,061
Investment securities	**5,533**	7,057	8,395	8,713	7,193
Loans	**1,710,098**	1,631,945	1,557,881	1,499,004	1,496,553
Allowance for loan losses	**(14,815)**	(14,183)	(13,099)	(12,357)	(11,648)
Net loans	**1,695,283**	1,617,762	1,544,782	1,486,647	1,484,905
Investments in other Farm Credit institutions	**23,568**	22,847	22,145	22,537	22,586
Other property owned	**3,669**	3,289	5,425	4,189	1,731
Other assets	**67,839**	66,868	66,242	67,871	70,660
Total assets	**$ 1,800,841**	$ 1,722,983	$ 1,651,180	$ 1,594,933	$ 1,594,136
Notes payable to AgFirst Farm Credit Bank*	**$ 1,405,074**	$ 1,342,601	$ 1,286,760	$ 1,243,701	$ 1,271,311
Accrued interest payable and other liabilities with maturities of less than one year	**30,276**	41,682	39,801	44,595	37,048
Total liabilities	**1,435,350**	1,384,283	1,326,561	1,288,296	1,308,359
Protected borrower stock	**—**	2	2	3	16
Capital stock and participation certificates	**9,097**	8,493	7,972	7,527	7,192
Retained earnings					
Allocated	**121,876**	118,570	116,777	112,635	110,391
Unallocated	**234,892**	212,028	200,380	187,002	168,402
Accumulated other comprehensive income (loss)	**(374)**	(393)	(512)	(530)	(224)
Total members' equity	**365,491**	338,700	324,619	306,637	285,777
Total liabilities and members' equity	**$ 1,800,841**	$ 1,722,983	$ 1,651,180	$ 1,594,933	$ 1,594,136
Statement of Income Data					
Net interest income	**$ 59,050**	$ 57,582	$ 56,473	$ 57,568	$ 56,727
Provision for loan losses	**2,738**	1,072	1,232	262	1,974
Noninterest income (expense), net	**(1,049)**	(16,409)	(15,379)	(7,881)	(4,853)
Net income	**$ 55,263**	$ 40,101	$ 39,862	$ 49,425	$ 49,900
Key Financial Ratios					
Rate of return on average:					
Total assets	**3.15%**	2.40%	2.52%	3.14%	3.22%
Total members' equity	**16.21%**	12.21%	12.60%	16.82%	18.29%
Net interest income as a percentage of average earning assets	**3.49%**	3.58%	3.71%	3.81%	3.83%
Net (chargeoffs) recoveries to average loans	**(0.125)%**	0.001%	(0.032)%	0.030%	(0.081)%
Total members' equity to total assets	**20.30%**	19.66%	19.66%	19.23%	17.93%
Debt to members' equity (:1)	**3.93**	4.09	4.09	4.20	4.58
Allowance for loan losses to loans	**0.87%**	0.87%	0.84%	0.82%	0.78%
Permanent capital ratio	**19.38%**	20.55%	20.68%	20.00%	18.69%
Total surplus ratio	**	20.01%	20.23%	19.53%	18.17%
Core surplus ratio	**	16.11%	16.31%	15.86%	14.46%
Common equity tier 1 capital ratio	**13.14%**	**	**	**	**
Tier 1 capital ratio	**13.14%**	**	**	**	**
Total regulatory capital ratio	**20.10%**	**	**	**	**
Tier 1 leverage ratio	**12.51%**	**	**	**	**
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**12.32%**	**	**	**	**
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 9,720**	$ 8,545	$ 7,945	$ 8,976	$ 8,521
Qualified allocated retained earnings	**—**	1,339	515	533	759
Nonqualified allocated retained earnings	**22,681**	18,599	18,024	20,412	19,123

** General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 2018.*
*** Not applicable due to changes in regulatory capital requirements effective January 1, 2017.*

(dollars in thousands, except as noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of AgSouth Farm Credit, ACA, (Association) for the year ended December 31, 2017 with comparisons to the years ended December 31, 2016 and December 31, 2015. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying Consolidated Financial Statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

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

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

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

Copies of the Association's Annual and Quarterly Reports are also available upon request free of charge on the Association's website, ***www.agsouthfc.com***, or by calling 1-912-489-4842, extension 2663, or writing Alisa D. Gunter, CFO, P.O. Box 718, Statesboro, GA 30459. The Association prepares an electronic version of the Annual Report, which is available on the Association's website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the Association's website, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

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

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

AGRICULTURAL OUTLOOK

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

Management's Discussion & Analysis of Financial Condition & Results of Operations (continued) (dollars in thousands, except as noted)

The February 2018 USDA forecast estimates 2017 farmers' net cash income, which is a measure of the cash income after payment of business expenses, at $96.9 billion, up $2.9 billion from 2016 and down $9.0 billion from its 10-year average of $105.9 billion. The increase in net cash income in 2017 was primarily due to increases in livestock receipts of $12.5 billion and cash farm-related income of $1.8 billion, partially offset by a decrease in crop cash receipts of $4.7 billion and an increase in cash expenses of $5.1 billion.

The February 2018 USDA outlook for the farm economy, as a whole, forecasts 2018 farmers' net cash income to decrease to $91.9 billion, a $5.0 billion decrease from 2017, and $14.0 billion below the 10-year average. The forecasted decrease in farmers' net cash income for 2018 is primarily due to an expected increase in cash expenses of $3.0 billion and decrease in crop and livestock receipts of $2.0 billion.

The following table sets forth the commodity prices per bushel for certain crops, by hundredweight for hogs, milk, and beef cattle, and by pound for broilers and turkeys from December 31, 2014 to December 31, 2017:

Commodity	12/31/17	12/31/16	12/31/15	12/31/14
Hogs	$48.60	$43.10	$42.80	$64.30
Milk	$17.20	$18.90	$17.30	$20.40
Broilers	$0.50	$0.48	$0.47	$0.58
Turkeys	$0.53	$0.74	$0.89	$0.73
Corn	$3.23	$3.32	$3.65	$3.79
Soybeans	$9.30	$9.64	$8.76	$10.30
Wheat	$4.51	$3.90	$4.75	$6.14
Beef Cattle	$118.00	$111.00	$122.00	$164.00

The USDA's income outlook varies depending on farm size and commodity specialties. The USDA classifies all farms into four primary categories: small family farms (gross cash farm income (GCFI) less than $350 thousand), midsize family farms (GCFI between $350 thousand and under $1 million), large-scale family farms (GCFI of $1 million or more), and nonfamily farms (principal operator or individuals related to the operator do not own a majority of the business). Approximately 99 percent of U.S. farms are family farms and the remaining 1 percent is nonfamily farms. The family farms produce 90 percent of the value of agricultural output and the nonfamily farms produce the remaining 10 percent of agricultural output. The small family farms represent about 90 percent of all U.S. farms, hold 51 percent of farm land operated by farms and account for 23 percent of the value of production. Approximately 68 percent of production occurs on 9 percent of family farms classified as midsize or large-scale.

According to the USDA February 2018 forecast, farm sector equity (assets minus debt) is expected to rise 1.6 percent in 2018 to nearly $2.7 trillion. Farm sector assets are expected to rise 1.6 percent to $3.1 trillion in 2018, while farm sector debt is expected to rise 1.0 percent to $388.6 billion. Farm real estate accounts for about 84 percent of farm sector assets and the 2018 forecast anticipates a 2.1 percent increase in real estate values, continuing its long-term upward trend since the late 1980s.

Two measures of the financial health of the agricultural sector used by the USDA are the farm sector's debt-to-asset and debt-to-equity ratios. These ratios are forecast to move slightly downward in 2018 to 12.6 percent and 14.4 percent from 12.7 percent and 14.5 percent in 2017. These ratios remain well below the all-time highs of over 20 percent experienced during the 1980s.

As estimated by the USDA in February 2018, the System's market share of farm business debt (defined as debt incurred by those involved in on-farm agricultural production) increased slightly to 40.9 percent at December 31, 2016 (the latest available data), as compared with 40.6 percent at December 31, 2015.

In general, agriculture, during the past several years, experienced favorable economic conditions driven by high commodity and livestock prices and increased farmland values during this period. To date, the Association's financial results have remained favorable as a result of these favorable agricultural conditions. Production agriculture, however, remains a cyclical business that is heavily influenced by commodity prices and various other factors. In a prolonged period of less favorable economic conditions in agriculture, including extensive and extended drought conditions, and without sufficient government support programs, including USDA-sponsored crop insurance programs, the Association's financial performance and credit quality measures would likely be negatively impacted.

Conditions in the general economy remain more volatile given the state of the global economy. Any negative impact from these less favorable conditions should be lessened by geographic and commodity diversification and the influence of off-farm income sources supporting agricultural-related debt. However, agricultural borrowers who are more reliant on off-farm income sources may be more adversely impacted by a weakened general economy.

ECONOMIC CONDITIONS

Both the Georgia and South Carolina regions of AgSouth's territory finished 2017 with good results with respect to yields from most major crops grown within the region. Prices remained slightly weak on corn and cotton with cotton showing late year price improvement. Peanut prices for the 2017 crop were very strong.

Crop harvest is considered complete across Georgia and South Carolina for corn, peanuts, cotton and soybeans. Corn for grain production for 2017 totaled 87.3 million bushels, with 43.1 million in Georgia and 44.2 million in South Carolina, down 28 percent and 1 percent, respectively from 2016 production. Corn yields per acre were up in both states over the 2016 crop at 176 bushels versus 165 bushels in Georgia and 136 bushels versus 127 bushels in South Carolina. Cotton production is estimated to be up in both states with South Carolina up 88 percent to 470,000 bales, and Georgia up 3 percent to 2.25 million bales. The 2016 crop in South Carolina was heavily damaged by the hurricane, thus crop production increased significantly in 2017. Peanut production set records in both states at 3.61 billion pounds in Georgia and 472 million pounds in South Carolina after both states planted record high acreage. Both states also had record high soybean yields, though Georgia's production was down 13 percent due to less acres planted, and South Carolina's production was up 18 percent over last year. Tobacco production in 2017 was down 7 percent in Georgia and up 2 percent in South Carolina over 2016.

Winter wheat seeded acres is up in Georgia by 31 percent to 210,000, and down by 33 percent in South Carolina to 60,000 acres. The United States 2018 winter wheat crop is estimated to be 32.6 million acres which is relatively unchanged from 2017.

Growing conditions within most of the AgSouth territory is considered good at this point in early 2018, with moderate drought and cold temperature stress. Topsoil and subsoil moisture at the end of November was down in both states, with topsoil moisture at 69 percent in South Carolina and 41 percent in Georgia, and subsoil moisture at 73 percent in South Carolina and 49 percent in Georgia. Both states were rated adequate in both topsoil and subsoil moisture levels; however, additional rains in December and snow in early January have increased the moisture ratings.

As of the end of November, pasture was rated 63 percent fair to excellent. Again, much needed rain received in December and January is expected to improve this rating in the next National Agricultural Statistics Service report.

Hatcheries in the United States set 225 million eggs in incubators during the week of December 30, 2017. This is 2 percent higher for the same week one year ago. Domestic broiler growers placed 178 million chicks for meat production for the week ending December 30, 2017 which is slightly lower than the same week in 2016. Both Georgia and South Carolina's chick placements were up the week of December 30, 2017 over last year with Georgia and South Carolina placing 29.9 million and 4.8 million chicks, respectively. Profit margins remain favorable primarily due to lower feed costs. The poultry concentration of AgSouth remains the highest commodity concentration repaid from agricultural income in the service area.

Southeast average pine sawtimber and chip-n-saw stumpage prices were down in the fourth quarter of 2017, while hardwood sawtimber and both pine and hardwood pulpwood prices were up for the quarter. Pine sawtimber and chip-n-saw prices continued a downward slide after showing signs of improvement in the third quarter of 2017. Pine sawtimber remains below $25 per ton for the seventh consecutive quarter and chip-n-saw below $17 per ton for the fifth consecutive quarter.

Pulpwood prices were up in the fourth quarter. Pine pulpwood increased for the second quarter in a row while hardwood pulp posted its largest quarter to quarter gain in more than three years. Hardwood sawtimber prices were also up more than $1 from a quarter ago. Southeast pine sawtimber ($23.59/ton) and chip-n-saw ($16.59/ton) were both down when comparing quarter to quarter and year to year. Hardwood sawtimber ($31.45/ton) was up quarter to quarter, but down compared to a year ago.

Pine and hardwood lumber prices were both up in the fourth quarter of 2017. The December monthly average of Random Lengths Southern Pine Composite at $416/mbf is up over 6 percent quarter to quarter and over 3 percent year to year. The December Hardwood Review US Kiln Dried Hardwood Lumber Index at $1,363/mbf is up $30, or over 2 percent, quarter to quarter and up $112, or over 9 percent from a year ago.

According to the United States Census, total housing starts are projected to be over 1.12 million units in 2017. This is a 3 percent increase compared to 2016 and the highest since 2007. Total housing starts in the South were at 560,700 units through the end of November which is up 3 percent or 15,200 units as compared to the same time period in 2016. Nationally, remodeling and improvement expenditures should be in excess of $190 billion in 2017, which is up 18 percent compared to 2016, and is a new record high level.

The Conference Board Consumer Confidence Index decreased in December following a modest increase in November. The index in December was 122.1 (1985=100), down from 128.6 in November. The November number was a 17 year high for this index. The Conference Board stated the decline in confidence was fueled by a less optimistic outlook for business and job prospects in the coming months. The December number is still strong compared to historical indexes.

The Conference Board Leading Economic Index for the United States increased less than one half of one percent in November to 130.9 (2010=100) following a 1.2 percent increase in October, and a slight increase in September. The Conference Board noted this indicates solid economic growth which will continue into the first half of 2018.

The Unemployment Rate for year-ending 2017 in both Georgia and South Carolina declined over 2016. South Carolina was at 4.1 percent as of December 2017, which is a decline over the 4.3 percent at December 2016. The trend, however, is up slightly from October 2017 and November 2017 when the rate was 3.9 percent and 4.0 percent, respectively. Georgia was at 4.4 percent as of December 2017, which is a decline over the 5.5 percent at December 2016, and slight increase over October and November rates of 4.3 percent each. The United States Unemployment Rate in December was 4.1 percent for the third consecutive month, and a 0.6 percent decrease from December 2016.

With the economy improving and growing conditions pointing to favorable results, the Association is positioned for another good year in 2018.

LOAN PORTFOLIO

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

The diversification of the Association loan volume by type for each of the past three years is shown in the table below. See Note 3, *Loans and Allowance for Loan Losses* in the Notes to the Financial Statements for information on these classification revisions.

	December 31,					
Loan Type	2017		2016		2015	
	(dollars in thousands)					
Real estate mortgage	$ 1,308,602	76.52%	$ 1,263,320	77.41%	$ 1,240,201	79.61%
Production and intermediate-term	307,691	18.00	288,968	17.71	253,321	16.26
Processing and marketing	15,763	.92	10,168	.62	4,644	.30
Farm-related business	16,477	.96	12,706	.78	6,344	.40
Rural residential real estate	61,100	3.57	55,432	3.40	50,996	3.28
Other	465	.03	1,351	.08	2,375	.15
Total	$ 1,710,098	100.00%	$ 1,631,945	100.00%	$ 1,557,881	100.00%

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified. The geographic distribution of the loan volume by branch for the past three years is as follows:

Branch	12/31/17	12/31/16	12/31/15
Aiken	2.08%	2.03%	2.30%
Allendale	2.88	2.96	3.40
Anderson	6.38	6.37	6.33
Batesburg	5.99	6.11	6.37
Baxley	3.67	3.96	4.00
Blackshear	5.56	5.01	5.14
Camden	3.34	3.24	3.12
Carrollton	2.60	2.42	2.31
Corporate	.44	.81	.70
Douglas	7.08	6.59	6.12
Greenville	4.74	4.66	4.74
Griffin	1.53	1.74	1.66
Jesup	1.66	1.73	1.59
Laurens	5.71	5.92	5.35
Madison	9.89	9.81	10.37
Orangeburg	4.15	3.96	3.56
Rock Hill	4.12	4.64	4.67
Spartanburg	3.97	3.99	4.01
St. Matthews	1.51	1.54	1.59
Statesboro	7.17	6.86	7.03
Summerville	3.83	3.83	3.42
Sylvania	1.72	1.57	1.36
Thomaston	3.29	3.14	2.75
Vidalia	3.15	3.08	3.25
Walterboro	2.93	2.89	3.24
SAM	.61	1.14	1.62
	100.00%	100.00%	100.00%

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

The major commodities in the Association loan portfolio are shown below. Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The predominant commodities are timber processing and related forest products; broilers; eggs; turkeys; feed grains, soybeans and hay; horses; cotton; beef cattle and pasture; sod, nursery and horticulture; peanuts; blueberries, fruits and nuts. These commodities constitute approximately 87 percent of the entire portfolio. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are diversified within their enterprise and/or with crop production which reduces overall risk exposure.

	December 31,					
Commodity Group	**2017**		**2016**		**2015**	
	(dollars in thousands)					
Timber, Forest Products	$ 627,863	37 %	$ 607,249	37 %	$ 578,952	37 %
Broilers	217,556	13	207,051	13	193,109	13
Cotton	138,317	8	122,930	8	121,496	8
Beef Cattle, Pasture	130,877	8	132,248	8	125,445	8
Feed Grains, Soybeans & Hay	122,620	7	114,319	7	115,104	7
Horses	70,402	4	72,066	5	66,879	4
Blueberries, Fruits & Nuts	61,379	4	60,325	4	57,723	4
Rural Home	59,724	3	53,902	3	48,117	3
Landlords	47,347	3	43,536	3	38,191	3
Other	41,094	3	36,354	2	32,056	2
Peanuts	37,571	2	27,110	2	29,054	2
Timber Processing & Harvesting	35,235	2	35,429	2	35,251	2
Sod, Nursery, & Horticulture	26,832	2	22,097	1	19,767	1
Vegetables & Tomatoes	20,631	1	21,595	1	20,717	1
Dairy	20,400	1	22,443	1	22,635	1
Onions	15,473	1	16,188	1	18,383	1
Turkeys	14,759	1	16,029	1	14,263	1
Tobacco	10,637	–	10,218	1	9,790	1
Eggs	8,178	–	7,073	–	6,784	1
Hogs	3,203	–	3,783	–	4,165	–
Total	$ 1,710,098	100 %	$ 1,631,945	100 %	$ 1,557,881	100 %

The Association holds a concentration of large loans, but the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diverse farming operations in the Association's territory.

Loan volume increased to $1,710,098 from $1,631,945 between December 31, 2016 and December 31, 2017. The increase of $78,153, or 4.79 percent, for the twelve months ended December 31, 2017, is primarily attributed to an increase in draws on operating funds, an increase in term loans originated, and the closing of several large transactions during the year. Loan volume increased from $1,557,881 at December 31, 2015 to $1,631,945 at December 31, 2016. This was an increase of $74,064 or 4.75 percent between those two reporting periods.

The short-term portfolio, heavily influenced by seasonal operating-type loans, normally reaches a peak balance in August and rapidly declines into the first quarter of the next year as commodities are marketed and proceeds are applied to repay operating loans.

During 2017, the Association activity in the purchasing of loan participations outside the System increased. The purchase of participation loans increased between the periods ended December 31, 2016 and December 31, 2017 by 53.75 percent or $1,447. This includes purchases from both Farm Credit System (FCS) Institutions and Non-FCS Institutions. The increase is attributed to new participations purchased offset by normal payments and payoffs of participations purchased during the reporting period.

Loans sold decreased 24.68 percent or $87,843 from $355,882 to $268,039 between the periods ended December 31, 2016 and December 31, 2017. The decrease in sold loans is linked to several large participated transactions paying down or liquidating during the year. Selling participations in larger credits provides a means for the Association to spread credit risk, concentration risk and realize interest and fee income, which may strengthen the capital position. Between the same periods in 2015 and 2016, loans sold increased 20.32 percent.

	December 31,		
Loan Participations	**2017**	**2016**	**2015**
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 636	$ 911	$ 1,137
Participations Purchased – Non-FCS Institutions	3,503	1,781	2,202
Participations Sold	(268,039)	(355,882)	(295,778)
Total	$ (263,900)	$ (353,190)	$ (292,439)

The Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests for the period ended December 31, 2017.

The Association sells qualified long-term mortgage loans into the secondary market. For the period ended December 31, 2017, the Association originated loans for resale totaling $148,399, which were sold into the secondary market. For the years ended December 31, 2016 and 2015, loans sold into the secondary market totaled $139,926 and $132,398, respectively. At December 31, 2017, there was $3,375 classified as loans held for sale on the Association's balance sheet. The increase in loans sold from 2016 to 2017 is the result of a more favorable housing market within the Association's territory and an increase in the number of originators. The increase in loans sold between 2015 and 2016 was due to the lower interest rate environment, an increase in refinancing activity, and an increase in the number of originators.

The Association also participates in the Farmer Mac Long - Term Stand By program. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2017, the Association had loans totaling $6,281 which were 100 percent guaranteed by Farmer Mac. The Association additionally originated portions of loans that are guaranteed by the United States Department of Agriculture. These loans are held for the purposes of reducing interest rate risk and managing surplus short-term funds as allowable under FCA regulations. During the years ended December 31, 2017, 2016, and 2015 the balance of these loans, including the unamortized premium, was $170,175, $167,863, and $162,383, respectively.

MISSION RELATED INVESTMENTS

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

These bonds may be classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. As of December 31, 2017, 2016 and 2015 the Association had $6,353, $7,917 and, $10,265 respectively, in Rural America Bonds. At December 31, 2017, $5,533 of the $6,353 is presented on the Consolidated Balance Sheet as Investment Securities. The remaining bonds in the amount of $820 are classified as Loans on the Consolidated Balance Sheets.

Effective December 31, 2015, the FCA concluded each pilot program approved as part of the Investment in Rural America Bonds program. Institutions participating in such programs may continue to hold its investment through the maturity dates of the investments, provided the institution continues to meet all approval conditions. Although the pilot programs have concluded, the FCA can consider future requests on a case-by-case basis.

RISK MANAGEMENT

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

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

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate (collateral).

As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loans of more than $250. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

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

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

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

Credit Quality	2017	2016	2015
Acceptable & OAEM	98.91%	98.31%	98.19%
Substandard/Doubtful/Loss	1.09%	1.69%	1.81%
Total	100.00%	100.00%	100.00%

The increase in Acceptable and OAEM percentage of volume can be linked to the continued workout of distressed assets and the growth in Acceptable and OAEM volume. Workouts can include payments and paydowns that result in moving the asset back to an acceptable quality or restructuring of the credit. The Association recognizes that there may be situations where borrowers need to sell assets to repay debt. While the underlying collateral may not be the sole repayment source, in some cases, borrowers have been attempting to sell collateral in order to pay down or liquidate their debt to the Association.

Nonperforming Assets

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

	Year Ended December 31,		
Nonperforming Assets	2017	2016	2015
	(dollars in thousands)		
Nonaccrual loans	$ 14,978	$ 17,143	$ 10,693
Restructured loans	6,863	7,910	9,659
Accruing loans 90 days past due	–	–	–
Total nonperforming loans	21,841	25,053	20,352
Other property owned	3,669	3,289	5,425
Total nonperforming assets	$ 25,510	$ 28,342	$ 25,777
Ratios			
Nonaccrual loans to total loans	.88%	1.05%	0.69%
Nonperforming assets as a percentage of total loans and other property owned	1.49%	1.73%	1.65%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased $2,165 or 12.63 percent in 2017. This decrease is the result of loans moving through the distressed collection process and includes several large accounts. Of the $14,978 in nonaccrual volume at December 31, 2017, $6,634 or 44.29 percent, compared to 28.88 percent and 43.15 percent at December 31, 2016 and 2015, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

Loan restructuring is available to financially distressed borrowers. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred for both the Association and the borrower. Restructured loans decreased in 2017 from $7,910 at December 31, 2016 to $6,863 at December 31, 2017. The decrease is the result of fewer customers requiring formal restructure to satisfy debt payment and normal payments and payoffs of loans in restructured status.

The schedule below shows the number and book value of other property owned for the years ending December 31, 2017, 2016, and 2015.

	December 31,		
Other Property Owned	2017	2016	2015
	(dollars in thousands)		
Number of Properties	6	3	9
Book Value of Properties	$ 3,669	$ 3,289	$ 5,425

During the fiscal year, 7 properties with a book value of $1,123 were added to the portfolio and 4 dispositions, excluding partial sales, were processed through the normal course of business. Total sales price of other property owned was $337. The write-downs and losses on the sale, net of gains, of other property owned totaled $406 during the reporting period and expenses totaled $59. Total net loss realized for the period ending December 31, 2017 was $465.

The increase in the balance of other property owned from December 2016 to December 2017 is the result of acquisitions exceeding sales and write-downs of real estate and other collateral during the process. In some cases the acquisitions were through foreclosure and others through a deed in lieu of foreclosure process. The Association is currently marketing all other property owned for sale. Please see our website at ***www.agsouthfc.com*** and click on *Property For Sale*.

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio. The allowance for loan losses is prepared according to generally accepted accounting principles.

	Year Ended December 31,		
Allowance for Loan Losses Activity	2017	2016	2015
	(dollars in thousands)		
Balance at beginning of year	$ 14,183	$ 13,099	$ 12,357
Charge-offs:			
Real estate mortgage	(2,102)	(171)	(958)
Production and intermediate-term	(252)	(87)	(122)
Agribusiness	–	–	–
Rural residential real estate	(67)	(25)	(11)
Other	–	–	–
Total charge-offs	(2,421)	(283)	(1,091)
Recoveries:			
Real estate mortgage	154	150	485
Production and intermediate-term	137	122	89
Agribusiness	4	4	5
Rural residential real estate	–	–	1
Other	20	19	21
Total recoveries	315	295	601
Net (charge-offs) recoveries	(2,106)	12	(490)
Provision for (reversal of allowance for) loan losses	2,738	1,072	1,232
Balance at end of year	$ 14,815	$ 14,183	$ 13,099
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.125)%	0.001%	(0.032)%

The net loan charge-offs and recoveries were primarily associated with real estate mortgage and production and intermediate term loans. There was no specific trend in the charge-offs or recoveries recognized.

The provision for loan losses increased the Allowance for Loan Losses account by $2,738 during 2017. Analysis of the Allowance account is completed on a quarterly basis and reviewed by the Association's Asset/Liability Committee which is comprised of members of Senior Management and other selected staff members. The increase was necessary to keep the Allowance for Loan Losses at a sufficient level to absorb any expected future losses. While the trend in reduction of high risk loans is positive, without further improvement in the general economy, additional losses are possible.

	December 31,		
Allowance for Loan Losses by Type	**2017**	**2016**	**2015**
	(dollars in thousands)		
Real estate mortgage	$ 11,213	$ 11,297	$ 10,369
Production and intermediate-term	2,797	2,271	2,177
Agribusiness	280	178	92
Rural residential real estate	521	426	423
Other	4	11	38
Total allowance	$ 14,815	$ 14,183	$ 13,099

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

Allowance for Loan Losses	**December 31,**		
as a Percentage of	**2017**	**2016**	**2015**
Total loans	.87%	.87%	.84%
Nonperforming loans	67.83%	56.61%	64.36%
Nonaccrual loans	98.91%	82.73%	122.50%

Given the possibility of portfolio growth and other potential losses, management has determined that the current level of allowance is adequate.

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

RESULTS OF OPERATIONS

Net Interest Income

Net interest income before the provision for loan loss was $59,050, $57,582, and $56,473 in 2017, 2016 and 2015, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past two years are presented in the following table:

Change in Net Interest Income:

	Volume*	**Rate**	**Total**
	(dollars in thousands)		
12/31/17 - 12/31/16			
Interest income	$ 4,762	$ 1,024	$ 5,786
Interest expense	1,817	2,501	4,318
Change in net interest income	$ 2,945	$ (1,477)	$ 1,468
12/31/16 - 12/31/15			
Interest income	$ 5,049	$ (1,242)	$ 3,807
Interest expense	1,937	761	2,698
Change in net interest income	$ 3,112	$ (2,003)	$ 1,109

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

Noninterest Income

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

	For the Year Ended December 31,			**Percentage Increase/(Decrease)**	
Noninterest Income	**2017**	**2016**	**2015**	**2017/ 2016**	**2016/ 2015**
	(dollars in thousands)				
Loan fees	$ 3,344	$ 3,244	$ 3,070	3.08%	5.67%
Fees for financially related services	1,823	1,908	1,767	(4.45)	7.98
Patronage refund from other Farm Credit Institutions	25,611	20,884	19,374	22.63	7.79
Gains (losses) on sales of rural home loans, net	1,986	2,013	1,843	(1.34)	9.22
Gains (losses) on sales of premises and equipment, net	256	287	228	(10.80)	25.88
Gains (losses) on other transactions	(1,228)	(149)	(88)	724.16	69.32
Other noninterest income	133	119	121	11.76	(1.65)
Total noninterest income	$ 31,925	$ 28,306	$ 26,315	12.79%	7.57%

Loan fees increased $100 or 3.08 percent when comparing the reporting periods 2017 to 2016. The increase is the result of fee collections on some large accounts and an increase in fees collected on both portfolio and loans sold in the secondary market. Loan fees increased $174 or 5.67 percent between the periods ending December 31, 2015 and December 31, 2016.

Fees for financially related services decreased $85 or 4.45 percent from December 31, 2016 to December 31, 2017. Fees from financially related services includes fees from leasing, crop insurance and life insurance. Fees earned from leasing transactions decreased in 2017, but this decrease was offset by commissions earned on the sale of crop insurance by Association staff. The Association also earns commission on the sale of some life insurance which increased slightly between the two reporting periods. Between the reporting periods ended December 31, 2015 and December 31, 2016, fees for financially related services increased by $141 to $1,908 from $1,767.

There was a 22.63 percent or $4,727 increase in patronage refund from other Farm Credit Institutions between the periods ended December 31, 2016 and December 31, 2017. In 2017, the Association earned $12,023 in patronage refund and $13,279 in a special distribution from AgFirst. In 2016, the Association earned $11,775 in a patronage refund and $8,178 in a special distribution, compared to $10,577 in a patronage refund and $8,178 in a special distribution for 2015. The amount of patronage refund is based upon the notes payable balance with AgFirst. The amount of the special distribution, if any, is determined by the AgFirst Farm Credit Bank Board of Directors and may or may not reoccur in future years.

For the period ended December 31, 2017, the Association earned $309 in patronage refund from other Farm Credit Institutions other than AgFirst. This compares to $931 and $619 for the periods ended December 31, 2016 and December 31, 2015, respectively. The decrease in patronage from other Farm Credit Institutions is partially attributable to the decrease in loans sold to other Farm Credit entities other than AgFirst who may or may not pay the same level of patronage received from AgFirst.

Gains on the sales of rural home loans in the secondary market totaled $1,986 for the period ended December 31, 2017. This was a decrease of $27 or 1.34 percent from the period ended December 31, 2016. The decrease is the result of a decrease in the yield premium earned on loans sold between the two reporting periods which was necessary to meet competition. For the period ended December 31, 2016, gains totaled $2,013. Gains increased between December 31, 2015 and December 31, 2016 by $170 or 9.22 percent.

Gains on the sales of premises and equipment decreased $31 or 10.80 percent between December 31, 2016 and December 31, 2017. A gain of $162 in 2017 was generated from the sale of the Spartanburg branch building when the branch staff relocated to the former Administrative office at 101 North Town Drive, Spartanburg, South Carolina. In 2016, the Association sold an office building in Carrollton, Georgia, that resulted in the majority of the gain in that reporting period. In both 2017 and 2016, gains from the sales of automobiles and other miscellaneous furniture and equipment are included in the $256 and $287, respectively. Net gains on the sales of premises and equipment totaled $228 for the periods ending December 31, 2015.

Losses on other transactions includes losses related to crop insurance offset by gains on Rabbi Trust plans held for certain retirees. This line item also includes payment of a settlement amount for a disputed claim and includes the expense to fund the allowance for loan losses for unused commitments. The change from December 31, 2016 to December 31, 2017 was from a loss of $149 to a loss of $1,228. Between December 31, 2015 and December 31, 2016, the line item moved from a loss of $88 to a loss of $149.

Other noninterest income increased $14 from $119 at December 31, 2016 to $133 at December 31, 2017. This line item includes recovery amounts from allocated surplus for some borrowers in default and volume incentives earned from AgFirst for secondary market loans sold. Other noninterest income decreased from $121 in 2015 to $119 in 2016.

Noninterest Expense

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

Noninterest Expense	For the Year Ended December 31, 2017	2016	2015	Percentage Increase/(Decrease) 2017/2016	2016/2015
	(dollars in thousands)				
Salaries and employee benefits	$ 22,033	$ 23,292	$ 21,879	(5.41)%	6.46%
Postretirement benefits	(384)	8,450	8,870	(104.54)	(4.74)
Occupancy and equipment	2,272	2,469	2,251	(7.98)	9.68
Insurance Fund premiums	1,888	2,024	1,458	(6.72)	38.82
(Gains) losses on other property owned, net	465	688	414	(32.41)	66.18
Other operating expenses	6,694	7,782	6,822	(13.98)	14.07
Total noninterest expense	$ 32,968	$ 44,705	$ 41,694	(26.25)%	7.22%

Salaries and employee benefits decreased $1,259 or 5.41 percent in 2017, as compared with 2016, and increased $1,413 or 6.46 percent when comparing 2016 to 2015. The decrease between the 2017 and 2016 reporting periods was primarily due to a lower amount of accrued incentive for the year. The Association has an incentive plan for full-time employees and the accruals for potential payout of incentive for 2017 were $819 less than 2016 accrued incentive. The incentive plan is comprehensive and requires achievement in several key measures both at the individual and total Association level before participation.

The increase in salaries and employee benefits between 2015 and 2016 was due to hirings necessary to replace employees currently eligible to retire or nearing eligibility status. The additional staff level increases both salary and benefit expenses.

Postretirement benefits decreased by $8,834 or 104.54 percent. During 2017, the method of recording expenses for the Association's defined benefit pension plan and other postretirement benefit plan was modified. This change resulted in the reduction of Other Assets of $8,053 and the reduction of Other Liabilities by $15,193 on the Association's Balance Sheets, and a corresponding reduction of postretirement benefit costs on the Association's Statements of Income of $7,140. See Note 9, *Employee Benefit Plans,* for more information concerning postretirement benefit expenses.

Management's Discussion & Analysis of Financial Condition & Results of Operations (continued) (dollars in thousands, except as noted)

The decrease in postretirement benefits between the 2015 and 2016 reporting periods can also be tied to the changing staff levels and a number of employees retiring.

Occupancy and equipment expense decreased $197 between the reporting periods ended December 31, 2017 and December 31, 2016. The decrease of 7.98 percent is the result of reduced maintenance and utility costs between the two reporting periods. The consolidation of staff into one building in Spartanburg, South Carolina, generated some savings. The increase of $218 between December 31, 2015 and December 31, 2016 is the result of higher general operating and maintenance costs. In 2016, building projects were completed in Carrollton, Vidalia and Orangeburg which resulted in some furniture and equipment items being expensed because they did not reach the threshold set for a depreciable asset. While the Association is currently working on a building project in Statesboro, no items have been expensed at this point in the construction process.

Insurance Fund premiums decreased $136 or 6.72 percent for the twelve months ended December 31, 2017, compared to the same period of 2016. Between 2015 and 2016, the Insurance Fund premium increased 38.82 percent or $566. The Farm Credit System Insurance Corporation (FCSIC) sets the premium and the Association's increase in loan volume and a decrease in the premium resulted in a decrease in the insurance expense in the 2017 reporting period. Nonaccrual loans and other-than-temporary impaired investments are assessed a higher premium rate.

The Association took in and disposed of several pieces of other property owned in 2017. Subsequently, the Association recorded $465 in net losses on other property owned. The losses recorded were from the need to write-down asset values to match new and more current appraisals and sales of the owned assets offset by minimal gains. This line item also includes expenses on other property owned as well. This compares to losses of $688 for the period ended December 31, 2016. For the period ended December 31, 2015, the Association had recorded losses of $414.

Other operating expenses decreased $1,088 or 13.98 percent between December 31, 2016 and December 31, 2017. Other operating expense includes purchased services, travel, training, advertising, public and member relations, communications, directors, supervisory and examination, and all other expenses not detailed above necessary to operate the Association. In 2016 the Association recognized its centennial year of service with increased advertising and public and member relation events. The centennial expenses did not recur in 2017. Training expenses were also lower in the 2017 reporting period compared to 2016 as staff changes and workloads prevented some employees from participating in some training sessions. Comparing other operating expenses for the period ended December 31, 2016 to December 31, 2015, other operating expenses increased $960 or 14.07 percent.

Income Taxes

The Association recorded a provision for income taxes of $6 for the year ended December 31, 2017, as compared to a provision of $10 for 2016 and a provision of $0 for 2015. Refer to Note 2, *Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

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

Key Results of Operations	For the 12 Months Ended		
Comparisons	12/31/17	12/31/16	12/31/15
Return on average assets	3.15%	2.40%	2.52%
Return on average members' equity	16.21%	12.21%	12.60%
Net interest income as a percentage of average earning assets	3.49%	3.58%	3.71%
Net (charge-offs) recoveries to average loans	(0.125)%	0.001%	(0.032)%

The return on average assets and return on members' equity increased in 2017 when compared to 2016. The increase in earnings resulted in a higher return on average assets. The increase in the return on members' equity ratio is also due to the substantial increase in earnings.

The decrease in the percentage of net interest income to average earning assets is due to the increase in average earning assets between the two reporting periods. Average earning assets increased from $1,608,118 to $1,690,708 between 2016 and 2017 as a result of growth in the portfolio.

The percentage of net charge-offs and recoveries to average loans was less than one percent in the 2017 reporting period, and the Association's charge-offs exceeded the total amount of recoveries. The decision to take a charge-off for financial purposes is made by tenured staff that specializes in handling distressed loan situations.

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

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

Total notes payable to the Bank at December 31, 2017, was $1,405,074 as compared to $1,342,601 at December 31, 2016 and $1,286,760 at December 31, 2015. The increase of $62,473 or 4.65 percent comparing December 31, 2017 to December 31, 2016 was attributable to the higher balance of loans outstanding. When comparing December 31, 2016 to December 31, 2015, total notes payable increased $55,841 or 4.34 percent.

The average volume of outstanding notes payable to the Bank was $1,380,476 and $1,312,595 for the years ended December 31, 2017 and 2016, respectively. Refer to Note 6, *Debt*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

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

The Association had no lines of credit from third party financial institutions as of December 31, 2017, 2016 and 2015.

Funds Management

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

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

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

Relationship with the Bank

The Association's statutory obligation to borrow only from the Bank is discussed in Note 6, *Debt*, of the Notes to the Consolidated Financial Statements in this Annual Report.

The Bank's ability to access capital of the Association is discussed in Note 4, *Investments*, of the Notes to the Consolidated Financial Statements.

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding Sources" section of this Management's Discussion and Analysis and in Note 6, *Debt*, included in this Annual Report.

The Bank also provides key services related to payroll and human resource processing and accounting services. In the area of technology, the Bank provides the backroom services including mainframe and network server applications. These applications include network communications, loan origination, loan accounting and disaster recovery. Some services include a specific fee structure, while others are incorporated into the Bank's funding formula.

CAPITAL RESOURCES

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

The Association's Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. The 2017 Capitalization Plan incorporates the new regulatory capital ratios as required by the FCA. There are no other changes that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2017, increased $26,791 or 7.91 percent to $365,491 from the December 31, 2016 total of $338,700. At December 31, 2016, total members' equity increased 4.34 percent from the December 31, 2015 total of $324,619. The increase was primarily attributed to earnings, both allocated and unallocated, in excess of revolvement of allocated earnings and the decision to retain a level of patronage source earnings to build capital.

Total capital stock and participation certificates and protected borrower stock were $9,097 on December 31, 2017, compared to $8,495 on December 31, 2016 and $7,974 on December 31, 2015. The increase was attributed to purchases of stock associated with new borrowing entities exceeding the liquidations of stock in the normal course of business.

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 core surplus and total surplus ratios with common equity tier 1 (CET1) capital, tier 1 capital, and total capital risk-based capital ratios. The new regulations also include a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio (PCR) remains in effect.

Management's Discussion & Analysis of Financial Condition & Results of Operations (continued) (dollars in thousands, except as noted)

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 Capital 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 Ratio 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 regulatory Capital ratios as previously reported:

	Regulatory Minimum	2016	2015	2014	2013	2012
Permanent Capital Ratio	7.00%	20.55%	20.68%	20.00%	18.69%	17.05%
Total Surplus Ration	7.00%	20.01%	20.23%	19.53%	18.17%	16.54%
Core Surplus Ratio	3.50%	16.11%	16.31%	15.86%	14.46%	12.50%

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 December 31, 2017
Risk-adjusted ratios:				
CET1 Capital Ratio	4.5%	0.625%	5.125%	13.14%
Tier 1 Capital Ratio	6.0%	0.625%	6.625%	13.14%
Total Regulatory Capital Ratio	8.0%	0.625%	8.625%	20.10%
Permanent Capital Ratio	7.0%	0.0%	7.0%	19.38%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	12.51%
UREE Leverage Ratio	1.5%	0.0%	1.5%	12.32%

* *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.

The slight decrease in the Association's permanent capital was attributed to growth in the Association's risk weighted assets, primarily the Association's loan portfolio. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements. See Note 7, *Members' Equity*, of the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements for more information concerning the patronage distributions. The Association declared patronage distributions of $32,401 in 2017, $28,483 in 2016, and $26,484 in 2015.

The higher total patronage distribution is tied to the higher earnings when comparing 2017 to 2016. The Association typically pays 30 percent in cash and the remainder in a combination of qualified and/or nonqualified allocated surplus. Payment of patronage is usually made in the first quarter of the following fiscal year. There were no significant changes to the Association's patronage policies and practices during 2017.

The Association closes the books with an estimated patronage distribution and then makes a final adjustment to the amount prior to actual payment. The adjustment entries are shown on the Member Equity Statement as a "Patronage Distribution Adjustment."

YOUNG, BEGINNING AND SMALL (YBS) FARMERS AND RANCHERS PROGRAM

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young*, Beginning**, and Small*** farmers.

Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit. The following chart reflects the Association's goals and progress toward those goals in each category.

Total Portfolio Goals and Progress
December 31, 2017

	Number of Loans 2017 Goal	Number of Loans 2017 Actual	Amount of Loans 2017 Goal	Amount of Loans 2017 Actual
Young	2,577	2,681	$280,545	$287,193
Beginning	5,289	6,058	$651,589	$705,255
Small	9,640	9,748	$995,483	$965,347

New Loan Goals and Progress
December 31, 2017

	Number of New Loans 2017 Goal	Number of New Loans 2017 Actual	Amount of New Loans 2017 Goal	Amount of New Loans 2017 Actual
Young	867	911	$117,437	$111,345
Beginning	1,617	1,934	$242,214	$271,445
Small	2,870	2,846	$366,991	$321,758

Note: For purposes of the above tables, a loan could be classified in more than one category, depending upon the characteristics of the underlying borrower.

The 2012 USDA Ag census data (latest data available) has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory (counties) there were 33,783 reported farmers of which by definition 1,442 or 4.27 percent were Young, 6,327 or 18.73 percent were Beginning, and 31,312 or 92.69 percent were Small. Comparatively, as of December 31, 2017, the demographics of the Association's agricultural portfolio contained 13,769 loans, of which by definition 2,709 or 19.67 percent were Young, 6,141 or 44.60 percent were Beginning and 9,786 or 71.07 percent were Small.

In 2017, the Association's Director of Marketing was responsible for the Young, Beginning, and Small farmer program. It is an integral part of the Association's business plan. The following strategies have helped the Association work toward its goals and objectives relative to Young, Beginning, and Small farmer programs.

- Provide current and pertinent farm management and financial training to YBS customers and prospects in group settings through AGAware® program and one-on-one
- Encourage young people to choose agriculture as a profession by supporting 4-H and FFA (Future Farmers of America)
- Encourage use of Student Agricultural Project loan program by visiting with 4-H representatives and FFA chapters in the service area
- Support Young Farmer Groups in the service area and at the state level
- Make customers and prospects aware of farm related services and encourage them to take advantage of beneficial programs through advertising and public relations
- Closely work with FSA (Farm Service Agency) personnel to meet the needs of YBS customers and prospects

Specific YBS activities in fiscal year 2017 include the following:

- Provided farm management and financial training through our Agribusiness Leadership Institute with Dr. Dave Kohl for 24 young, beginning and small farmers
- Sponsored and presented at Annie's Project, a farm management training for women in South Carolina
- Conducted two, day-long workshops on financial training and management for YBS borrowers and prospects through our AGAware® program

- Sponsored two couples to attend and presented at Cooperative Council's Couples Conference to educate on benefits of working with cooperatives
- Provided educational materials and seminars at Team Agriculture Georgia workshops
- Sponsored and presented programs on balance sheets at the South Carolina New, Beginning, Farmer Program (SCNBFP) workshops
- Provided financial education sessions at the Farmers Fair hosted by "100 Black Men of Southeast Georgia"
- Sponsored scholarships for attendees of the SCNBFP 2017 sessions
- Advertised in multiple YBS publications in both Georgia and South Carolina
- Offered 25 grants to local Farmers Markets totaling $25,000
- Sponsored multiple FFA and 4-H competitions and livestock shows in Georgia and South Carolina
- Sponsored and presented at South Carolina Farm Bureau's Ag in the Classroom
- Provided scholarships at Clemson University, University of Georgia, Abraham Baldwin Agricultural College, South Carolina State University and Fort Valley State University
- Sponsored and presented the Farmer of the Year Awards in Georgia and South Carolina
- Presented at and sponsored the Young Farmer Dinner at the Sunbelt Ag Expo
- Sponsored and exhibited at the South Carolina AgriBiz & Farm Expo
- Sponsored and presented at Young Farmer Conferences in Georgia and South Carolina
- Sponsored South Carolina Agriculture Commissioners School of Ag
- Sponsored and exhibited at Georgia Organics Conference
- Attended, sponsored and presented upon request at numerous county Young Farmer and Extension meetings throughout the territory

The Association is committed to the future success of young, beginning and small farmers.

*The Census shows young farmers in a group up to age 34, whereas the Association's YBS information defines Young Farmers as those farmers, ranchers, producers, or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.

**The Census shows years on present farm up to nine years, whereas the Association's YBS information defines Beginning Farmers as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.

***Small farmers are defined as those farmers, ranchers, producers, or harvesters of aquatic products who normally generate less than $250 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

Additionally, the Census data is based upon number of farms; whereas, the Association's data is based on number of loans.

REGULATORY MATTERS

Capital

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

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

FINANCIAL REGULATORY REFORM

Derivatives transactions are subject to myriad regulatory requirements including, among other things, clearing through a third-party central clearinghouse trading on regulated exchanges or other multilateral platforms. Margin is required for these transactions. Derivative transactions that are not subject to mandatory trading and clearing requirements may be subject to minimum margin and capital requirements.

The Commodity Futures Trading Commission and other federal banking regulators have exempted System institutions from certain, but not all, of these new requirements, including for swaps with members, mandatory clearing and minimum margin for non-cleared swaps.

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

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

The regulatory requirements that apply to derivatives transactions could affect funding and hedging strategies and increase funding and hedging costs.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to a CECL model. • The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.	• The Association has begun implementation efforts by establishing a cross-discipline governance structure. The Association is currently identifying key interpretive issues, and assessing existing credit loss forecasting models and processes against the new guidance to determine what modifications may be required. • The Association expects that the new guidance will result in an increase in its allowance for credit losses due to several factors, including: 1. The allowance related to loans and commitments will most likely increase to cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of the increase is under evaluation, but will depend upon the nature and characteristics of the Association's portfolio at the adoption date, and the macroeconomic conditions and forecasts at that date. • The Association expects to adopt the guidance in first quarter 2021.
ASU 2016-02 – Leases (Topic 842)	
• Requires lessees to recognize leases on the balance sheet with lease liabilities and corresponding right-of-use assets based on the present value of lease payments. • Lessor accounting activities are largely unchanged from existing lease accounting. • The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification. • Also, expands qualitative and quantitative disclosures of leasing arrangements. • Requires adoption using a modified cumulative effect approach wherein the guidance is applied to all periods presented. • Effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted.	• The practical expedients allow entities to largely account for existing leases consistent with current guidance, except for the incremental balance sheet recognition for lessees. • The Association has started its implementation of the Update which has included an initial evaluation of leasing contracts and activities. • As a lessee the Association is developing its methodology to estimate the right-of use assets and lease liabilities, which is based on the present value of lease payments but does not expect a material change to the timing of expense recognition. • Given the limited changes to lessor accounting, the Association does not expect material changes to recognition or measurement, but it is early in the implementation process and the impact will continue to be evaluated. • The Association is evaluating existing disclosures and may need to provide additional information as a result of adopting the Update. • The Association expects to adopt the guidance in first quarter 2019 using the modified retrospective method and practical expedients for transition.
ASU 2016-01 – Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	
• The Update amends the presentation and accounting for certain financial instruments, including liabilities measured at fair value under the fair value option and equity investments. • Requires certain equity instruments be measured at fair value, with changes in fair value recognized in earnings. • The guidance also updates fair value presentation and disclosure requirements for financial instruments measured at amortized cost. • Effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.	• The Association is currently evaluating any impacts to the financial statements. The Association's implementation efforts include the identification of securities within the scope of the guidance, the evaluation of the measurement alternative available for equity securities without a readily determinable fair value, and the related impact to accounting policies, presentation, and disclosures. • Any investments in nonmarketable equity investments accounted for under the cost method of accounting (except for other Farm Credit Institution stock) will be accounted for either at fair value with unrealized gains and losses reflected in earnings or, if elected, using an alternative method. The alternative method is similar to the cost method of accounting, except that the carrying value is adjusted (through earnings) for subsequent observable transactions in the same or similar investment. The Association is currently evaluating which method will be applied to these nonmarketable equity investments. • Additionally, for purposes of disclosing the fair value of loans carried at amortized cost, the Association is evaluating valuation methods to determine the necessary changes to conform to an "exit price" notion as required by the Standard. Accordingly, the fair value amounts disclosed for such loans may change upon adoption. • The Association expects to adopt the guidance in first quarter 2018 with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption, except for changes related to nonmarketable equity investments, which is applied prospectively. The Association expects the primary accounting changes will relate to equity investments.
ASU 2014-09 – Revenue from Contracts With Customers (Topic 606) and subsequent related Updates	
• Requires that revenue from contracts with customers be recognized upon transfer of control of a good or service, and transfers of nonfinancial assets, in an amount equaling the consideration expected to be received. • Changes the accounting for certain contract costs, including whether they may be offset against revenue in the Consolidated Statements of Income, and requires additional disclosures about revenue and contract costs. • May be adopted using a full retrospective approach or a modified, cumulative effect approach wherein the guidance is applied only to existing contracts as of the date of initial application, and to new contracts transacted after that date. • Effective for reporting periods beginning after December 15, 2017. Early application is not permitted.	• The Association's revenue is the sum of net interest income and noninterest income. The scope of the guidance explicitly excludes net interest income as well as many other revenues for financial assets and liabilities including loans, leases, securities, and derivatives. Accordingly, the majority of the Association's revenues will not be affected. • The Association is performing an assessment of revenue contracts as well as working with industry participants on matters of interpretation and application. Accounting policies will not change materially since the principles of revenue recognition from the Update are largely consistent with existing guidance and current business practices. The Association has not identified material changes to the timing or amount of revenue recognition. • The Association expects a minor change to the presentation of costs for certain underwriting activities which will be presented in expenses rather than the current presentation against the related revenues. The Association will provide qualitative disclosures of performance obligations related to revenue recognition and will continue to evaluate disaggregation for significant categories of revenue in the scope of the guidance. • The Association intends to adopt the guidance in first quarter 2018 using the modified retrospective method with a cumulative-effect adjustment to opening retained earnings.

DISCLOSURE REQUIRED BY FARM CREDIT ADMINISTRATION REGULATIONS

Description of Business

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

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

The Association distributes its earnings in a Patronage Allocation program as described in *Management's Discussion and Analysis of Financial Condition and Results of Operations* included in this Annual Report. During 2017, there were no significant changes to existing patronage policies and practices.

The Association is a member of an unincorporated business entity called CFB Holdings, LLC. CFB Holdings, LLC is a North Carolina Limited Liability Company and was organized to acquire, operate in an idle mode, market, and re-sell the Purchased Assets (an ethanol plant) and to engage in such activities as may be approved by the Majority Interest (collectively, the "Business"), in each case subject to any limitations of the Act or Applicable Laws of any jurisdiction in which the Company transacts business. The Company shall be authorized to engage in any and all other activities related to the foregoing.

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity:

Location	Description	Form of Ownership
26 South Main Street Statesboro, GA	Headquarters	Owned
1884 Joe S. Jeffords Highway Orangeburg, SC	Administrative	Owned
4 East Vine Street Statesboro, GA	Administrative	Owned
951 East Pine Log Road Aiken, SC	Branch	Owned
4930 Burtons Ferry Highway Allendale, SC	Branch	Owned
1325 Pearman Dairy Road Anderson, SC	Branch	Owned
109 East Church Street Batesburg-Leesville, SC	Branch	Owned
64 Heritage Street Baxley, GA	Branch	Owned
111 Carter Avenue Blackshear, GA	Branch	Owned
951 Highway 1 South Lugoff, SC	Branch	Owned
2520 Highway 27 South Carrollton, GA	Branch	Owned
204 Bowens Mill Road Douglas, GA	Branch	Owned
596 South Talbotton Street Greenville, GA	Branch	Owned
1298 Enterprise Way Griffin, GA	Branch	Owned
855 Odum Highway Jesup, GA	Branch	Owned
306 Hillcrest Drive Laurens, SC	Branch	Owned
1691 Lions Club Road Madison, GA	Branch	Owned
1880 Joe S. Jeffords Highway Orangeburg, SC	Branch	Owned
1321 Springdale Road Rock Hill, SC	Branch	Owned
2630 Colonel Thomson Highway St. Matthews, SC	Branch	Owned
101 North Town Drive Spartanburg, SC	Branch	Owned
40 South Main Street Statesboro, GA	Branch	Owned
20 East Vine Street Statesboro, GA	Operations Center*	Owned
702 Kate Lane Summerville, SC	Branch	Owned
302 Mims Road Sylvania, GA	Branch	Owned
620 North Church Street Thomaston, GA	Branch	Owned
314 Commerce Way Vidalia, GA	Branch	Owned
529 Bells Highway Walterboro, SC	Branch	Owned

The Association currently owns a 2 acre lot on Fairfax Highway in Allendale, South Carolina. The Association has this lot listed for sale.

The Association owns a building and lot on the Barnwell Highway in Allendale, South Carolina. It is currently under contract for sale. Closing should occur in February 2018.

The Administrative office located at 1884 Joe S. Jeffords Highway in Orangeburg, South Carolina, is now vacant as administrative staff have retired or been relocated. The Board of Directors is currently considering the next use, if any, for this building.

The Spartanburg Administrative office was designated the Spartanburg branch when the Spartanburg branch building was sold in May 2017. Administrative employees continue to occupy a portion of the space in the Spartanburg branch building at 101 North Town Drive, Spartanburg, South Carolina.

*The Association property at 4 East Vine Street, Statesboro, Georgia, is temporary office space purchased to house Administrative employees. These employees will move to the new Operations Center at 20 East Vine Street when that building is complete in the first quarter of 2018. The property at 4 East Vine Street will be demolished once the new building is complete and all staff have been relocated.

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

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

Senior Officers

The following represents certain information regarding the senior officers of the Association as of December 31, 2017:

Name	Current Position	Date Started in Current Position**	Previous Position(s)During Last Five Years
Pat Calhoun	Chief Executive Officer	September 2016	Director of Risk Management
Alisa D. Gunter*	Chief Financial Officer	January 2004	
P. Craig Peebles	Chief Lending Officer	December 2016	Regional President – GA
J. Stacy Anderson	Chief Credit Officer	October 2016	Regional Credit Administrator
Wesley D. Sutton	General Counsel	October 2012	
J. Theron Anderson	Director of Secondary Market and Related Services	January 2004	
Debbie W. Sikes	Chief Compliance and Risk Officer	October 2017	Loan Officer - Analyst Compliance Officer

**Mrs. Gunter has announced her intention to retire effective April 1, 2018. Bo Fennell has been hired as the new Chief Financial Officer and will assume those duties on April 1, 2018.*
***The January 2004 reflects the date of the merger of Palmetto Farm Credit, ACA and AgSouth Farm Credit, ACA. For those senior officers reflecting a date of January 2004, they held the position reflected or a similar position prior to January 2004.*

The primary business experience for the past five years for the senior officers is with the Farm Credit System. Other business or organizational interests are as follows:

- **Pat Calhoun** serves on the board of the Palmetto Agribusiness Council (promotes agriculture), the advisory board of the University of Georgia's Advancing Georgia Leaders in Agriculture and Forestry (leadership training program), and the advisory committee for the South Carolina AgriBiz and Farm Expo (promotes agriculture and agribusiness). He also serves as a member of the AgFirst Farm Credit Council board (legislative support).

- **J. Theron Anderson** is owner of Plan C Investments, LLC (real estate rental and investment properties) and is owner of LKP Investments, LLC (farm operations) and farms pecans and timber.

The total amount of compensation earned by all senior officers and other highly compensated employees as a group during the years ended December 31, 2017, 2016 and 2015, is as follows:

Name of Individual or Number in Group	Year	Annual Salary	Annual Bonus	Deferred Comp.	Change in Pension Value[(a)]	Perq./ Other[(b)]	Total
CEO							
Pat Calhoun	2017	$ 257,510	$ 87,550	$ –	$ 379,027	$ –	$ 724,087
Pat Calhoun	2016	212,632	89,336	11,500	332,555	–	646,023
PAST CEO							
William P. Spigener, Jr.	2017	112,504	–	–	1,036,157	–	1,148,661
William P. Spigener, Jr.	2016	450,018	175,700	5,436	406,053	11,499	1,048,706
William P. Spigener, Jr.	2015	420,054	126,000	5,975	37,595	10,828	600,452
7	2017	1,090,547	508,664	29,000	912,350	79,847	2,620,408
10	2016	1,475,872	983,182	19,000	1,187,941	88,681	3,754,676
9	2015	1,465,351	601,707	36,500	121,954	12,905	2,238,417

(a) The changes in pension values as reflected in the table above resulted primarily from changes in the actuarial assumptions for mortality and discount rate. See further discussion in Note 9, Employee Benefit Plans, of the Financial Statements.

(b) The Perquisites/Other amount disclosed in the above chart includes club memberships, automobile allowance, relocation reimbursement and life insurance.

The disclosure of information on the total compensation paid during 2017 to any senior officer or to any other employee included in the aggregate group total as reported in the table above is available and will be disclosed to the shareholders of the institution upon request.

All employees including the CEO and senior officers have defined duty statements and standards of performance. These standards are reviewed at least annually and graded on a one to five scale, with five indicating "Performance over a sustained period consistently far exceeds standards and expectations for all position responsibilities." Annually, supervisors evaluate performance and a merit increase is rewarded, if performance score warrants.

In addition to a base salary, deferred compensation and perquisites/other, senior officers earn additional compensation under an annual incentive plan. The Association's annual incentive plan is designed to motivate employees to exceed the business plan goals during the fiscal year. These goals include Association income, credit quality, credit administration, loan volume, delinquencies, and other key success measurements. Income to pay the incentive payments is derived from profits over and above those budgeted in the board-approved business plan for 2017. Full-time employees are covered by the annual incentive plan which runs for the full calendar year and employees can earn between 0 and 30 percent of base salary. An estimated incentive was accrued prior to December 31, 2017 and final calculations and payments were made in January 2018. Employees that are not eligible for merit increases based upon individual performance are not eligible for incentive. A copy of the incentive plan is available to stockholders upon request.

Certain additional bonuses have been approved by the board based on either the overall performance of the Association, or particular ideas or performance leading to sustained increases in profits to the stockholders. Bonuses are shown in the year earned, which may be different than the year of payment.

Selected staff members participate in a long-term incentive program. The long-term incentive program was established by the board in fiscal year 2006 and measures performance at the end of each three (3) year period. Goals are set annually by the Executive and Compensation Committee. Payments under the long-term incentive program can range from 0 to 15 percent. Goals include reaching key financial ratios and building and maintaining the Association's patronage program. Estimated long-term incentive payments were accrued in December 2017. The final calculations and payments were made in January 2018. The purpose of the long-term incentive program is to retain key staff and reward them for reaching established goals.

Selected staff members may also participate in a defined contribution benefit plan separate from the Association's existing 401k plan. The defined contribution plan has requirements for vesting and is reflected in the Deferred Compensation column above.

The overall compensation program of the Association is designed to reward performance that exceeds expectations set by both managers and by the Board of Directors. The results outlined in the compensation table reflect the success the Association had in 2017 in increasing loan volume, generating significant earnings and maintaining a strong, consistent patronage program.

Additional Compensation Information

On February 4, 2015, the FCA Board approved the final rule, "Disclosure to Shareholders, Pension Benefit Disclosures". The rule amends FCA Regulations to exclude employee compensation from being reported in the Summary Compensation Table if the employee would be considered a "highly compensated employee" solely because of payments related to or change(s) in value of the employee's qualified pension plan provided that the plan was available to all similarly situated employees on the same basis at the time the employee joined the plan. The rule was effective 30 days after publication in the Federal Register. System banks and associations must comply with the rule for compensation reported in the table for the fiscal year ending 2015 and may implement the rule retroactively for the fiscal years 2014 and 2013. The Association applied the rule for 2015.

The chart below details the value of accumulated benefits on a present value basis for the CEO and senior officers and other highly compensated employees under the two retirement plans offered by the Association. Reference Note 2, *Summary of Significant Accounting Policies,* for additional information about these multi-employer pension plans.

Pension Benefits Table
As of December 31, 2017

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2017
CEO:					
Pat Calhoun	2017	AgFirst Retirement Plan	30.42	$ 2,122,174	$ –
PAST CEO:					
William P. Spigener, Jr.	2017	AgFirst Retirement Plan	31.17	$ 3,480,694	$ 137,766
William P. Spigener, Jr.	2017	Supplemental Executive Retirement Plan		1,366,043	56,816
				$ 6,968,911	$ 194,582
Senior Officers and Highly Compensated Employees:					
7*	2017		24.31*	$ 7,343,140	$ 17,208
				$ 7,343,140	$ 17,208

**Represents the number and the average years of credited service for those eligible to participate in the AgFirst Retirement Plan*

The present value of pension benefits is the value at a specific date of the expected future benefit payment stream based on actuarial assumptions, chiefly the discount rate. Other assumptions are also used, such as expected retirement age and life expectancy. Changes in the actuarial assumptions can increase or decrease the pension values.

The discount rate, which is derived using an AA corporate bond yield curve, is updated every year based on the interest rate environment at December 31. A decrease in the discount rate will normally increase the present values and vice versa.

The life expectancy actuarial assumption was updated at December 31, 2015 to reflect recent mortality studies indicating longer life spans. This change further increased pension values as the benefit payments are expected to be made for a longer time span.

There was an increase in the discount rate assumption from December 31, 2015 to December 31, 2016. The change in discount rate and a change in mortality assumptions led to a decrease in projected benefit obligations at December 31, 2016.

In addition, the assumptions used for the Cash Balance Plan values were updated to reflect expected payouts in conjunction with the upcoming plan termination. See Note 9, *Employee Benefit Plans*, for further information. The acceleration of expected payments significantly increased the pension values for those individuals in the Cash Balance Plan.

All employees are eligible to receive awards based on years of service on five year, or multiple of five year anniversaries. A copy of this plan is available to stockholders upon request.

Directors

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $239,138 for 2017, $274,134 for 2016, and $301,655 for 2015.

The Association provides iPads to directors for data and information access to Association financial reports and other material through a secure portal. The expense for the iPads and network access is included in the other related expenses amount above.

Subject to approval by the board, the Association may allow directors honoraria of $600 for attendance at meetings, committee meetings, or special assignments. Directors are also allowed travel honorarium of $300 depending upon meeting location relative to their headquarters. Directors are paid a monthly retainer fee of $600 each. The retainer for the chairman, vice-chairman, and chairman of the Audit Committee was $930 per month.

There was no noncash compensation paid to directors in 2017.

The following chart details the year the director began serving on the board and the current term expiration.

Director	Original Year of Election or Appointment	Current Term Expiration	Days in Board Meetings	Comp. for Board Meetings & Retainer	Days in Committee Meetings	Days in Other Activities	Comp. for Committee and other Activities	Total All Compensation
William T. Robinson	2011	2020	10	$15,360	21	25	$16,200	$31,560
James C. Carter, Jr.	1979	2021	9	15,360	21	23	13,800	29,160
H. Frank Ables, Jr.	2015	2019	10	11,400	13	16	15,900	27,300
Arthur Q. Black	1995	2021	10	11,400	14	15	18,000	29,400
Thomas H. Coward	1986	2019	9	10,800	7	15	15,600	26,400
Loy D. Cowart	1968	2018	9	11,400	8	9	11,400	22,800
Lee H. DeLoach	2002	2020	10	11,400	8	18	17,400	28,800
Walter W. Douglas*	2012	2018	9	11,400	7	12	12,600	24,000
Sean F. Lennon	2017	2021	7	8,400	8	10	11,100	19,500
Phillip E. Love, Jr.*	2014	2022	6	10,200	6	11	10,500	20,700
Jimmy B. Metts	1978	2020	10	11,400	7	20	19,800	31,200
Jerome G. Parker	1987	2018	10	11,400	9	21	21,000	32,400
J. Jay Peay	2015	2019	10	11,400	13	14	14,400	25,800
Charles C. Rucks	1988	2018	10	11,400	14	17	18,900	30,300
Hugh E. Weathers	1998	2019	9	11,400	11	17	14,400	25,800
David H. Womack*	1991	2019	10	11,400	17	15	14,400	25,800
TOTAL COMPENSATION				$185,520			$245,400	$430,920

**Serves as Outside Director*

Days in Board Meetings and Days in Committee meetings may include participation in conference calls. There is no specified reimbursement for conference calls.

Days in Other Activities includes partial days traveling and days spent attending other Farm Credit related functions or special assignments.

The following represents certain information regarding the directors of the Association. Unless specifically listed, the principal occupation of the board member for the past five years has been as a self-employed farmer.

William T. Robinson, Chairman, is a row crop, hay, cattle and timber farmer. He retired from Santee Cooper (utility provider) in the Treasury and Corporate Planning Department in early 2015. He was employed by The SEFA Group (engineering and construction) until October 2016 and now serves as the executive director of SEFA Industrial Solutions (engineering and process management). Mr. Robinson serves on the board of directors of the AgFirst Farm Credit Bank (agricultural lending) and the AgFirst Farm Credit Bank/Farm Credit Bank of Texas Benefits Plan Sponsor Committee (agricultural lending). He serves on the board of the Orangeburg Area Cattlemen's Association (beef cattle production), Lexington County Chamber of Commerce (promotes business) and South Carolina Farm Bureau (agricultural organization). Mr. Robinson chairs the Executive and Compensation Committee and is an ad hoc member of all other board committees.

James C. Carter, Jr., Vice-Chairman, is a blueberry, blackberry and strawberry farmer and is owner and secretary of Southern Belle Farms (farming, agritourism, and educational field trips). He is owner and operator of Southern Belle Farm, Feed Division (mineral supplements for beef and dairy cattle), owner of JC Carter Family Farm, LLC (general farming), and is an independent sales representative for ABS Global, which provides artificial insemination services for cattle. Mr. Carter is the vice president of the Henry County Farm Bureau (agricultural organization), the board chairman of the Henry County Water Authority (water supply and distribution organization), and serves on the board of the Henry County Cattlemen's Association (beef cattle production). He also serves on the board of directors of the AgFirst Farm Credit Bank (agricultural lending) and serves on the board of directors for Farm Credit Council (legislative support for agriculture). Mr. Carter chairs the Audit Committee and is a member of the Executive and Compensation Committee.

H. Frank Ables, Jr. is a poultry and beef producer and grows wheat, corn and soybeans. He is on the Oconee County Conservation Bank board (conservation organization). Mr. Ables serves on the Audit Committee.

Arthur Q. Black is a peach, strawberry, hay and produce farmer. He operates a retail roadside market and bakery with his wife and daughter. He is president of York County Farm Bureau (agricultural organization) and serves on the board of the Fruit Advisory Committee of the South Carolina Farm Bureau (agricultural organization). Mr. Black also serves as president on the board of Farmers Mutual Insurance (insurance) and is a member of the York Investment Association (investment club). Mr. Black is the board's representative on the AgFirst District Advisory Council (agricultural organization). He chairs the Governance and Ethics Committee and is a member of the Executive and Compensation Committee.

Thomas H. Coward boards horses and is a real estate developer. Mr. Coward is the board's representative to the AgFirst Farm Credit Bank Nominating Committee and is the vice-chairman of the Risk Management Committee.

Loy D. Cowart, Jr. is a landlord and a retired timber and row crop farmer. He is Vice President of Emanuel County Farm Bureau (agricultural organization) and he serves on the board of Durden Banking Company (banking). Mr. Cowart is a member of the Governance and Ethics Committee.

Lee H. DeLoach is a retired probate court judge for Bulloch County, Georgia, a timber farmer and landlord. Mr. DeLoach serves as the alternate representative to the AgFirst Farm Credit Bank Nominating Committee and is the vice-chairman of the Governance and Ethics Committee.

Walter W. Douglas is a professional consultant for agricultural related projects. Mr. Douglas has served as the South Carolina State Conservationist with the USDA, Special Assistant to the Chief of USDA - Natural Resources Conservation Services, and Acting Director of the Office of Advocacy and Outreach - USDA. Mr. Douglas serves as an outside director and is a member of the Risk Management Committee.

Sean F. Lennon is a fruit and nut farmer, landlord and is the president of Fitzgerald Fruit Farms, LLC (fruit farm), Fitzgerald Packing & Storage, LLC (commercial fruit packing), Fitzgerald Fruit Processing, LLC (fresh cut fruit processing), Fitzgerald Fruit Sourcing, LLC (produce sourcing), LSW Farming, LLC (fruit farm), Lennon Real Properties, LLC (land and assets), Lennon Business Holdings, LLC (land and assets), Fitzgerald Real Properties, LLC (land and assets), and The Shed at Fitzgerald Farms (agritourism and retail sales). He serves on the Audit Committee.

Phillip E. Love, Jr. worked for 38 years with the South Carolina Farm Bureau Mutual Insurance Company (insurance), retiring as CEO in 2013. Mr. Love is the chairman of the board of directors of Amerisure Mutual Insurance Company (insurance) where he serves on the Compensation and Governance and Audit Committees. Mr. Love is also a member of the board of directors of the South Carolina Medical Malpractice Liability Insurance Joint Underwriting Association (insurance), where he serves on the Executive Committee. He is the vice-chair of the South Carolina Windstorm and Hail Underwriting Association (insurance) where he also serves on the Long Range Planning and Reinsurance Committees; and chairman of the Board of Managers for Agency Business Solutions, LLC (insurance). Mr. Love serves as an outside director and is a member of the Risk Management Committee.

Jimmy B. Metts is a cattle, row crop, hay, and tree farmer. Mr. Metts is president of Land Services, Inc. (land clearing) and he serves on the Risk Management Committee.

Jerome G. Parker is a pecan farmer and he also operates a refrigeration business. He serves on the board of Tattnall County Farm Bureau (agricultural organization) and on the Vidalia Onion Committee (agricultural organization). Mr. Parker serves on the Governance and Ethics Committee.

J. Jay Peay is a Certified Public Accountant for SwaimBrown, PA (accounting firm) and a Registered Investment Advisor, president and owner of SwaimBrown Wealth Management, LLC (investment consulting and advising). For the past five years, Mr. Peay has been employed as a CPA. Mr. Peay manages personal and family property that produces hay, timber and row crops. Mr. Peay is a partner in Enoree Holdings, LLC (investment holding company); Bush River Realty, LLC (real estate); serves as a board member for Laurens County Healthcare Systems (medical); and serves on the board of the Laurens County Cancer Association (non-profit organization). Mr. Peay is a member of the Audit Committee.

Charles C. Rucks is a retired dairy farmer and now grows hay and raises beef cattle. He is president of the Spalding County Farm Bureau (agricultural organization) and serves as a board member for the Upper Flint Water Council (water conservation). Mr. Rucks serves on the Governance and Ethics and Executive and Compensation Committees.

Hugh E. Weathers is a dairy and row crop farmer, a farm property landlord, and is employed by the state of South Carolina as the Commissioner of Agriculture. Mr. Weathers is a director and secretary of Weathers Farms, Inc. (row crops and farm property landlord); director and treasurer of Weathers Trucking, Inc. (bulk milk delivery); partner in Circle W. Farms (row crops); and partner of WB Bowman, LLC. (land holdings). He serves on the boards of Southern United States Trade Association (agricultural exporting); South Carolina Poultry Federation (promotes poultry industry); the Southern Association of State Departments of Agriculture (agricultural organization); and the South Carolina Department of Commerce Coordinating Council (commerce enhancement). Mr. Weathers is chairman of the Risk Management Committee and is a member of the Executive and Compensation Committee.

David H. Womack is a Certified Public Accountant and President of the firm, David H. Womack & Company, PC, CPA (accounting firm). Mr. Womack also serves as chairman of the Board of Trustees for Brewton Cemetery, Inc. (perpetual care, non-profit). Mr. Womack serves as an outside director and is the vice-chairman of the Audit Committee.

Transactions with Senior Officers and Directors

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

Involvement in Certain Legal Proceedings

From time to time, the Association may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, the Association is not aware of any such actions that would have a material impact on our financial condition and there were no matters which came to the attention of management or the board of directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

Relationship with Independent Auditors

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

Aggregate fees paid by the Association for services rendered by its independent auditors for the year ended December 31, 2017 were as follows:

Independent Auditors	**2017**
PricewaterhouseCoopers, LLP	
Audit services	$ 75,661
Total	$ 75,661

Audit services were for the annual audit of the Consolidated Financial Statements.

Consolidated Financial Statements

The Consolidated Financial Statements, together with the report thereon of PricewaterhouseCoopers, LLP dated March 13, 2018 and the report of management, which appear in this Annual Report, are incorporated herein by reference.

Copies of the Association's quarterly reports are available upon request free of charge by calling 1-912-489-4842, ext. 2663, or writing Alisa D. Gunter, AgSouth Farm Credit, ACA, P.O. 718 Statesboro, GA 30459 or accessing the website, ***www.agsouthfc.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's website within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

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

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

Credit and Services to Young, Beginning, and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products

Information to be disclosed in this section is incorporated herein by reference to the similarly named section in the *Management's Discussion and Analysis of Financial Condition and Results of Operations* section included in this Annual Report to the shareholders.

Shareholder Investment

Shareholder investment in the Association could be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's website at ***www.agfirst.com***. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Reports of suspected or actual wrongdoings involving the Association, its employees and/or Directors, can be made anonymously and confidentially through the Association's Whistleblower Hotline (Speak Up) at 1-844-850-6496 or ***www.speakupAgSouthFC.ethix360.com.***

REPORT OF THE AUDIT COMMITTEE

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

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

PricewaterhouseCoopers LLP (PwC), the Association's independent auditors for 2017, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance)*. The Committee discussed with PwC its independence from AgSouth Farm Credit, ACA. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Association's Annual Report for 2017. The foregoing report is provided by the following independent directors, who constitute the Committee:

James C. Carter, Jr.

James C. Carter, Jr.
Chairman of the Audit Committee

Members of Audit Committee

H. Frank Ables, Jr.
Sean F. Lennon
J. Jay Peay
David H. Womack

March 13, 2018

pwc

Report of Independent Auditors

To the Board of Directors and Management of
AgSouth Farm Credit, ACA

We have audited the accompanying consolidated financial statements of AgSouth Farm Credit, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2017, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AgSouth Farm Credit, ACA and its subsidiaries as of December 31, 2017, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Certified Public Accountants
Miami, Florida

March 13, 2018

PricewaterhouseCoopers LLP, 333 SE 2nd Avenue, Suite 3000, Miami, FL 33131
T: (305) 375 7400, F:(305) 375 6221, www.pwc.com/us

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)	2017	December 31, 2016	2015
Assets			
Cash	**$ 4,949**	$ 5,160	$ 4,191
Investment securities:			
Held to maturity (fair value of $5,456, $6,820, and $8,265, respectively)	**5,533**	7,057	8,395
Loans	**1,710,098**	1,631,945	1,557,881
Allowance for loan losses	**(14,815)**	(14,183)	(13,099)
Net loans	**1,695,283**	1,617,762	1,544,782
Loans held for sale	**3,375**	2,860	3,302
Accrued interest receivable	**16,860**	14,538	15,437
Investments in other Farm Credit institutions	**23,568**	22,847	22,145
Premises and equipment, net	**19,724**	18,753	16,339
Other property owned	**3,669**	3,289	5,425
Accounts receivable	**25,710**	20,956	19,565
Other assets	**2,170**	9,761	11,599
Total assets	**$ 1,800,841**	$ 1,722,983	$ 1,651,180
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 1,405,074**	$ 1,342,601	$ 1,286,760
Accrued interest payable	**3,495**	3,025	2,870
Patronage refunds payable	**9,901**	8,673	8,144
Accounts payable	**2,310**	2,470	2,008
Other liabilities	**14,570**	27,514	26,779
Total liabilities	**1,435,350**	1,384,283	1,326,561
Commitments and contingencies (Note 11)			
Members' Equity			
Protected borrower stock	**—**	2	2
Capital stock and participation certificates	**9,097**	8,493	7,972
Retained earnings			
Allocated	**121,876**	118,570	116,777
Unallocated	**234,892**	212,028	200,380
Accumulated other comprehensive income (loss)	**(374)**	(393)	(512)
Total members' equity	**365,491**	338,700	324,619
Total liabilities and members' equity	**$ 1,800,841**	$ 1,722,983	$ 1,651,180

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

CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands)	For the year ended December 31, 2017	2016	2015
Interest Income			
Loans	**$ 98,117**	$ 92,191	$ 88,348
Investments	**377**	518	554
Total interest income	**98,494**	92,709	88,902
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**39,164**	35,002	32,183
Other	**280**	125	246
Total interest expense	**39,444**	35,127	32,429
Net interest income	**59,050**	57,582	56,473
Provision for loan losses	**2,738**	1,072	1,232
Net interest income after provision for loan losses	**56,312**	56,510	55,241
Noninterest Income			
Loan fees	**3,344**	3,244	3,070
Fees for financially related services	**1,823**	1,908	1,767
Patronage refunds from other Farm Credit institutions	**25,611**	20,884	19,374
Gains (losses) on sales of rural home loans, net	**1,986**	2,013	1,843
Gains (losses) on sales of premises and equipment, net	**256**	287	228
Gains (losses) on other transactions	**(1,228)**	(149)	(88)
Other noninterest income	**133**	119	121
Total noninterest income	**31,925**	28,306	26,315
Noninterest Expense			
Salaries and employee benefits	**22,033**	23,292	21,879
Postretirement benefits (Notes 2 and 9)	**(384)**	8,450	8,870
Occupancy and equipment	**2,272**	2,469	2,251
Insurance Fund premiums	**1,888**	2,024	1,458
(Gains) losses on other property owned, net	**465**	688	414
Other operating expenses	**6,694**	7,782	6,822
Total noninterest expense	**32,968**	44,705	41,694
Income before income taxes	**55,269**	40,111	39,862
Provision for income taxes	**6**	10	—
Net income	**$ 55,263**	$ 40,101	$ 39,862

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)	For the year ended December 31, 2017	2016	2015
Net income	**$ 55,263**	$ 40,101	$ 39,862
Other comprehensive income net of tax			
Employee benefit plans adjustments	**19**	119	18
Comprehensive income	**$ 55,282**	$ 40,220	$ 39,880

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2014	$ 3	$ 7,527	$ 112,635	$ 187,002	$ (530)	$ 306,637
Comprehensive income				39,862	18	39,880
Protected borrower stock issued/(retired), net	(1)					(1)
Capital stock/participation certificates issued/(retired), net		445				445
Patronage distribution						
Cash				(7,945)		(7,945)
Qualified allocated retained earnings			515	(515)		—
Nonqualified allocated retained earnings			18,024	(18,024)		—
Retained earnings retired			(14,397)			(14,397)
Balance at December 31, 2015	$ 2	$ 7,972	$ 116,777	$ 200,380	$ (512)	$ 324,619
Comprehensive income				40,101	119	40,220
Capital stock/participation certificates issued/(retired), net		521				521
Patronage distribution						
Cash				(8,545)		(8,545)
Qualified allocated retained earnings			1,339	(1,339)		—
Nonqualified allocated retained earnings			18,599	(18,599)		—
Retained earnings retired			(18,124)			(18,124)
Patronage distribution adjustment			(21)	30		9
Balance at December 31, 2016	$ 2	$ 8,493	$ 118,570	$ 212,028	$ (393)	$ 338,700
Comprehensive income				**55,263**	**19**	**55,282**
Protected borrower stock issued/(retired), net	**(2)**					**(2)**
Capital stock/participation certificates issued/(retired), net		**604**				**604**
Patronage distribution						
Cash				**(9,720)**		**(9,720)**
Nonqualified allocated retained earnings			**22,681**	**(22,681)**		**—**
Retained earnings retired			**(19,373)**			**(19,373)**
Patronage distribution adjustment			**(2)**	**2**		**—**
Balance at December 31, 2017	**$ —**	**$ 9,097**	**$ 121,876**	**$ 234,892**	**$ (374)**	**$ 365,491**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)	For the year ended December 31, 2017	2016	2015
Cash flows from operating activities:			
Net income	**$ 55,263**	$ 40,101	$ 39,862
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**1,199**	1,240	1,268
Amortization (accretion) of net deferred loan costs (fees)	**595**	669	828
Premium amortization (discount accretion) on investments	**(1)**	(1)	(1)
Provision for loan losses	**2,738**	1,072	1,232
(Gains) losses on other property owned	**406**	637	342
(Gains) losses on sales of premises and equipment, net	**(256)**	(287)	(228)
(Gains) losses on sales of rural home loans, net	**(1,986)**	(2,013)	(1,843)
(Gains) losses on other transactions	**1,228**	149	88
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(148,399)**	(139,926)	(132,398)
Proceeds from sales of loans held for sale, net	**149,870**	142,381	131,881
(Increase) decrease in accrued interest receivable	**(2,322)**	899	(1,166)
(Increase) decrease in accounts receivable	**(4,754)**	(1,391)	6,550
(Increase) decrease in other assets	**7,591**	1,838	(856)
Increase (decrease) in accrued interest payable	**470**	155	185
Increase (decrease) in accounts payable	**(160)**	462	318
Increase (decrease) in other liabilities	**(14,153)**	705	(4,357)
Total adjustments	**(7,934)**	6,589	1,843
Net cash provided by (used in) operating activities	**47,329**	46,690	41,705
Cash flows from investing activities:			
Proceeds from maturities of or principal payments received on investment securities, held to maturity	**1,525**	1,339	319
Net (increase) decrease in loans	**(81,815)**	(74,789)	(62,176)
(Increase) decrease in investment in other Farm Credit institutions	**(721)**	(702)	392
Purchases of premises and equipment	**(2,262)**	(3,711)	(1,844)
Proceeds from sales of premises and equipment	**348**	344	265
Proceeds from sales of other property owned	**175**	1,567	403
Net cash provided by (used in) investing activities	**(82,750)**	(75,952)	(62,641)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**62,473**	55,841	43,059
Protected borrower stock retired	**(2)**	—	(1)
Capital stock and participation certificates issued/(retired), net	**604**	521	445
Patronage refunds and dividends paid	**(8,492)**	(8,007)	(8,955)
Retained earnings retired	**(19,373)**	(18,124)	(14,397)
Net cash provided by (used in) financing activities	**35,210**	30,231	20,151
Net increase (decrease) in cash	**(211)**	969	(785)
Cash, beginning of period	**5,160**	4,191	4,976
Cash, end of period	**$ 4,949**	$ 5,160	$ 4,191
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	**$ 162**	$ 497	$ 128
Receipt of property in settlement of loans	**1,123**	565	2,109
Estimated cash dividends or patronage distributions declared or payable	**9,720**	8,545	7,945
Employee benefit plans adjustments (Note 9)	**(19)**	(119)	(18)
Supplemental information:			
Interest paid	**38,974**	34,972	32,244
Taxes (refunded) paid, net	**—**	—	4

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** AgSouth Farm Credit, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the states of Georgia and South Carolina in the following counties:

Georgia: Counties of Appling, Atkinson, Bacon, Brantley, Bryan, Bulloch, Butts, Camden, Candler, Carroll, Charlton, Chatham, Clayton, Clinch, Coffee, Coweta, DeKalb, Douglas, Effingham, Emanuel, Evans, Fayette, Fulton, Glynn, Greene, Gwinnett, Haralson, Harris, Heard, Henry, Jasper, Jeff Davis, Jenkins, Lamar, Liberty, Long, McIntosh, Meriwether, Monroe, Montgomery, Morgan, Muscogee, Newton, Oconee, Pierce, Pike, Putnam, Rockdale, Screven, Spalding, Talbot, Tattnall, Toombs, Troup, Upson, Walton, Ware, Wayne, and Wheeler.

South Carolina: Counties of Abbeville, Aiken, Allendale, Anderson, Bamberg, Barnwell, Beaufort, Berkeley, Calhoun, Charleston, Cherokee, Chester, Colleton, Dorchester, Edgefield, Fairfield, Greenville, Greenwood, Hampton, Jasper, Kershaw, Lancaster, Laurens, Lexington, McCormick, Newberry, Oconee, Orangeburg, Pickens, Richland, Saluda, Spartanburg, Union, and York.

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

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

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

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

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

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

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

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

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

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

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

Note 2 — Summary of Significant Accounting Policies

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

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

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

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

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

Loans are carried at their principal amount outstanding adjusted for charge-offs, premiums, discounts, deferred loan fees or costs, and derivative instruments and hedging valuation adjustments, if any. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. The difference in the total investment in a loan and its principal amount may be deferred as part of the carrying amount of the loan and the net difference amortized over the life of the related loan as an adjustment to interest income using the effective interest method.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment Securities
The Association holds certain investment securities, as permitted under the FCA regulations. These investments are classified based on management's intention on the date of purchase and are generally recorded in the Balance Sheets as securities on the trade date.

Securities for which the Association has the intent and ability to hold to maturity are classified as held-to-maturity (HTM) and carried at amortized cost. Investment securities classified as available-for-sale (AFS) are carried at fair value with net unrealized gains and losses included as a component of Other Comprehensive Income (OCI). Premiums and discounts are amortized or accreted ratably over the term of the respective security using the interest method.

The Association reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. As mentioned above, changes in the fair value of AFS investments are reflected in OCI, unless the investment is deemed to be other-than-temporarily impaired (OTTI). Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If the Association intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but the Association does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and is separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is charged to current earnings, with the remainder of the loss amount recognized in other comprehensive income.

In subsequent periods, if the present value of cash flows expected to be collected is less than the amortized cost basis, the Association will record additional OTTI and adjust the yield of the security prospectively. The amount of total OTTI for an AFS security that previously was impaired is determined as the difference between its carrying amount prior to the determination of OTTI and its fair value.

Interest on investment securities, including amortization of premiums and accretion of discounts, is included in Interest Income. Realized gains and losses from the sales of investment securities are recognized in current earnings using the specific identification method.

Other Investments
As discussed in Note 8, certain investments, consisting primarily of mutual funds, are held in trust and investment accounts and are reported at fair value. Holding period gains and losses are included within other noninterest income on the Consolidated Statements of Income and the balance of these investments, totaling $1,979, is included in Other Assets on the accompanying Consolidated Balance Sheets as of December 31, 2017.

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

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

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

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

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

Multi-Employer Defined Benefit Plans
Substantially all employees hired before January 1, 2003 may participate in the AgFirst Farm Credit Retirement Plan (Plan), which is a defined benefit plan and considered multi-employer under FASB accounting guidance. The Plan is noncontributory and includes eligible Association and District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes.

In addition to pension benefits, the Association provides certain health care and life insurance benefits for retired employees (other postretirement benefits) through a multi-District sponsored retiree healthcare plan. Substantially all employees are eligible for those benefits when they reach early retirement age while working for the Association. Authoritative accounting guidance requires the accrual of the expected cost of providing these benefits to an employee, their beneficiaries and covered dependents during the years the employee renders service necessary to become eligible for benefits.

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

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

Single Employer Defined Benefit Plans
The Association also sponsors a single employer defined benefit supplemental retirement plan and offers a FCBA supplemental 401(k) plan for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the Association's Consolidated Balance Sheets in Other Liabilities.

The foregoing defined benefit plan is considered single employer, therefore the Association applies the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements. See Note 9 for additional information.

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

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

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

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

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

J. **Due from AgFirst Farm Credit Bank:** The Association records patronage refunds from the Bank and certain District Associations on an accrual basis.

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

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

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

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

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

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

Please see further discussion in Note 8.

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

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

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

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

N. **Accounting Standards Updates (ASUs):** In February 2018, the FASB issued ASU 2018-02 Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and are intended to improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The Update also requires certain disclosures about stranded tax effects. The guidance is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted.

In March 2017, the FASB issued ASU 2017-07 Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. The amendments will be effective for the Association for interim and annual periods beginning after December 15, 2017 for public business entities. Early adoption is permitted. The Association does not expect these amendments to have a material effect on its financial statements.

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 standard. The amendments will be effective for reporting periods beginning after December 15, 2017 for public business entities. The Association does not expect these amendments to have a material effect on its financial statements.

In October 2016, the FASB issued ASU 2016-16 Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. This Update requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. 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 does not expect these amendments to have a material effect on its financial statements.

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). This Update eliminates 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.

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. 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.

In February 2016, the FASB issued ASU 2016-02 Leases (Topic 842). This Update 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.

In January 2016, the FASB issued ASU 2016-01 Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The Update 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 does not expect these amendments to have a material effect on its financial statements.

In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers (Topic 606). This guidance changes 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. 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. The Association expects to adopt the guidance in first quarter 2018 using the modified retrospective method and that adoption will result in additional disclosures.

Note 3 — Loans and Allowance for Loan Losses

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

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

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

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

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

- Real estate mortgage loans — loans made to full-time or part-time farmers secured by first lien real estate mortgages with maturities from five to thirty years. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.
- Production and intermediate-term loans — loans to full-time or part-time farmers that are not real estate mortgage loans. These loans fund eligible financing needs including operating inputs (such as labor, feed, fertilizer, and repairs), livestock, living expenses, income taxes, machinery or equipment, farm buildings, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically one year or less. Intermediate-term loans are made for a specific term, generally greater than one year and less than or equal to ten years.

- Loans to cooperatives — loans for any cooperative purpose other than for communication, power, and water and waste disposal.
- Processing and marketing loans — loans for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.
- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.
- Rural residential real estate loans — loans made to individuals, who are not farmers, to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans are generally secured by a first lien on the property.
- Communication loans — loans primarily to finance rural communication providers.
- Power loans — loans primarily to finance electric generation, transmission and distribution systems serving rural areas.
- Water and waste disposal loans — loans primarily to finance water and waste disposal systems serving rural areas.
- International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.
- Lease receivables — the net investment for all finance leases such as direct financing leases, leveraged leases, and sales-type leases.
- Other (including Mission Related) — additional investments in rural America approved by the FCA on a program or a case-by-case basis. Examples of such investments include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding at period end follows:

	December 31, 2017	2016	2015
Real estate mortgage	$ 1,308,602	$ 1,263,320	$ 1,240,201
Production and intermediate-term	307,691	288,968	253,321
Processing and marketing	15,763	10,168	4,644
Farm-related business	16,477	12,706	6,344
Rural residential real estate	61,100	55,432	50,996
Other (including Mission Related)	465	1,351	2,375
Total Loans	$ 1,710,098	$ 1,631,945	$ 1,557,881

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

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

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

	December 31, 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	$ –	$ 175,459	$ –	$ 17,819	$ –	$ –	$ –	$ 193,278
Production and intermediate-term	–	49,732	636	–	3,504	–	4,140	49,732
Processing and marketing	–	14,029	–	1,833	–	–	–	15,862
Farm-related business	–	9,167	–	–	–	–	–	9,167
Total	$ –	$ 248,387	$ 636	$ 19,652	$ 3,504	$ –	$ 4,140	$ 268,039

Notes to the Consolidated Financial Statements (continued) (dollars in thousands, except as noted)

	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	$ –	$ 193,381	$ –	$ 19,432	$ –	$ –	$ –	$ 212,813
Production and intermediate-term	–	87,233	911	–	1,781	–	2,692	87,233
Processing and marketing	–	7,066	–	41,395	–	–	–	48,461
Farm-related business	–	6,250	–	1,125	–	–	–	7,375
Total	$ –	$ 293,930	$ 911	$ 61,952	$ 1,781	$ –	$ 2,692	$ 355,882

	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	$ –	$ 213,860	$ –	$ 12,453	$ –	$ –	$ –	$ 226,313
Production and intermediate-term	–	28,463	1,137	3,446	2,202	–	3,339	31,909
Processing and marketing	–	9,463	–	14,243	–	–	–	23,706
Farm-related business	–	6,875	–	6,975	–	–	–	13,850
Total	$ –	$ 258,661	$ 1,137	$ 37,117	$ 2,202	$ –	$ 3,339	$ 295,778

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:

	December 31, 2017			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 38,187	$ 233,319	$ 1,037,096	$ 1,308,602
Production and intermediate term	149,605	120,371	37,715	307,691
Processing and marketing	7,593	2,131	6,039	15,763
Farm-related business	580	11,618	4,279	16,477
Rural residential real estate	4,510	2,002	54,588	61,100
Other (including Mission Related)	–	–	465	465
Total Loans	$ 200,475	$ 369,441	$ 1,140,182	$ 1,710,098
Percentage	11.72%	21.60%	66.68%	100.00%

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

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

	December 31,		
	2017	2016	2015
Real estate mortgage:			
Acceptable	97.12%	96.82%	95.76%
OAEM	1.71	1.35	2.25
Substandard/doubtful/loss	1.17	1.83	1.99
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	95.42%	95.76%	97.66%
OAEM	3.74	2.85	1.23
Substandard/doubtful/loss	0.84	1.39	1.11
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	91.83%	93.12%	100.00%
OAEM	8.17	6.88	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%

	December 31,		
	2017	2016	2015
Farm-related business:			
Acceptable	97.60%	98.35%	100.00%
OAEM	2.38	1.62	–
Substandard/doubtful/loss	0.02	0.03	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	98.03%	98.26%	96.49%
OAEM	0.86	1.09	1.92
Substandard/doubtful/loss	1.11	0.65	1.59
	100.00%	100.00%	100.00%
Other (including Mission Related):			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Total Loans:			
Acceptable	96.80%	96.67%	96.13%
OAEM	2.11	1.64	2.06
Substandard/doubtful/loss	1.09	1.69	1.81
	100.00%	100.00%	100.00%

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

December 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	$ 6,402	$ 3,894	$ 10,296	$ 1,309,635	$ 1,319,931	$ –
Production and intermediate-term	2,287	1,521	3,808	308,801	312,609	–
Processing and marketing	340	–	340	15,711	16,051	–
Farm-related business	165	3	168	16,393	16,561	–
Rural residential real estate	697	340	1,037	60,272	61,309	–
Other (including Mission Related)	–	–	–	466	466	–
Total	$ 9,891	$ 5,758	$ 15,649	$ 1,711,278	$ 1,726,927	$ –

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	$ 7,598	$ 7,996	$ 15,594	$ 1,257,983	$ 1,273,577	$ –
Production and intermediate-term	1,874	1,460	3,334	289,533	292,867	–
Processing and marketing	–	–	–	10,261	10,261	–
Farm-related business	46	4	50	12,705	12,755	–
Rural residential real estate	1,016	149	1,165	54,458	55,623	–
Other (including Mission Related)	–	–	–	1,363	1,363	–
Total	$ 10,534	$ 9,609	$ 20,143	$ 1,626,303	$ 1,646,446	$ –

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	$ 8,106	$ 3,995	$ 12,101	$ 1,239,130	$ 1,251,231	$ –
Production and intermediate-term	1,534	621	2,155	255,306	257,461	–
Processing and marketing	–	–	–	4,657	4,657	–
Farm-related business	–	–	–	6,360	6,360	–
Rural residential real estate	492	131	623	50,546	51,169	–
Other (including Mission Related)	–	–	–	2,394	2,394	–
Total	$ 10,132	$ 4,747	$ 14,879	$ 1,558,393	$ 1,573,272	$ –

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

	December 31, 2017	2016	2015
Nonaccrual loans:			
Real estate mortgage	$ 10,751	$ 12,842	$ 8,266
Production and intermediate-term	3,671	4,023	2,048
Farm-related business	3	4	–
Rural residential real estate	553	274	379
Total	$ 14,978	$ 17,143	$ 10,693
Accruing restructured loans:			
Real estate mortgage	$ 5,946	$ 7,380	$ 8,164
Production and intermediate-term	757	318	1,049
Farm-related business	–	–	–
Rural residential real estate	160	212	446
Total	$ 6,863	$ 7,910	$ 9,659
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 21,841	$ 25,053	$ 20,352
Other property owned	3,669	3,289	5,425
Total nonperforming assets	$ 25,510	$ 28,342	$ 25,777
Nonaccrual loans as a percentage of total loans	0.88%	1.05%	0.69%
Nonperforming assets as a percentage of total loans and other property owned	1.49%	1.73%	1.65%
Nonperforming assets as a percentage of capital	6.98%	8.37%	7.94%

Notes to the Consolidated Financial Statements (continued) (dollars in thousands, except as noted)

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

	December 31, 2017	2016	2015
Impaired nonaccrual loans:			
Current as to principal and interest	$ 6,634	$ 4,951	$ 4,614
Past due	8,344	12,192	6,079
Total	14,978	17,143	10,693
Impaired accrual loans:			
Restructured	6,863	7,910	9,659
90 days or more past due	–	–	–
Total	6,863	7,910	9,659
Total impaired loans	$ 21,841	$ 25,053	$ 20,352
Additional commitments to lend	$ –	$ 1	$ –

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

	December 31, 2017			Year Ended December 31, 2017	
Impaired Loans	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 1,109	$ 1,180	$ 31	$ 1,281	$ 74
Production and intermediate-term	608	695	148	702	40
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 1,717	$ 1,875	$ 179	$ 1,983	$ 114
With no related allowance for credit losses:					
Real estate mortgage	$ 15,588	$ 19,436	$ –	$ 18,009	$ 1,037
Production and intermediate-term	3,820	5,121	–	4,413	254
Farm-related business	3	90	–	3	–
Rural residential real estate	713	849	–	824	48
Total	$ 20,124	$ 25,496	$ –	$ 23,249	$ 1,339
Total:					
Real estate mortgage	$ 16,697	$ 20,616	$ 31	$ 19,290	$ 1,111
Production and intermediate-term	4,428	5,816	148	5,115	294
Farm-related business	3	90	–	3	–
Rural residential real estate	713	849	–	824	48
Total	$ 21,841	$ 27,371	$ 179	$ 25,232	$ 1,453

	December 31, 2016			Year Ended December 31, 2016	
Impaired Loans	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 4,086	$ 4,104	$ 1,612	$ 3,876	$ 217
Production and intermediate-term	428	474	41	406	23
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 4,514	$ 4,578	$ 1,653	$ 4,282	$ 240
With no related allowance for credit losses:					
Real estate mortgage	$ 16,136	$ 17,782	$ –	$ 15,307	$ 858
Production and intermediate-term	3,913	5,339	–	3,712	208
Farm-related business	4	92	–	4	–
Rural residential real estate	486	542	–	462	26
Total	$ 20,539	$ 23,755	$ –	$ 19,485	$ 1,092
Total:					
Real estate mortgage	$ 20,222	$ 21,886	$ 1,612	$ 19,183	$ 1,075
Production and intermediate-term	4,341	5,813	41	4,118	231
Farm-related business	4	92	–	4	–
Rural residential real estate	486	542	–	462	26
Total	$ 25,053	$ 28,333	$ 1,653	$ 23,767	$ 1,332

	December 31, 2015			Year Ended December 31, 2015	
Impaired Loans	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	15	16	1	16	1
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 15	$ 16	$ 1	$ 16	$ 1
With no related allowance for credit losses:					
Real estate mortgage	$ 16,431	$ 19,314	$ –	$ 17,814	$ 940
Production and intermediate-term	3,082	3,533	–	3,341	176
Farm-related business	–	–	–	–	–
Rural residential real estate	824	976	–	895	47
Total	$ 20,337	$ 23,823	$ –	$ 22,050	$ 1,163
Total:					
Real estate mortgage	$ 16,431	$ 19,314	$ –	$ 17,814	$ 940
Production and intermediate-term	3,097	3,549	1	3,357	177
Farm-related business	–	–	–	–	–
Rural residential real estate	824	976	–	895	47
Total	$ 20,352	$ 23,839	$ 1	$ 22,066	$ 1,164

Interest income recognized on nonaccrual and accruing restructured loans was $1,453, $1,328, and $1,162 in 2017, 2016, and 2015, respectively.

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Rural Residential Real Estate	Other	Total
Activity related to the allowance for credit losses:						
Balance at December 31, 2016	$ 11,297	$ 2,271	$ 178	$ 426	$ 11	$ 14,183
Charge-offs	(2,102)	(252)	–	(67)	–	(2,421)
Recoveries	154	137	4	–	20	315
Provision for loan losses	1,865	641	98	161	(27)	2,738
Balance at December 31, 2017	$ 11,214	$ 2,797	$ 280	$ 520	$ 4	$ 14,815
Balance at December 31, 2015	$ 10,369	$ 2,177	$ 92	$ 423	$ 38	$ 13,099
Charge-offs	(171)	(87)	–	(25)	–	(283)
Recoveries	150	122	4	–	19	295
Provision for loan losses	949	59	82	28	(46)	1,072
Balance at December 31, 2016	$ 11,297	$ 2,271	$ 178	$ 426	$ 11	$ 14,183
Balance at December 31, 2014	$ 9,916	$ 1,957	$ 89	$ 358	$ 37	$ 12,357
Charge-offs	(958)	(122)	–	(11)	–	(1,091)
Recoveries	485	89	5	1	21	601
Provision for loan losses	926	253	(2)	75	(20)	1,232
Balance at December 31, 2015	$ 10,369	$ 2,177	$ 92	$ 423	$ 38	$ 13,099
Allowance on loans evaluated for impairment:						
Individually	$ 31	$ 148	$ –	$ –	$ –	$ 179
Collectively	11,183	2,649	280	520	4	14,636
Balance at December 31, 2017	$ 11,214	$ 2,797	$ 280	$ 520	$ 4	$ 14,815
Individually	$ 1,612	$ 41	$ –	$ –	$ –	$ 1,653
Collectively	9,685	2,230	178	426	11	12,530
Balance at December 31, 2016	$ 11,297	$ 2,271	$ 178	$ 426	$ 11	$ 14,183
Individually	$ –	$ 1	$ –	$ –	$ –	$ 1
Collectively	10,369	2,176	92	423	38	13,098
Balance at December 31, 2015	$ 10,369	$ 2,177	$ 92	$ 423	$ 38	$ 13,099
Recorded investment in loans evaluated for impairment:						
Individually	$ 18,411	$ 4,438	$ 3	$ 715	$ –	$ 23,567
Collectively	1,301,520	308,171	32,609	60,594	466	1,703,360
Balance at December 31, 2017	$ 1,319,931	$ 312,609	$ 32,612	$ 61,309	$ 466	$ 1,726,927
Individually	$ 20,166	$ 4,353	$ 4	$ 487	$ –	$ 25,010
Collectively	1,253,411	288,514	23,012	55,136	1,363	1,621,436
Balance at December 31, 2016	$ 1,273,577	$ 292,867	$ 23,016	$ 55,623	$ 1,363	$ 1,646,446
Individually	$ 15,101	$ 2,266	$ 181	$ 791	$ –	$ 18,339
Collectively	1,236,130	255,195	10,836	50,378	2,394	1,554,933
Balance at December 31, 2015	$ 1,251,231	$ 257,461	$ 11,017	$ 51,169	$ 2,394	$ 1,573,272

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

Notes to the Consolidated Financial Statements (continued) (dollars in thousands, except as noted)

To mitigate risk of loan losses, the Association may enter into guarantee arrangements with certain Government-Sponsored Enterprises (GSEs), including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was $157,195, $158,676, and $157,006 at December 31, 2017, 2016, and 2015, respectively. Fees paid for such guarantee commitments totaled $163, $162, and $205 for 2017, 2016, and 2015, respectively. These amounts are classified as noninterest expense.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. 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.

	Year Ended December 31, 2017				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 597	$ 3,226	$ –	$ 3,823	
Production and intermediate-term	–	1,189	–	1,189	
Rural residential real estate	37	–	–	37	
Total	$ 634	$ 4,415	$ –	$ 5,049	
Post-modification:					
Real estate mortgage	$ 612	$ 3,241	$ –	$ 3,853	$ –
Production and intermediate-term	–	1,202	–	1,202	–
Rural residential real estate	37	–	–	37	–
Total	$ 649	$ 4,443	$ –	$ 5,092	$ –

	Year Ended December 31, 2016				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 5,012	$ 2,092	$ –	$ 7,104	
Production and intermediate-term	1,338	1,676	–	3,014	
Rural residential real estate	–	29	–	29	
Total	$ 6,350	$ 3,797	$ –	$ 10,147	
Post-modification:					
Real estate mortgage	$ 4,936	$ 2,106	$ –	$ 7,042	$ (19)
Production and intermediate-term	1,330	1,351	–	2,681	–
Rural residential real estate	–	29	–	29	–
Total	$ 6,266	$ 3,486	$ –	$ 9,752	$ (19)

	Year Ended December 31, 2015				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 922	$ 3,961	$ –	$ 4,883	
Production and intermediate-term	26	224	105	355	
Rural residential real estate	42	–	–	42	
Total	$ 990	$ 4,185	$ 105	$ 5,280	
Post-modification:					
Real estate mortgage	$ 943	$ 4,040	$ –	$ 4,983	$ (43)
Production and intermediate-term	26	226	105	357	–
Rural residential real estate	43	–	–	43	–
Total	$ 1,012	$ 4,266	$ 105	$ 5,383	$ (43)

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	Year Ended December 31, 2017	2016	2015
Real estate mortgage	$ 416	$ 1,063	$ 2,378
Production and intermediate-term	88	486	244
Farm-related business	–	3	–
Rural residential real estate	31	–	–
Total	$ 535	$ 1,552	$ 2,622

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

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2017	2016	2015	2017	2016	2015
Real estate mortgage	$ 10,666	$ 12,525	$ 12,689	$ 4,720	$ 5,145	$ 4,525
Production and intermediate-term	1,999	1,534	1,868	1,242	1,216	819
Farm-related business	3	4	–	3	4	–
Rural residential real estate	302	370	614	142	158	168
Total Loans	$ 12,970	$ 14,433	$ 15,171	$ 6,107	$ 6,523	$ 5,512
Additional commitments to lend	$ –	$ –	$ –			

The following table presents information as of period end:

	December 31, 2017
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	$ –
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ 291

Note 4 — Investments

Investment Securities

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment program approved by the FCA. In its Conditions of Approval for the program, the FCA considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. At December 31, 2017, the Association held no RABs whose credit quality had deteriorated beyond the program limits.

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

	December 31, 2017				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 5,533	$ 91	$ (168)	$ 5,456	6.41 %

	December 31, 2016				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 7,057	$ 34	$ (271)	$ 6,820	5.75 %

	December 31, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 8,395	$ 41	$ (171)	$ 8,265	6.27 %

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

	December 31, 2017		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	–	–	–
After five years through ten years	1,076	908	5.22
After ten years	4,457	4,548	6.70
Total	$ 5,533	$ 5,456	6.41 %

A portion of these investments have contractual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. A continuous unrealized loss position for an investment is based on the date the impairment was first identified. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category.

Notes to the Consolidated Financial Statements (continued) (dollars in thousands, except as noted)

	December 31, 2017			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ –	$ –	$ 1,076	$ (168)

	December 31, 2016			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ 2,179	$ (271)	$ –	$ –

	December 31, 2015			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ 3,480	$ (171)	$ –	$ –

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

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

The Association uses the present value of cash flows expected to be collected from each debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, amount and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics, and collateral type. Significant inputs used to estimate the amount of credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The Association may obtain assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party, or generate the assumptions internally.

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

Investments in Other Farm Credit Institutions

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

The Association's investment in the Bank totaled $18,961 for 2017, $18,085 for 2016 and $17,277 for 2015. The Association owns 7.09 percent of the issued stock of the Bank as of December 31, 2017 net of any reciprocal investment. As of that date, the Bank's assets totaled $32.5 billion and shareholders' equity totaled $2.2 billion. The Bank's earnings were $345 million for 2017. In addition, the Association had an investment of $4,607 related to other Farm Credit institutions at December 31, 2017.

Note 5 — Real Estate and Other Property

Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2017	2016	2015
Land	$ 5,130	$ 5,096	$ 4,069
Buildings and improvements	19,894	18,677	16,661
Furniture and equipment	6,467	6,510	6,611
	31,491	30,283	27,341
Less: accumulated depreciation	11,767	11,530	11,002
Total	$ 19,724	$ 18,753	$ 16,339

Other Property Owned

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

	December 31,		
	2017	2016	2015
(Gains) losses on sale, net	$ (27)	$ 240	$ 33
Carrying value unrealized (gains) losses	433	397	309
Operating (income) expense, net	59	51	72
(Gains) losses on other property owned, net	$ 465	$ 688	$ 414

Gains on sales of other property owned were deferred if the sales involved financing from the Association and did not meet the criteria for immediate recognition. There were no deferred gains at December 31, 2017, 2016, and 2015.

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank
Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The borrowing relationship is established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The GFA has a one year term which expires on December 31 and is renewable each year. The Association has no reason to believe the GFA will not be renewed upon expiration. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2017, the Association's notes payable were within the specified limitations.

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

The weighted average interest rates on the variable rate advances were 2.61 percent for LIBOR-based loans and 2.73 percent for Prime-based loans, and the weighted average remaining maturities were 3.2 years and 0.8 years, respectively, at December 31, 2017. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 2.97 percent, and the weighted average remaining maturity was 10.0 years at December 31, 2017. The weighted-average interest rate on all interest-bearing notes payable was 2.95 percent and the weighted-average remaining maturity was 9.1 years at December 31, 2017. Over 89.98 percent of the Association's loan portfolio is match funded at the Bank as a fixed rate note. The remainder of the loan portfolio is funded through a variable rate note or free cash. The weighted average maturities described above are related to matched-funded loans. The direct note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

A. **Protected Borrower Equity:** Protection of certain borrower equity is provided under the Farm Credit Act which requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates and allocated equities which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an Association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

B. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm-related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to the lesser of $1,000 or 2 percent of the amount of the loan. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

   The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

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

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

   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 core surplus and total surplus ratios with common equity tier 1 (CET1) capital, tier 1 capital, and total capital risk-based capital ratios. The new regulations also include a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio (PCR) remains in effect.

Notes to the Consolidated Financial Statements (continued) (dollars in thousands, except as noted)

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

- The CET1 capital 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 ratio 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 December 31, 2017
Risk-adjusted ratios:				
CET1 Capital Ratio	4.5%	0.625%	5.125%	13.14%
Tier 1 Capital Ratio	6.0%	0.625%	6.625%	13.14%
Total Regulatory Capital Ratio	8.0%	0.625%	8.625%	20.10%
Permanent Capital Ratio	7.0%	0.0%	7.0%	19.38%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	12.51%
UREE Leverage Ratio	1.5%	0.0%	1.5%	12.32%

** 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.

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

The Association had the following shares outstanding at December 31, 2017:

		Shares Outstanding	
Class	Protected	Number	Aggregate Par Value
C Common/Voting	No	1,615,789	$ 8,079
B Participation Certificates/Nonvoting	Yes	84	–
C Participation Certificates/Nonvoting	No	203,627	1,018
Total Capital Stock and Participation Certificates		1,819,500	$ 9,097

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

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

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

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

Allocated equities shall be retired solely at the discretion of the Board, provided that minimum capital standards established by the FCA and the Board are met. Nonqualified retained surplus is considered to be permanently invested in the Association and as such, there is no plan to revolve or retire this surplus. All nonqualified distributions are tax deductible only when redeemed. At December 31, 2017, allocated members' equity consisted of $4,162 of qualified surplus and $117,714 of nonqualified allocated surplus.

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

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

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

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

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. No dividends were declared by the Association for any of the periods included in these Consolidated Financial Statements.

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

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

1. Allocated Surplus
2. Class C Common Stock and Class C Participation Certificates
3. Classes A and B Common Stock and Class B Participation Certificates
4. Classes A and D Preferred Stock

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

1. Classes A and D Preferred Stock
2. Classes A and B Common Stock and Class B Participation Certificates
3. Class C Common Stock and Class C Participation Certificates
4. Allocated Surplus
5. Unallocated Surplus issued after January 1, 1996 shall be distributed to all holders of Class C Common Stock and Class C Participation Certificates from January 1, 1996
6. Remaining Assets shall be distributed ratably to the holders of all classes of Stock and Participation Certificates

Notes to the Consolidated Financial Statements (continued) (dollars in thousands, except as noted)

E. **Accumulated Other Comprehensive Income (AOCI):**

	Changes in Accumulated Other Comprehensive Income by Component *(a)*		
	For the years ended December 31,		
	2017	**2016**	**2015**
Employee Benefit Plans:			
Balance at beginning of period	$ (393)	$ (512)	$ (530)
Other comprehensive income before reclassifications	(140)	(29)	(91)
Amounts reclassified from AOCI	159	148	109
Net current period OCI	19	119	18
Balance at end of period	$ (374)	$ (393)	$ (512)

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*			
	2017	**2016**	**2015**	**Income Statement Line Item**
Defined Benefit Pension Plans:				
Periodic pension costs	$ (159)	$ (148)	$ (109)	See Note 9.
Amounts reclassified	$ (159)	$ (148)	$ (109)	

(a) Amounts in parentheses indicate reductions to AOCI.
(b) Amounts in parentheses indicate reductions to profit/loss.

Note 8 — Fair Value Measurement

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

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

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

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

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

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

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

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

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

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

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

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

The fair value of investment securities is estimated by discounting expected future cash flows using prevailing rates for similar instruments at the measurement date.

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

Fair values are estimated at each period end date for assets and liabilities measured at fair value on a recurring basis. 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.

	December 31, 2017				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 1,979	$ 1,979	$ –	$ –	$ 1,979
Recurring Assets	$ 1,979	$ 1,979	$ –	$ –	$ 1,979
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 1,538	$ –	$ –	$ 1,538	$ 1,538
Other property owned	3,669	–	–	3,931	3,931
Nonrecurring Assets	$ 5,207	$ –	$ –	$ 5,469	$ 5,469
Other Financial Instruments					
Assets:					
Cash	$ 4,949	$ 4,949	$ –	$ –	$ 4,949
Investment securities, held-to-maturity	5,533	–	–	5,456	5,456
Loans	1,697,120	–	–	1,695,034	1,695,034
Other Financial Assets	$ 1,707,602	$ 4,949	$ –	$ 1,700,490	$ 1,705,439
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,405,074	$ –	$ –	$ 1,386,868	$ 1,386,868
Other Financial Liabilities	$ 1,405,074	$ –	$ –	$ 1,386,868	$ 1,386,868

	December 31, 2016				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 1,660	$ 1,660	$ –	$ –	$ 1,660
Recurring Assets	$ 1,660	$ 1,660	$ –	$ –	$ 1,660
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 2,861	$ –	$ –	$ 2,861	$ 2,861
Other property owned	3,289	–	–	3,335	3,335
Nonrecurring Assets	$ 6,150	$ –	$ –	$ 6,196	$ 6,196
Other Financial Instruments					
Assets:					
Cash	$ 5,160	$ 5,160	$ –	$ –	$ 5,160
Investment securities, held-to-maturity	7,057	–	–	6,820	6,820
Loans	1,617,761	–	–	1,613,871	1,613,871
Other Financial Assets	$ 1,629,978	$ 5,160	$ –	$ 1,620,691	$ 1,625,851
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,342,601	$ –	$ –	$ 1,324,126	$ 1,324,126
Other Financial Liabilities	$ 1,342,601	$ –	$ –	$ 1,324,126	$ 1,324,126

Notes to the Consolidated Financial Statements (continued) (dollars in thousands, except as noted)

	December 31, 2015				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 1,410	$ 1,410	$ –	$ –	$ 1,410
Recurring Assets	$ 1,410	$ 1,410	$ –	$ –	$ 1,410
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 14	$ –	$ –	$ 14	$ 14
Other property owned	5,425	–	–	5,667	5,667
Nonrecurring Assets	$ 5,439	$ –	$ –	$ 5,681	$ 5,681
Other Financial Instruments					
Assets:					
Cash	$ 4,191	$ 4,191	$ –	$ –	$ 4,191
Investment securities, held-to-maturity	8,395	–	–	8,265	8,265
Loans	1,548,069	–	–	1,564,616	1,564,616
Other Financial Assets	$ 1,560,655	$ 4,191	$ –	$ 1,572,881	$ 1,577,072
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,286,760	$ –	$ –	$ 1,283,141	$ 1,283,141
Other Financial Liabilities	$ 1,286,760	$ –	$ –	$ 1,283,141	$ 1,283,141

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Investment Securities

The fair values of predominantly all Level 3 investment securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these Level 3 assets.

Inputs to Valuation Techniques

Management determines the Association's valuation policies and procedures. The Bank performs the majority of the Association's valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

Quoted market prices are generally not available for the instruments, presented below. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 5,469	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Investment securities, held-to-maturity	Discounted cash flow	Prepayment rates Risk adjusted discount rate
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 9 — Employee Benefit Plans

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

1. Assets contributed to multi-employer plans by one employer may be used to provide benefits to employees of other participating employers.
2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
3. If the Association chooses to stop participating in some of its multi-employer plans, the Association may be required to contribute to eliminate the underfunded status of the plan.

The Association previously participated in a separate multi-employer plan, the AgFirst Farm Credit Cash Balance Retirement Plan which is a cash balance plan (CB Plan). In November 2014, the AgFirst Plan Sponsor Committee approved and executed amendments to the CB Plan that included the following changes:

1. The CB Plan was closed to new participants effective as of December 31, 2014. Based on the plan's eligibility provisions, this change affected employees hired on or after November 4, 2014.
2. Employer contributions were discontinued effective as of January 1, 2015.
3. All participants who were not already fully vested in the CB Plan became fully vested as of December 31, 2014.
4. The CB Plan was terminated effective as of December 31, 2015.

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

A favorable determination letter was received from the Internal Revenue Service, and as a result of the termination of the CB Plan, vested benefits were distributed to participants in 2017.

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

The District's multi-employer plans are not subject to Employee Retirement Income Security Act (ERISA) and no Form 5500 is required. As such, the following information is neither available for nor applicable to the plans:

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

During 2017, the method of recording expenses at participating District entities for the FAP and OPEB Plans was modified. Prior to 2017, expense was recorded based on allocations of actuarially-determined costs and any differences between recorded expense and actual contributions were recorded in Other Assets or Other Liabilities on the Consolidated Balance Sheets. For 2017 and future years, participating entities will record employee benefit costs based on the actual contributions to the Plans. This change caused the Association to modify its accounting estimates recorded in Other Assets and Other Liabilities since the assets and liabilities do not impact future contributions to the Plans. The change in estimate resulted in the reduction of Other Assets by $8,053 and the reduction of Other Liabilities by $15,193 on the Association's Balance Sheets, and a total reduction of employee benefit costs on the Association's Statements of Income of $7,140 during 2017.

The FAP Plan includes other District employees that are not employees of the Association and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. FAP Plan expenses included in employee benefit costs on the Association's Statements of Income were $4,676 for 2017, $5,801 for 2016, and $5,875 for 2015. At December 31, 2017, 2016, and 2015, the total liability balance for the FAP Plan presented in the District Combined Balance Sheets is $139,104, $119,000, and $123,902, respectively. The FAP Plan is 86.41%, 86.96%, and 85.73% percent funded to the projected benefit obligation as of December 31, 2017, 2016, and 2015, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Association or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs on the Association's Statements of Income were $771 for 2017, $1,360 for 2016, and $1,780 for 2015. At December 31, 2017, the total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition is $216,259.

The Association also participates in a defined contribution Farm Credit Benefits Alliance (FCBA) 401(k) Plan (401(k) Plan), which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $1,047, $989, and $975 for the years ended December 31, 2017, 2016, and 2015, respectively. Beginning in 2015, contributions include additional amounts related to the discontinuation of the CB Plan as discussed above.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2017, 2016, and 2015, $19, $119, and $18 have been recognized as net credits, respectively, to AOCI to reflect these elements.

In addition to the multi-employer plans described above, the Association sponsors nonqualified supplemental retirement and 401(k) plans. The supplemental retirement plan is unfunded and had a projected benefit obligation of $2,438 and a net under-funded status of $2,438 at December 31, 2017. Assumptions used to determine the projected benefit obligation as of December 31, 2017 included a discount rate of 3.75 percent and a rate of compensation increase of 0.00 percent. The expenses of these nonqualified plans included in employee benefit costs were $262, $300, and $240 for 2017, 2016, and 2015, respectively.

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

Note 10 — Related Party Transactions

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

Total loans to such persons at December 31, 2017 amounted to $6,724. During 2017, $3,927 of new loans were made and repayments totaled $3,915. In the opinion of management, none of these loans outstanding at December 31, 2017 involved more than a normal risk of collectability.

Note 11 — Commitments and Contingencies

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

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

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2017, $176,106 of commitments to extend credit and no commercial letters of credit were outstanding.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2017, standby letters of credit outstanding totaled $102 with an expiration date of October 31, 2018. The maximum potential amount of future payments that may be required under these guarantees was $102.

The total amount of reserve for unfunded commitments, which is classified in Other Liabilities in the Consolidated Balance Sheets, was $189 at December 31, 2017. During 2017, the Association recorded a reversal of provision for unfunded commitments totaling $369.

Note 12 — Income Taxes

The provision for income taxes follows:

	Year Ended December 31,		
	2017	2016	2015
Current:			
Federal	$ 6	$ 7	$ 5
State	–	3	(5)
	6	10	–
Deferred:			
Federal	–	–	–
State	–	–	–
	–	–	–
Total provision for income taxes	$ 6	$ 10	$ –

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

	December 31,		
	2017	2016	2015
Federal tax at statutory rate	$ 19,344	$ 14,039	$ 13,951
State tax, net	–	3	–
Patronage distributions	(3,402)	(3,459)	(2,961)
Tax-exempt FLCA earnings	(15,284)	(10,883)	(12,171)
Change in valuation allowance	(1,786)	345	1,018
Change in tax rate	908	-	-
Other	226	(35)	163
Provision (benefit) for income taxes	$ 6	$ 10	$ –

In late December 2017, federal tax legislation was enacted which, among other things, lowered the federal corporate tax rate from 35% to 21% beginning on January 1, 2018. The change to the lower corporate tax rate led to an insignificant remeasurement of the deferred tax liabilities and deferred tax assets in 2017, the period of enactment. Deferred tax assets and liabilities are comprised of the following at:

	December 31,		
	2017	2016	2015
Deferred income tax assets:			
Allowance for loan losses	$ 840	$ 1,153	$ 957
Annual leave	202	339	332
Nonaccrual loan interest	421	684	680
Loan Fees	–	–	–
Pensions and other postretirement benefits	–	2,436	2,344
Loss Carryforward	414	623	945
Other Property Owned	54	83	82
Gross deferred tax assets	1,931	5,318	5,340
Less: valuation allowance	(1,743)	(3,529)	(3,184)
Gross deferred tax assets, net of valuation allowance	188	1,789	2,156
Deferred income tax liabilities:			
Loan fees	(183)	(239)	(242)
Pensions and other postretirement benefits	–	(1,533)	(1,860)
Depreciation	(5)	(17)	(54)
Gross deferred tax liability	(188)	(1,789)	(2,156)
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2017, deferred income taxes have not been provided by the Association on approximately $6,538 of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

Notes to the Consolidated Financial Statements (continued) (dollars in thousands, except as noted)

The Association recorded a valuation allowance of ($1,743), ($3,529), and ($3,184) as of December 31, 2017, 2016 and 2015, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2017 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense.

The tax years that remain open for federal and major state income tax jurisdictions are 2014 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2017				
	First	Second	Third	Fourth	Total
Net interest income	$ 14,344	$ 14,474	$ 15,119	$ 15,113	$ 59,050
Provision for (reversal of allowance for) loan losses	(226)	881	1,299	784	2,738
Noninterest income (expense), net	(6,613)	(5,320)	(4,060)	14,944	(1,049)
Net income	$ 7,957	$ 8,273	$ 9,760	$ 29,273	$ 55,263

	2016				
	First	Second	Third	Fourth	Total
Net interest income	$ 14,056	$ 14,193	$ 14,629	$ 14,704	$ 57,582
Provision for (reversal of allowance for) loan losses	(94)	435	197	534	1,072
Noninterest income (expense), net	(5,390)	(8,004)	(5,580)	2,565	(16,409)
Net income	$ 8,760	$ 5,754	$ 8,852	$ 16,735	$ 40,101

	2015				
	First	Second	Third	Fourth	Total
Net interest income	$ 13,835	$ 14,249	$ 14,170	$ 14,219	$ 56,473
Provision for (reversal of allowance for) loan losses	(6)	(112)	675	675	1,232
Noninterest income (expense), net	(5,993)	(6,319)	(4,933)	1,866	(15,379)
Net income	$ 7,848	$ 8,042	$ 8,562	$ 15,410	$ 39,862

Note 14 — Subsequent Events

The Association evaluated subsequent events and determined the following: After fiscal year end close for 2017, but subsequent to the publication of this 2017 Annual Report, the Association acquired property totaling $1,100 in a foreclosure event.

No other events require disclosure through March 13, 2018, which was the date the financial statements were issued.

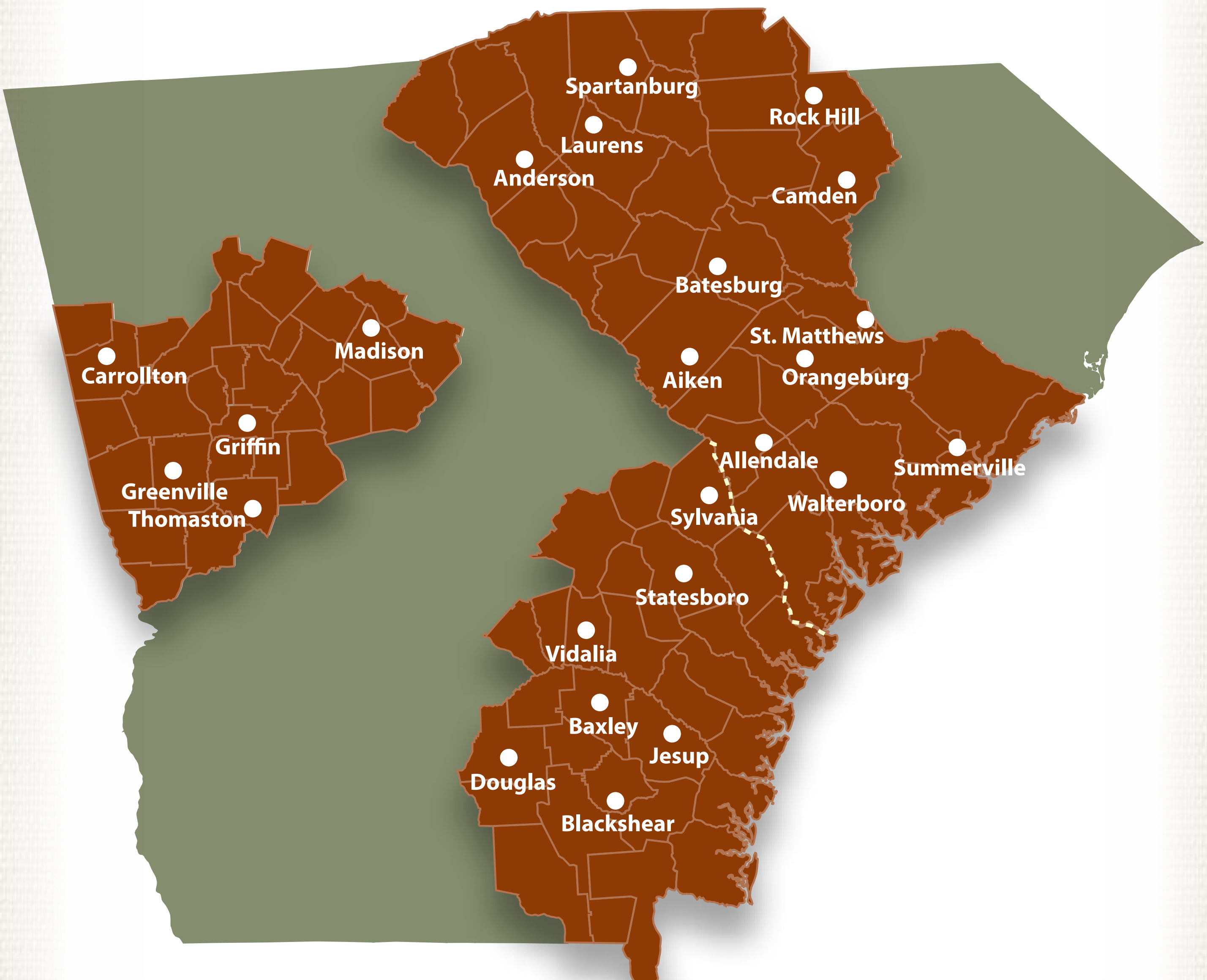
> We will connect with the communities we serve. We will connect with each other here on the staff. Most importantly, we will connect with you, our customers, to bring you the products and services needed for your success.

CONNECT

AND DISCOVER THE POSSIBILITIES

OUR LOCATIONS

AgSouth serves member-borrowers through 24 local branch offices in 59 Georgia counties and 34 South Carolina counties.



GEORGIA

BAXLEY
64 Heritage St.
Baxley, GA 31513
912-367-7006

BLACKSHEAR
111 Carter Ave.
Blackshear, GA 31516
912-449-4701

CARROLLTON
2520 Hwy. 27 South
Carrollton, GA 30117
770-834-3319

DOUGLAS
204 Bowens Mill Rd.
Douglas, GA 31533
912-384-3200

GREENVILLE
596 S. Talbotton St.
Greenville, GA 30222
706-672-4285

GRIFFIN
1298 Enterprise Way
Griffin, GA 30224
770-228-8958

JESUP
855 Odum Hwy.
Jesup, GA 31545
912-530-7777

MADISON
1691 Lions Club Rd.
Madison, GA 30650
706-342-2352

STATESBORO
40 S. Main St.
Statesboro, GA 30458
912-764-9091

SYLVANIA
302 Mims Rd.
Sylvania, GA 30467
912-564-2468

THOMASTON
620 N. Church St.
Thomaston, GA 30286
706-647-8991

VIDALIA
314 Commerce Way
Vidalia, GA 30474
912-537-4135

SOUTH CAROLINA

AIKEN
951 E. Pine Log Rd.
Aiken, SC 29803
803-648-6818

ALLENDALE
4930 Burton's Ferry Hwy.
Allendale, SC 29810
803-584-3406

ANDERSON
1325 Pearman Dairy Rd.
Anderson, SC 29625
864-226-8507

BATESBURG
109 E. Church St.
Batesburg-Leesville, SC 29070
803-532-3841

CAMDEN
951 Hwy. 1 South
Lugoff, SC 29078
803-438-2464

LAURENS
306 Hillcrest Dr.
Laurens, SC 29360
864-984-3379

ORANGEBURG
1880 Joe S. Jeffords Hwy.
Orangeburg, SC 29115
803-534-6546

ROCK HILL
1321 Springdale Rd.
Rock Hill, SC 29730
803-324-1131

SPARTANBURG
101 North Town Dr.
Spartanburg, SC 29303
864-585-0344

ST. MATTHEWS
2630 Colonel Thomson Hwy.
St. Matthews, SC 29135
803-874-3703

SUMMERVILLE
702 Kate Ln.
Summerville, SC 29483
843-821-6758

WALTERBORO
529 Bells Hwy.
Walterboro, SC 29488
843-549-1584

ADMINISTRATIVE OFFICE

STATESBORO, GA– HEADQUARTERS
26 S. Main St.
Statesboro, GA 30458
912-764-9091

VISIT US AT **WWW.AGSOUTHFC.COM** OR CALL **1-844-AGSOUTH** TO REACH ANY OFFICE

AgSouth
Farm Credit, ACA
26 S. Main St.
Statesboro, GA 30459-0718

PRSRT STD
U.S. POSTAGE
PAID
COLUMBIA, SC
PERMIT 1160