2016 ANNUAL REPORT

FARM CREDIT CAROLINA

FARM CREDIT 100 ESTABLISHED 1916





IN THIS REPORT







CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

			December 31,		
(dollars in thousands)	**2016**	2015	2014	2013	2012
Balance Sheet Data					
Cash	**$ 2,246**	$ 7,514	$ 2,913	$ 2,348	$ 2,246
Investment securities	**1,746**	1,852	2,099	3,502	2,791
Loans	**1,412,807**	1,384,220	1,371,191	1,361,835	1,188,199
Allowance for loan losses	**(7,348)**	(7,402)	(6,614)	(5,560)	(8,757)
Net loans	**1,405,459**	1,376,818	1,364,577	1,356,275	1,179,442
Investments in other Farm Credit institutions	**17,051**	16,974	16,658	15,223	32,128
Other property owned	**5,781**	6,069	2,892	3,581	4,252
Other assets	**69,926**	73,794	73,915	91,243	88,634
Total assets	**$ 1,502,209**	$1,483,021	$1,463,054	$1,472,172	$1,309,493
Notes payable to AgFirst Farm Credit Bank*	**$ 1,138,884**	$1,132,911	$1,128,326	$1,158,043	$1,023,213
Accrued interest payable and other liabilities with maturities of less than one year	**50,527**	44,552	35,499	34,064	30,102
Total liabilities	**1,189,411**	1,177,463	1,163,825	1,192,107	1,053,315
Protected borrower stock	**—**	—	—	—	48
Capital stock and participation certificates	**8,361**	8,047	8,062	7,927	7,860
Retained earnings					
Allocated	**191,073**	187,593	183,568	167,311	148,080
Unallocated	**115,256**	111,139	108,928	105,259	101,265
Accumulated other comprehensive income (loss)	**(1,892)**	(1,221)	(1,329)	(432)	(1,075)
Total members' equity	**312,798**	305,558	299,229	280,065	256,178
Total liabilities and members' equity	**$ 1,502,209**	$1,483,021	$1,463,054	$1,472,172	$1,309,493
Statement of Income Data					
Net interest income	**$ 47,160**	$ 47,676	$ 49,072	$ 41,890	$ 40,377
Provision for (reversal of allowance for) loan losses	**(485)**	2,501	2,014	2,868	7,358
Noninterest income (expense), net	**(15,873)**	(15,247)	(8,417)	1,545	(7,406)
Net income	**$ 31,772**	$ 29,928	$ 38,641	$ 40,567	$ 25,613
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.18%**	2.10%	2.68%	3.18%	2.01%
Total members' equity	**10.01%**	9.62%	13.16%	15.06%	10.03%
Net interest income as a percentage of average earning assets	**3.40%**	3.50%	3.57%	3.49%	3.39%
Net (chargeoffs) recoveries to average loans	**0.031%**	(0.126)%	(0.070)%	(0.513)%	(0.314)%
Total members' equity to total assets	**20.82%**	20.60%	20.45%	19.02%	19.56%
Debt to members' equity (:1)	**3.80**	3.85	3.89	4.26	4.11
Allowance for loan losses to loans	**0.52%**	0.53%	0.48%	0.41%	0.74%
Permanent capital ratio	**21.88%**	21.62%	20.54%	20.34%	18.64%
Total surplus ratio	**21.28%**	21.03%	19.96%	19.68%	17.95%
Core surplus ratio	**18.84%**	18.52%	17.36%	16.68%	14.67%
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 12,603**	$ 11,681	$ 5,714	$ 5,539	$ 4,403
Qualified allocated retained earnings	**—**	—	7,349	8,747	3,964
Nonqualified allocated retained earnings	**—**	—	5,985	4,178	6,310
Nonqualified retained earnings	**14,626**	15,210	15,798	18,651	9,266

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

LETTER TO THE STOCKHOLDERS

Carolina Farm Credit has been blessed with another very successful year. On behalf of the Board of Directors and staff, I would like to thank you for the contributions you have made to our success. I am pleased to report that our final net earnings as of Dec. 31, 2016, **exceeded $31.7 million**. These earnings generated a strong return on assets of 2.18 percent. Our core earnings remained strong and were boosted by a special patronage from our funding bank, AgFirst Farm Credit Bank. During the year, our credit quality improved and we continued to reduce our nonearning assets. Capital remains strong, which positions the Association for future growth and to be a stable source of credit for your operations in the years to come.

Operating as a cooperative allows us to share our success with you. The board of directors has approved a cash dividend based on 2016 earnings to be paid in April 2017. This will be the 29th consecutive year that we have returned interest back to our borrowers through our patronage program. This program allows our profits to be reinvested back into the local communities where we work and live.

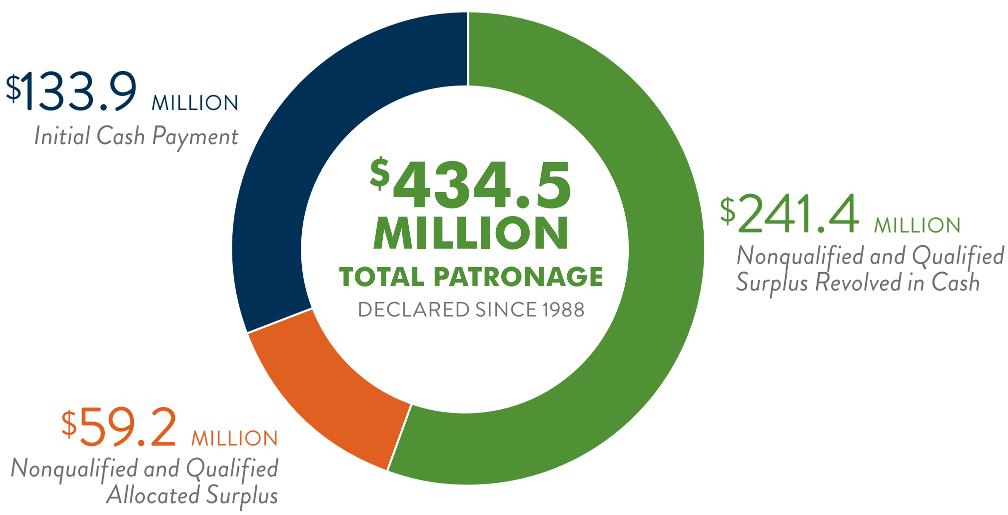
The theme for this year's annual report is focused on our 100th anniversary. Not many businesses have the longevity to celebrate this milestone. I believe that our success can be attributed to many things, but three primary items rise to the top. First of all, our **Customers.** We are fortunate to lend to a unique group of borrowers — farmers and rural residents. Our customers value loyalty, relationships and family. They work hard and dream big. They do what's right, even when the outcome may be adverse to them. We are blessed to have the opportunity to build relationships with these borrowers.

Second is our **Mission.** We operate and make decisions centered on our mission to support agriculture and rural America. Our cooperative structure enables us to make decisions that truly have our customers' best interests in mind. Our profits go back to them — they are our investors. We are blessed to have a mission that supports the noble causes of people who feed and clothe the world.

Finally, our **Employees and Directors.** Our work-life culture embraces the principles of family. Our employees care about our customers and their success and they care about each other. Many, if not most, have an agricultural background. They understand the life of a farmer. This enables them to truly support agriculture in a way that sets us apart. Our directors are farmers who bring their experience and wisdom into strategic decisions. We have a great team of employees and directors, and I am blessed to work alongside them each day to help our members be successful and realize their dreams.

This annual report contains the details of our 2016 financial performance. You will note that the Association experienced strong financial performance and is well positioned to grow and meet the financing needs of the future. It is a privilege to support you. We look forward to a successful 2017 and to being around for the next 100 years!

Vance C Dalton Jr



THE FARM CREDIT BIOSTAR

is a living symbol of progress and commitment consisting of three elements.

THE LEAVES

The leaves represent the Associations nationwide that make up and support the Farm Credit System.

THE STAR

The star represents light and direction, looking foward to the next 100 years of Farm Credit.

THE ROOTS

The roots represent the grassroots support of our member-borrowers.

NEW LOGO, SAME SERVICE

Since 1916, Farm Credit has been a source of reliable, consistent credit and financial services for agriculture and rural communities. This new logo will help to identify Carolina Farm Credit as a part of the national Farm Credit network. The logo conforms to all Farm Credit national brand standards and will help to emphasize the strength and unity of the Farm Credit System.

While our logo has been updated, it is important that our member-borrowers know they can expect the same local agricultural knowledge and outstanding customer service that has always been a staple of Carolina Farm Credit's business model.

"Farm Credit supports rural communities and agriculture with reliable consistent credit and financial services today and tomorrow, and our new logo helps to identify Carolina Farm Credit as a part of the national Farm Credit system. Our employees live in and serve the 54 western counties in North Carolina, but we have the framework and support of a national brand."

Vance Dalton Jr.
CEO
Carolina Farm Credit

FARM CREDIT
CAROLINA

FRESH PERSPECTIVES

In 2016, five local agriculture leaders were recognized nationally through Farm Credit 100 Fresh Perspectives, a search to identify and honor 100 leaders who are changing rural communities and agriculture for the better. The honorees were announced at a National Ag Day event at the National Press Club in Washington, D.C. Selected by a panel of experts on rural matters, including Farm Credit leaders and others from around the agriculture industry, honorees like those from our territory are among the best-of-the-best who are positively shaping what is next for rural communities and agriculture. The five Carolina Farm Credit honorees were:

MAYKIA XIONG

Laos native Maykia Xiong, an IT professional and Carthage, N.C., poultry farmer, who helps fellow Hmong producers with limited English skills access important USDA programs. Recognized in the Mentoring and Volunteerism category, Xiong said, "Through my struggles and hardship with financial institutions, integrators and government programs, I want to make resources available to assist Hmong-American farmers in all aspects of their farming needs."

BILL WALKER

Iredell agriculture teacher and farmer Bill Walker has seen first-hand what involving youth in FFA can accomplish. He currently works with more than 425 agriculture students and FFA members who cultivate an appreciation for the agriculture industry and take that excitement into careers, college and their community. "I have seen what FFA and agriculture education can provide for students if they take the opportunities presented. The 'ah ha' moment that students have when everything clicks is priceless," says Bill.

"Through my struggles and hardship with financial institutions, integrators and government programs, I want to make resources available to assist Hmong-American farmers in all aspects of their farming needs."

— Maykia Xiong

"I believe that the future of agriculture can be bright and promising provided that we can attract a new breed of young farmers and the innovators who support them."

— Neil Shore

"I have seen what FFA and agriculture education can provide for students if they take the opportunities presented. The 'ah ha' moment that students have when everything clicks is priceless.

— Bill Walker

SARAH BLACKLIN

NC Choices Program Director Sarah Blacklin leads the Women Working in the Meat Business program. The program is designed to help women overcome real and perceived barriers in their meat business careers by offering educational, technical and business planning assistance while also building a professional network. "I hope these seminars are one step in that process and that we continue to make more resources available to bolster successful female leaders," says Sarah.

DR. BLAKE BROWN

Dr. Blake Brown oversees North Carolina State University's Ag Leadership program. The program accepts 35 young agricultural leaders into a 50-day, two-year intensive executive development experience. This program continues to be nationally recognized and serves the need for leadership training in rural North Carolina communities. He has earned 62 grants worth more than $4.9 million to help improve agricultural communities in North Carolina. "I love working with and for farmers, especially those in North Carolina. I also love farming and consider it an honor to be considered a farmer, albeit a part-time one," he says.

NEIL SHORE

After a lifetime as a tobacco farmer, Neil Shore of Booneville, N.C., recognized that the tobacco industry was changing and proactively evolved and diversified his agricultural operation to not only support his family but also his community. Today, Neil's ventures include Sanders Ridge Winery, the Hearth Restaurant and a USDA-certified organic farm. "Farming has changed a lot since I was born into it 65 years ago. I see a lot of exciting innovations but also a lot of challenges ahead," Neil says. "I believe that the future of agriculture can be bright and promising provided that we can attract a new breed of young farmers and the innovators who support them."

FARM CREDIT

COMMUNITY STRONG

Farm Credit has been supporting rural America for 100 years, and this year, Carolina Farm Credit's Community Diversity and Inclusion Committee implemented an initiative to have the staff of each branch participate in a community service project.

The staff at the **Murphy** Branch purchased and installed a swing, bird bath and plants at the Murphy Medical Center Nursing Home. This project was chosen in hopes that the improved landscaping would provide the residents with a place to host outdoor activities and events.

The **Yanceyville** staff volunteered at the Caswell County Special Olympics. Along with helping participants compete in events, the staff also donated $500 for the purchase of T-shirts for participants and volunteers.

The **Brown Summit** Branch staff volunteered their time and money at the local Habitat for Humanity ReStore. The staff purchased and constructed 18 bookshelves and 16 benches.

The staff at the **Statesville Administrative Office** volunteered their time at Rising Hope Farms in Claremont, N.C. Fifteen employees spent the morning painting fences at the farm.

The **Sparta** Branch staff purchased and installed playground equipment at Free Worship Christian Daycare, a non-profit daycare center in Sparta.

The **Wilkesboro** Branch staff helped build a sandbox at the Ebenezer Christian Children's Home. The sandbox was built outside of the Faith House, which houses up to eight young boys at any one time.

The staff of the **Boone** Branch helped winterize a chicken coop and create a water catchment system for the community garden at Hospitality House.

The **Concord** staff purchased materials and helped the Central Cabarrus High School FFA improve the school's landscaping and greenhouses. Along with landscaping, the staff also purchased and delivered school supplies to be used in the classroom.

The **Jefferson** Branch staff grew and donated potatoes to the local community food bank.

The **Salisbury** Branch participated in the "Birds, Bees and Butterflies" 4-H day camp at the Rowan County Cooperative Extension office. The staff purchased snacks and crafts for the children.

The staff of the **Lenoir** Branch volunteered at the Lenoir Soup Kitchen. In addition to serving lunch, they presented a check for $500 to Executive Director Angel Moretz.

The **Asheville** staff volunteered at the home of Royce Canty and family. The staff, in coordination with the Multiple Sclerosis Society helped make improvements to the family's home.

The **Yadkinville** Branch staff volunteered at Lake Hampton Park. The staff purchased and constructed picnic areas for parkgoers to enjoy.

The **Taylorsville** staff purchased hygiene/care kits for the Alexander County Women's Domestic Violence Center and Crossroad's Men's Mission Shelter.

The **Lincolnton** Branch volunteered at Love Memorial Elementary School. The staff purchased backpacks and food to donate to the school's Backpack Program that fills and sends home approximately 30 backpacks of food each week for students in need.

The **Pilot Mountain** Branch volunteered at Shoals Elementary School, improving the school grounds. The staff worked on various landscaping projects to spruce up the school's appearance.

The staff of the **Asheboro** Branch purchased and delivered food and supplies to victims of hurricane Matthew.

The **Roxboro** Branch helped the Mens Baptist Association by purchasing towels, cleaning supplies and other toiletry items. The staff was able to volunteer on site by boxing items and loading trucks.

The staff of the **Waynesville** Branch volunteered with Haywood County Habitat for Humanity. Employees purchased building materials and assisted in building storage buildings for two future homeowners in the Walton Woods community.

The **Graham** Branch volunteered with Kopper Top Life Learning Center, a therapeutic riding center in Liberty, N.C. Employees were able to help replace fencing, put up a new gate and trim weeds around the property.

The staff of the **Conover** Branch volunteered at The Corner Table Soup Kitchen. Employees donated a new freezer and spent time volunteering at the soup kitchen.

The **Carthage** Branch staff volunteered with Sandhills' Moore County BackPack Pals Program. Money was donated to the food bank to purchase food items, and staff helped pack the backpacks for delivery.

The **Siler City** Branch volunteered with Chatham County Middle School to purchase and pack 75 bags of toiletry supplies for the backpack program.

The **Rural Hall** Branch volunteered at Rural Hall Elementary school. Employees purchased materials and constructed raised bed gardens for the EC classrooms.

The staff of the **Burnsville** Branch volunteered at Neighbors in Need of Madison County. The staff purchased food items and prepared meals for delivery.

The **Hendersonville** staff helped plant shrubbery and apple trees for residents at Sugar Hill Apartments at Ladies Mantle Court.

The **Shelby** Branch volunteered at the Broad River Greenway in Boiling Springs. The staff mulched, pulled weeds and cleaned up around the greenway.

The **Ellerbe** Branch purchased and constructed picnic tables and a swing set to be used by residents at the Smith Family Home.

The staff of the **Statesville** Branch volunteered with Shepherd's Watch. Employees purchased and constructed a swing set to be used by youth attending camp.

The **Albemarle** Branch helped with the construction of a mobile chicken coop for the community-supported agriculture program at Carolina Farms.

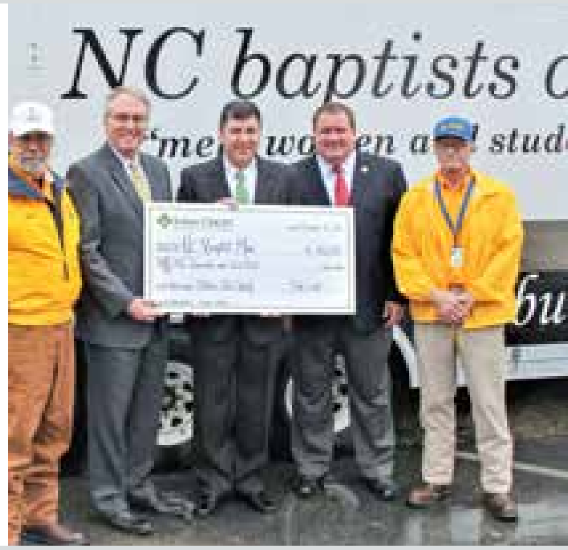
The **Spindale** staff donated supplies and helped renovate spaces used by volunteers at the Spindale Habitat ReStore.

HURRICANE MATTHEW FLOOD RELIEF

Hurricane Matthew impacted people, highways, homes, businesses and farming operations throughout central and eastern North Carolina.

The Farm Credit Associations of North Carolina donated $110,000 to flood relief efforts in North Carolina. The donation is the sum of monetary gifts from each of the three Farm Credit Associations of North Carolina, including $50,000 from Cape Fear Farm Credit, $25,000 from AgCarolina Farm Credit, and $25,000 from Carolina Farm Credit. Additionally, Farm Credit partner CoBank donated $10,000 toward the relief efforts.

The total funds were split evenly between the NC Baptists Disaster Relief Mission and the Salvation Army to further enable assistance to impacted areas. Hurricane Matthew impacted people, highways, homes, businesses and farming operations throughout central and eastern North Carolina. The Farm Credit Associations of North Carolina serve many of the areas affected by the disaster. The mission of the Farm Credit System is to be there for the agricultural and rural communities through good times and bad.



AG BIZ BASICS FOR FARMER VETERANS

The new four-module course was first offered to military veterans in 2016. The course assists participants in bringing their agribusiness vision to life. Whether they're an aspiring agricultural entrepreneur, returning to a family business, or a veteran interested in being involved in agriculture, the online course can help bring those dreams to life.

The new Ag Biz Basics course is hosted by Farm Credit University, and consists of four online modules made up of interactive services, discussions and real life application examples. Module topics include: Lender Relationship, Cash Flow Planning, Balance Sheet and Income Statement.

AgBiz BASICS

"We view this program as a way to give back to our veterans and strengthen North Carolina agriculture at the same time. The Ag Biz Basics course will help our Farmer Veterans gain skills and knowledge that will improve their farming operations."

— Vance Dalton Jr., CEO, Carolina Farm Credit

CORPORATE MISSION FUND 2016 RECAP

CORPORATE MISSION FUND FARM CREDIT CAROLINA

Agribusiness Henderson County: funds requested to develop a website to help with product marketing.

Cooperative Extension, Ashe County: grant awarded to purchase a trailer and scales to allow producers to weigh their animals.

Back In The Woods Again: funds requested to provide adaptive hunting equipment for participants.

Carrboro Farmers Market: grant awarded to support their Healthy Food Incentives, an outreach program targeted to low income families. The program will match SNAP/EBT monies spent up to $5, allowing families to purchase more locally grown food from the market.

Cove Creek Gardens: funds requested to finance courses that offer hands on field experience and conservation methods to students.

Eastern Randolph FFA: funding given to construct small ruminant barn and hay storage facility.

Firsthand Foods: funds requested to implement a comprehensive labeling, reporting and tracking system.

Foothills Farmers Market: grant awarded to establish the Downtown Kings Mountain Market and build a base of community support.

The Hunger and Health Coalition: funds requested to purchase a trailer for transporting manure and other materials to garden to develop compost supply.

King Farmers Market: funding given to support their SNAP/EBT Nutrition Outreach program, matching dollars spent by SNAP/EBT customers to increase the availability of quality foods. This program will allow low income families the opportunity to buy more locally grown foods from the market.

Mountain Folk Farmers Market: funds requested to promote farmers market via advertising and promotional events.

North Carolina Agri-Women: grant awarded to pay application fee to apply for non profit status. The organization represents and provides resources to women involved in every segment of North Carolina agriculture.

Polk County Schools: funds requested to purchase raised bed mulch layering equipment for use in the classroom.

Praley Street Acre of Grace: funding given to purchase supplies to maintain, improve and increase community garden yield.

South Stokes FFA: funds requested to purchase livestock showing equipment to allow students to show livestock on a local, regional and state level.

Southern Alamance FFA: grant awarded to construct a small ruminant barn on campus to advance student learning.

Sun Valley FFA: funds requested to purchase and install a hydroponic system to produce fresh produce and herbs for local food banks and soup kitchens.

WNC Communities: funds requested to finance youth livestock shows.

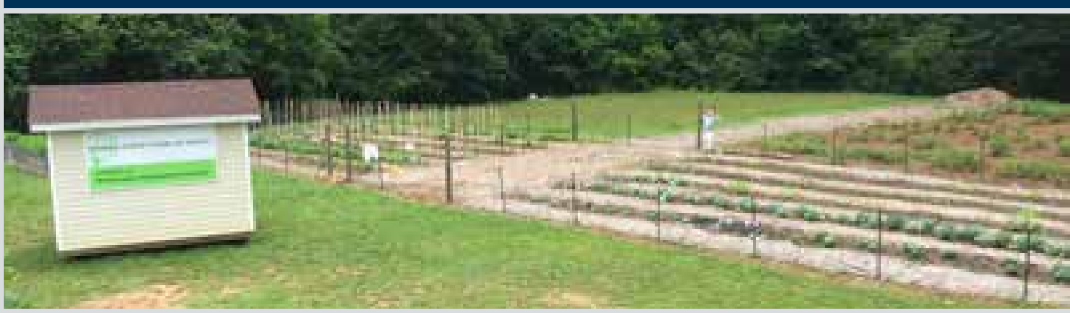
Yadkin County Economic Development Partnership: grant given to purchase a nine frame extractor and holding tank used in honey extracting.

Veterans Healing Farm: funding given to purchase and install storage shed to house equipment.

The 8 scholarship recipients are:

From North Carolina A&T University: Rycal Blount, Nicholas Cobb, Lauren Blackwell and Caleb Bryson.

From North Carolina State University: Christina Harvey, McKayla Newsome, Olin Austin and Nicole Mauldin.



CORPORATE MISSION FUND

FARM CREDIT CAROLINA

"Our Corporate Mission Fund allows us an opportunity to support grass-roots organizations that are making a difference in their rural communities. We are also thrilled to be able to support these college students with scholarships."

—Vance Dalton Jr., CEO, Carolina Farm Credit

For the second year, Carolina Farm Credit distributed grants from its Corporate Mission Fund. The fund donated $144,000 to 27 local organizations and eight college students in 2016, an increase from the previous year's $100,000.

"Our Corporate Mission Fund allows us an opportunity to support grass-roots organizations that are making a difference in their rural communities. We are also thrilled to be able to support these college students with scholarships," said Vance Dalton Jr., CEO, Carolina Farm Credit.

Organizations could apply for up to $5,000 to help in their endeavors to further the future of agriculture and contribute to the agricultural economy in North Carolina.

Grant applications will be accepted from Jan. 1 to Sept. 1 via carolinafarmcredit.com. Proposals will be reviewed and grants will be awarded in the fourth quarter. All recipients will be expected to attend a banquet in the following spring. Grants will be considered for programs only in the 50 counties and geographic areas where Carolina Farm Credit conducts business.

EXECUTIVE LEADERSHIP TEAM

STANDING FROM THE LEFT:

CHRISTOPHER H. SCOTT
Chief Financial Officer

JAMES R. CRAIN
Chief Risk Officer

CHAD M. PURYEAR
Chief Lending Officer

WALTER J. COOK JR.
Chief Credit Officer

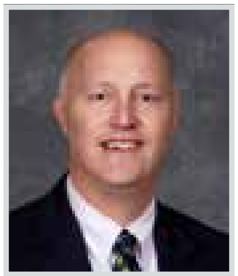
SEATED FROM THE LEFT:

MARGARET G. HAMM
Chief Marketing Officer

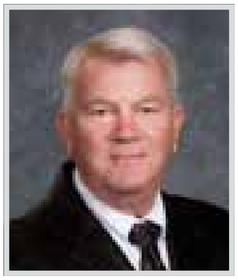
VANCE C. DALTON JR.
Chief Executive Officer

SARAH J. RACHELS
Chief Human Resources Officer

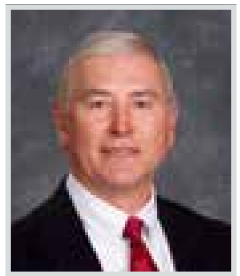
BOARD OF DIRECTORS



JOHN M. BARNARD



E. BERNARD BECK



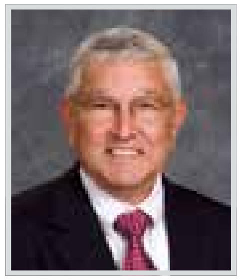
W. REX BELL

MARK A. BRAY

DAVID M. COLTRANE

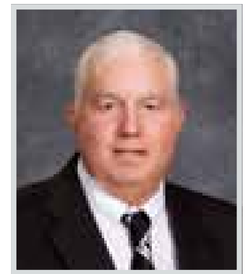
SUSIE J. GAMBILL

JOSEPH A. LAIL



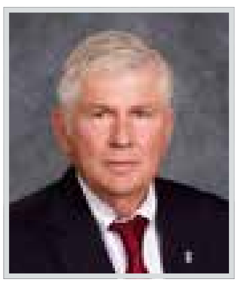
CLARK M. NEWLIN

THOMAS E. PORTER JR.



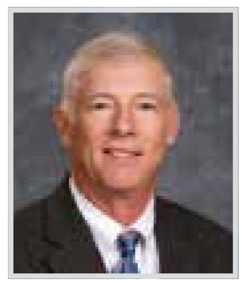
TONY L. RAGAN

D. KALEB RATHBONE



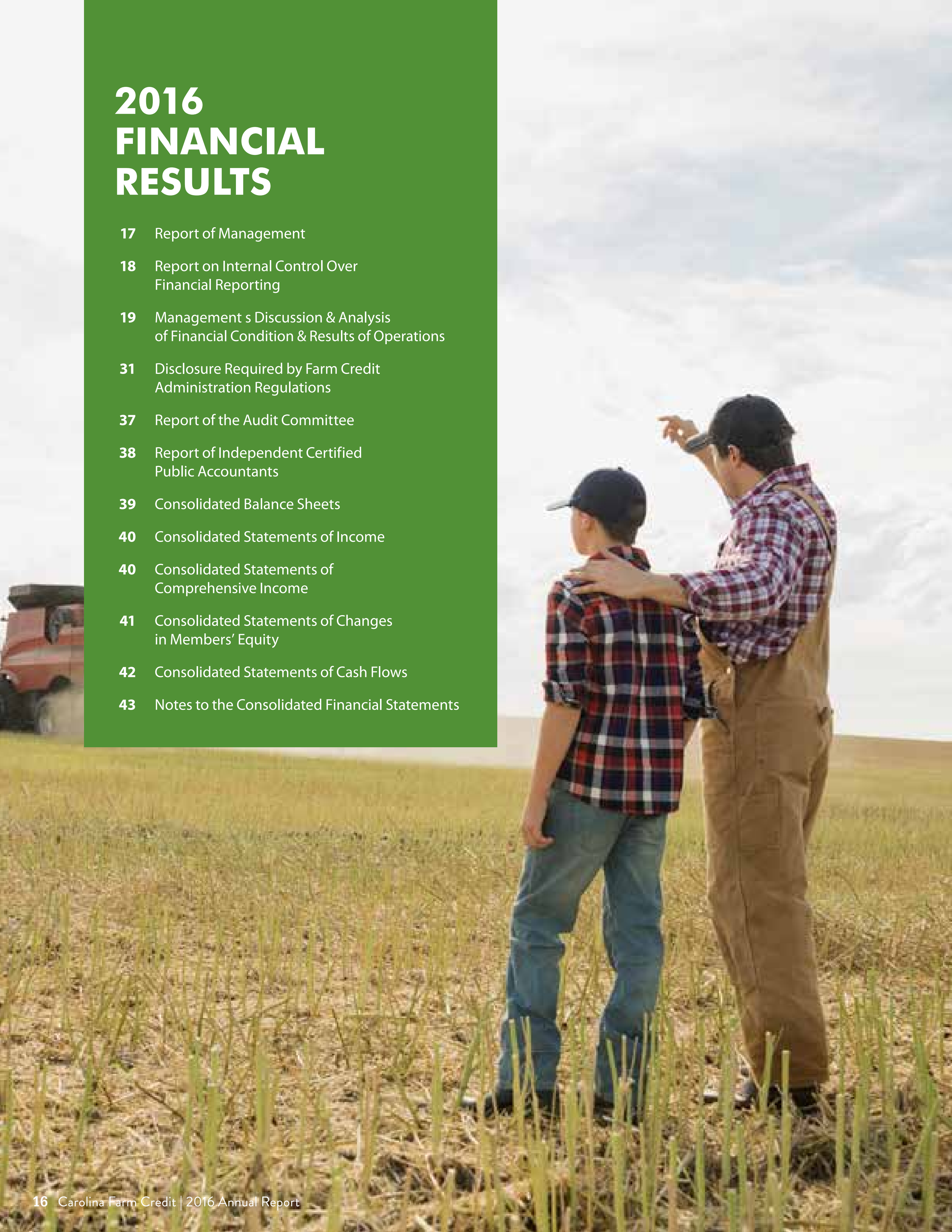
LEWIS E. SMITH

VICKIE N. SMITHERMAN



L. KIM STARNES

DR. ALTON THOMPSON



2016 FINANCIAL RESULTS

REPORT OF MANAGEMENT

The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by management of Carolina 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 certified public accountants, 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 2016 Annual Report of Carolina 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.

L. Kim Starnes
Chairman of the Board

Vance C. Dalton, Jr.
Chief Executive Officer

Christopher H. Scott, CPA
Chief Financial Officer

March 13, 2017

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and 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, 2016. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of December 31, 2016, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2016.

Vance C Dalton Jr

Vance C. Dalton, Jr.
Chief Executive Officer
Carolina Farm Credit, ACA

Christopher H. Scott

Christopher H. Scott
Chief Financial Officer
Carolina Farm Credit, ACA

March 13, 2017

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(dollars in thousands, except as noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of Carolina Farm Credit, ACA, (Association) for the year ended December 31, 2016, with comparisons to the years ended December 31, 2015 and December 31, 2014. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements, and other sections in this Annual Report. The accompanying Consolidated Financial Statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" 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 ***101 years***. The System's mission is to maintain and improve the income and well-being of American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration, (FCA), which is an independent safety and soundness regulator.

The Association is a cooperative, which is owned by the members (also referred to throughout this Annual Report as stockholders or shareholders) served. The territory of the Association extends across a diverse agricultural region of North Carolina. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit and other financial services 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 available on the AgFirst website, ***www.agfirst.com***, or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or by 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.carolinafarmcredit.com***, or by calling 1-800-521-9952, or by writing Christopher H. Scott, CFO, Carolina Farm Credit, ACA, P.O. Box 1827, Statesville, NC 28687-1827. The Association prepares an electronic version of the Annual Report, which is available on our 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 our 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 Report contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will" or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

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

AGRICULTURAL OUTLOOK

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

U.S. agricultural market data and are not limited to information/data in the AgFirst District.

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

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

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

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

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES

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

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

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

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

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

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

ECONOMIC CONDITIONS

North Carolina's economy continues to trail behind much of the country in its overall recovery. However, increased demand for lots and new homes, particularly in and around the Charlotte area, has resulted in an improvement in overall housing related real estate prices. The unemployment rate for North Carolina after the 2008 recession reached a high of 10.5% in 2011 and has steadily dropped to the current level of 5.0%, evidencing a favorable trend. The national unemployment rate currently resides at 4.9%, and the state's leading economists forecast the unemployment rate to moderate during 2017.

Continued declines in textiles, tobacco and furniture manufacturing companies have negatively impacted the state's recovery. It appears that the reorganization and restructuring in the financial services area is coming to a close, thus allowing this part of the state's economy to stabilize. Private services such as education, healthcare, environmental and professional services continue to add jobs at a moderate pace.

The state continues to attract a diverse population, from retirees seeking to take advantage of the mild climate at an attractive cost, to young, educated professionals drawn by the banking, high-tech and bio-tech industries. A strong university system attracts technology firms and professionals to the state. The population continues to expand in the state at a rate above the national average.

Moderate growth is expected during 2017 and stock market volatility may impact consumer confidence; however macroeconomic drivers are expected to continue a positive trend. Consumer spending, travel/tourism, and education should contribute to growth. The housing industry has shown substantial improvement since 2010, with just over 3,000 new starts per year. With a net population of just over 10 million and growing, North Carolina should remain an above average economic performer in the near future.

The primary concentration in our portfolio is part-time farm loans. Approximately 33% of our loans are identified as part-time farmers and 5% are rural home owners, both of which are serviced by off-farm employment sources. Neither group is highly dependent on farm income to pay expenses and service debt. For this reason, we believe that a general economic recession would have a greater impact on Carolina Farm Credit than on associations located in strictly agricultural areas. The Association's delinquency rate has consistently remained below 1% and well below the national standard of 2%.

Agriculture continues to be the state's largest economic engine at just under $80 billion in gross revenues. The military continues to be one of the state's largest employers with over 58,000 at Fort Bragg, 52,000 at Camp Lejuene, 18,000 at the Marine Air Station in New River and just over 15,000 at the Marine Air Station in Cherry Point.

Continued efforts are being made to expand our offered loan products and financial services, increase public knowledge of our business and mission, and enhance the customer experience.

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. Loan volume grew just over 2% during 2016, primarily from poultry expansion and the renewed interest in real estate and housing markets.

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

Loan Type	December 31, 2016		2015		2014	
	(dollars in thousands)					
Real estate mortgage	$ 773,835	54.77%	$ 729,528	52.70%	$ 710,793	51.84%
Production and intermediate-term	539,842	38.21	541,076	39.09	533,193	38.89
Loans to cooperatives	6,326	0.45	142	0.02	24	–
Processing & marketing	7,452	0.53	22,404	1.62	22,651	1.65
Farm-related business	3,872	0.27	5,777	0.42	5,744	0.42
Communication	4,069	0.29	6,291	0.45	8,786	0.64
Power, water and waste disposal	1,709	0.12	1,851	0.13	2,107	0.15
Rural residential real estate	70,857	5.02	76,345	5.52	87,893	6.41
International	4,845	0.34	806	0.06	–	–
Total	$ 1,412,807	100.00%	$ 1,384,220	100.00%	$ 1,371,191	100.00%

While we make loans and provide other financial 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	December 31, 2016	2015	2014
Albemarle	4.80%	3.29%	3.04%
Asheboro	4.02	3.31	3.25
Asheville	1.63	1.51	1.43
Boone	1.03	0.96	1.02
Brown Summit	1.96	1.91	2.06
Burnsville	2.18	1.50	1.42
Carthage	2.55	2.89	2.40
Concord	1.66	1.50	1.54
Conover	2.71	2.81	2.66
Ellerbe	4.66	4.65	4.56
Graham	4.73	3.40	3.82
Hendersonville	1.97	1.79	1.82
Hillsborough *	–	1.92	1.91
Jefferson	1.89	1.83	1.82
Lenoir	1.81	1.65	1.76
Lexington	2.10	2.00	2.07
Lincolnton	2.57	2.41	2.14
Marshall *	–	0.81	0.95
Mocksville *	–	1.85	1.87
Monroe	6.03	5.73	6.91
Murphy	0.81	0.95	0.97
Pilot Mountain	3.03	3.12	3.30
Roxboro	2.37	2.02	1.99
Rural Hall	3.02	3.19	3.02
Salisbury	3.98	3.80	3.50
Shelby	2.36	2.19	2.34
Siler City	3.26	2.86	3.10
Sparta	2.13	3.21	2.25
Spindale	1.61	1.50	1.53
Statesville	8.45	7.69	7.51
Taylorsville	4.19	4.16	3.97
Wadesboro *	–	2.18	2.07
Waynesville	0.67	0.76	0.85
Wilkesboro	3.45	3.22	3.23
Yadkinville	5.69	4.36	4.48
Yanceyville	2.00	1.79	1.81
Participation/Commercial	3.86	4.31	4.33
Special Asset Management	0.82	0.90	1.30
	100.00%	100.00%	100.00%

** These branches were consolidated into other nearly branches in 2016.*

Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. This system is used to assign commodity or industry categories based upon the customer's primary agricultural commodity.

Loan volume by commodity group is shown below. The predominant groups are part-time farmers and poultry which constitute 59 percent of the entire portfolio.

Commodity Group	December 31, 2016 Amount/Percentage		2015 Amount/Percentage		2014 Amount/Percentage	
	(dollars in thousands)					
Part-time	$ 463,471	33%	$ 442,831	32%	$ 441,732	32%
Poultry	362,046	26	365,233	26	359,194	26
Row Crop	110,766	8	105,742	8	109,191	8
Forestry	78,873	5	96,492	7	79,645	6
Horticulture	74,635	5	52,048	4	53,339	4
Rural Home	70,857	5	76,594	6	54,678	4
Other	69,260	5	68,879	5	103,207	8
Livestock	67,250	5	61,753	4	54,835	4
Dairy	61,259	4	56,114	4	59,182	4
Tobacco	54,390	4	58,534	4	56,188	4
Total	$ 1,412,807	100%	$ 1,384,220	100%	$ 1,371,191	100%

Repayment ability is closely related to the commodities produced by borrowers and, increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration of part-time farmers within a wide range of commodities. Although a large percentage of the loan portfolio is concentrated in these part-time enterprises, many of these operations are diversified and typically these loans are not highly dependent on the income from agricultural production. In periods of general economic stress when unemployment increases, some of these borrowers could experience greater difficulty in servicing debt. Poultry loans represent a moderate concentration for the Association, and these loans have a long term history of performance.

Even though the concentration of large loans has increased over the past several years, the agricultural enterprise mix of these loans is well-diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is limited by the diversity in the Association's territory. Demand for meat products, prices of field grains, the housing industry and international trade are some of the factors affecting the prices of these commodities.

During the past year, the Association has experienced a lengthening of maturities in loan assets. Given the low level of interest rates, borrowers have locked-in fixed rates, which reduces their exposure to rising rates in the future.

During 2016, the Association continued buying and selling loan participations within and outside of the System. This provided a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which strengthened our capital position. The following table shows a decrease in purchased loan volume, and an increase in sold loan volume.

	December 31,		
Loan Participations:	2016	2015	2014
	(dollars in thousands)		
Participations Purchased– FCS Institutions	$ 63,599	$ 66,020	$ 64,873
Participations Purchased– Non-FCS Institutions	–	–	–
Participations Sold	(112,596)	(98,288)	(118,068)
Total	$ (48,997)	$ (32,268)	$ (53,195)

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, 2016.

The Association sells qualified long-term mortgage loans into the secondary market. For the period ended December 31, 2016, the Association originated loans for resale totaling $199,636, which were sold into the secondary market.

MISSION RELATED INVESTMENTS

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

In October 2005, the FCA authorized AgFirst and the associations to make investments in Rural America Bonds. 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, government facilities and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program was 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 are classified as Loans or Investments on the Consolidated Balance Sheets, depending on the nature of the investment. As of December 31, 2016, 2015, and 2014, the Association had $2,473, $2,641, and $2,946 respectively, in Rural America Bonds.

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

CREDIT RISK MANAGEMENT

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association continues to review the credit quality of the loan portfolio on an ongoing basis. With the approval of the Association's 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 and specific loan covenants

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, overall cash flows, 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. Long-term real estate loans must be collateralized by first liens on real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Long-term real estate loans may be made only in amounts up to 85 percent of the original appraisal value of the property taken as collateral, or up to 97 percent of the appraisal 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 of 85%. Appraisals are required for loans of more than $250,000. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses and risks in a particular relationship.

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

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

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

Credit Quality	2016	2015	2014
Acceptable & OAEM	96.15%	97.08%	95.21%
Substandard	3.85%	2.92%	4.79%
Doubtful	–%	–%	–%
Loss	–%	–%	–%
Total	100.00%	100.00%	100.00%

Nonperforming Assets

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

	December 31,		
High-risk Assets	2016	2015	2014
	(dollars in thousands)		
Nonaccrual loans	$ 10,283	$ 11,915	$ 17,478
Restructured loans	3,587	2,907	3,607
Accruing loans 90 days past due	–	–	–
Total high-risk loans	13,870	14,822	21,085
Other property owned	5,781	6,069	2,892
Total high-risk assets	$ 19,651	$ 20,891	$ 23,977
Ratios			
Nonaccrual loans to total loans	0.73%	0.86%	1.27%
High-risk assets to total assets	1.31%	1.41%	1.64%

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 $1,632 or 13.70% in 2016. This decrease is primarily the result of repayments, transfers to accrual status and transfers to other property owned loans exceeding loans transferred into nonaccrual status. Of the $10,283 in nonaccrual volume at December 31, 2016, $2,407 or 23.40%, compared to $4,949 and $10,833 at December 31, 2015 and 2014, 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 may be available to financially distressed borrowers. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the Association and the borrower.

Allowance for Loan Losses

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

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

	Year Ended December 31,		
Allowance for Loan Losses Activity:	2016	2015	2014
	(dollars in thousands)		
Balance at beginning of year	$ 7,402	$ 6,614	$ 5,560
Charge-offs:			
Real estate mortgage	(36)	(142)	(1,667)
Production and intermediate term	(329)	(463)	(1,940)
Agribusiness	–	(1,418)	–
Rural residential real estate	(38)	(265)	(87)
Total charge-offs	(403)	(2,288)	(3,694)
Recoveries:			
Real estate mortgage	93	319	1,584
Production and intermediate term	645	250	1,081
Agribusiness	64	–	3
Rural residential real estate	32	6	66
Total recoveries	834	575	2,734
Net (charge-offs) recoveries	431	(1,713)	(960)
Provision for (reversal of allowance for) loan losses	(485)	2,501	2,014
Balance at end of year	$ 7,348	$ 7,402	$ 6,614
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	0.031%	(0.126)%	(0.070)%

The allowance for loan losses by loan type for the most recent three years is as follows:

	December 31,		
Allowance for Loan Losses by Type	2016	2015	2014
	(dollars in thousands)		
Real estate mortgage	$ 3,132	$ 3,549	$ 2,539
Production and intermediate term	3,841	3,628	3,693
Agribusiness	44	65	86
Communication	31	49	59
Power, water and waste disposal	4	7	9
Rural residential real estate	291	103	228
International	5	1	–
Total	$ 7,348	$ 7,402	$ 6,614

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 as a Percentage of:	December 31, 2016	2015	2014
Total loans	0.52%	0.53%	0.48%
Nonperforming loans	52.98%	49.94%	31.37%
Nonaccrual loans	71.46%	62.12%	37.84%

Please refer to Note 3, *Loans and Allowance for Loan Losses*, in 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 was $47,160, $47,676 and $49,072 in 2016, 2015 and 2014, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past two years are presented in the following table:

Change in Net Interest Income:	Volume*	Rate	Total
	(dollars in thousands)		
12/31/16 – 12/31/15			
Interest income	$ 1,328	$ 109	$ 1,437
Interest expense	(492)	(1,461)	(1,953)
Change in net interest income	$ 836	$ (1,352)	$ (516)
12/31/15 – 12/31/14			
Interest income	$ (791)	$ (141)	$ (932)
Interest expense	796	(1,260)	(464)
Change in net interest income	$ 5	$ (1,401)	$ (1,396)

* *Volume variances can be the result of increased/decreased loan volume or from changes in the percentage composition of assets and liabilities between periods. Variances due to rate can be caused by changes in market rates, loan rates, and/or rates paid on notes payable with AgFirst.*

The Association shows lower net interest income primarily due to the net interest margin declining from 3.50% in 2015 to 3.40% in 2016. Average loan volume outstanding relative to average interest-bearing liabilities increased during 2016, partially offsetting the impact of the lower net interest margin.

Noninterest Income

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

Noninterest Income	For the Year Ended December 31, 2016	2015	2014	Percentage Increase/(Decrease) 2016/2015	2015/2014
	(dollars in thousands)				
Loan fees	$ 3,047	$ 2,795	$ 1,856	9.02%	50.59%
Fees for financially related services	160	374	472	(57.22)%	(20.76)%
Patronage refund from other Farm Credit Institutions	15,819	15,973	22,560	(0.96)%	(29.20)%
Gains (losses) on sales of rural home loans, net	2,706	2,569	1,399	5.33%	83.63%
Gains (losses) on sales of premises and equipment, net	592	177	106	234.46%	66.98%
Gains (losses) on other transactions	141	(135)	577	204.44%	(123.40)%
Other noninterest income	190	128	115	48.44%	11.30%
Total noninterest income	$ 22,655	$ 21,881	$ 27,085	3.54%	(19.21)%

Noninterest income increased $774 or 3.54 percent when comparing 2016 to 2015, and decreased $5,924 or 19.21 percent when comparing 2015 to 2014. The increase in 2016 is primarily due to increases in loan fees, gains/(losses) on sales of rural home loans, gains/(losses) on sales of premises and equipment, gains/(losses) on other transactions, and other noninterest income, offset by decreases in fees for financially related services and patronage refunds from other Farm Credit institutions.

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, 2016	2015	2014	Percentage Increase/(Decrease) 2016/2015	2014/2013
	(dollars in thousands)				
Salaries and employee benefits	$ 27,028	$ 25,815	$ 23,069	4.70%	11.90%
Occupancy and equipment	2,577	2,570	2,472	0.27%	3.96%
Insurance Fund premiums	1,762	1,336	1,282	31.89%	4.21%
(Gains) losses on other property owned, net	393	912	1,918	(56.91)%	(52.45)%
Other operating expenses	6,774	6,488	6,758	4.41%	(4.00)%
Total noninterest expense	$ 38,534	$ 37,121	$ 35,499	3.81%	4.57%

Noninterest expense increased $1,413 or 3.81 percent when comparing 2016 to 2015 and increased $1,622 or 4.57 percent when comparing 2015 to 2014. The increase in 2016 is primarily due to an increase in salaries and employee benefits, occupancy and equipment, Insurance Fund premiums and other operating expenses. These increases were partially offset by decreases in (gains)/losses on other property owned, net. The primary reason for the increase in 2015, as compared to 2014, is an increase in salaries and employee benefits, occupancy and equipment, and Insurance Fund premiums. These increases were partially offset by decreases in (gains)/losses on other property owned, net, and other operating expenses.

Income Taxes

The Association recorded a provision/(benefit) for income taxes of ($6) for the year ended December 31, 2016, as compared to a provision/(benefit) of $7 for 2015 and a provision/(benefit) of $3 for 2014. Please refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, in the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

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

	For the 12 Months Ended		
Key Results of Operations Comparisons	**12/31/16**	**12/31/15**	**12/31/14**
Return on average assets	2.18%	2.10%	2.68%
Return on average members' equity	10.01%	9.62%	13.16%
Net interest income as a percentage of average earning assets	3.40%	3.50%	3.57%
Net (charge-offs) recoveries to average loans	0.031%	(0.126)%	(0.070)%

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 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, 2016, was $1,138,884 as compared to $1,132,911 at December 31, 2015 and $1,128,326 at December 31, 2014. The increase of 0.53% percent during 2016 is primarily attributable to the Association's growth in loan volume, offset by retention of capital. The average volume of outstanding notes payable to the Bank was $1,107,533, $1,087,681, and $1,121,326 for the years ended December 31, 2016, 2015, and 2014, respectively. Please refer to Note 6, *Debt*, in 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 notes payable to the Bank. The Association's participation in 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, 2016.

Funds Management

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

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 30-day London Interbank Offered Rate (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 6 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.

CAPITAL RESOURCES

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

The Association's Board of Directors establishes, adopts and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2016 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2016, increased 2.37 percent to $312,798, from the December 31, 2015 total of $305,558. At December 31, 2015, total members' equity increased 2.12 percent from the December 31, 2014 total of $299,229. Both increases were primarily attributable to net income offset by cash patronage and the revolvement of allocated retained earnings. Total capital stock and participation certificates totaled $8,361 on December 31, 2016, compared to $8,047 on December 31, 2015 and $8,062 on December 31, 2014.

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

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

	2016	2015	2014	Regulatory Minimum
Permanent capital ratio	21.88%	21.62%	20.54%	7.00%
Total surplus ratio	21.28%	21.03%	19.96%	7.00%
Core surplus ratio	18.84%	18.52%	17.36%	3.50%

The increase in the Association's permanent capital, total surplus, and core surplus for December 31, 2016 and December 31, 2015 was primarily attributable to effective capital retention strategies. 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.

Please refer to Note 7, *Members' Equity*, in 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 retaining earnings to meet minimum capital adequacy standards established by FCA Regulations, 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) participation loans purchased on a non-patronage basis, and (b) other non-patronage net earnings, remaining consolidated net earnings are eligible for allocation to borrowers. Please refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association recorded estimated patronage distributions of $27,229 in 2016, $26,891 in 2015, and $34,846 in 2014.

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

The Association's mission is to provide financial services to agriculture and the rural community, and this 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 ensure we reach the 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. As a result, aggressive goals were established in 2016 and results are shown below:

	2016 - Goal			2016 - Actual		
	Number of Loans	Percent of Total	Percent of Volume	Number of Loans	Percent of Total	Percent of Volume
New Loans and Commitments made to :						
Young Farmers	700	13%	8%	1,137	20.58%	18.10%
Beginning Farmers	700	15%	10%	1,582	28.63%	24.96%
Small Farmers	2,850	63%	28%	3,860	69.85%	36.49%
Total Loans in the portfolio made to:						
Young Farmers	1,500	14%	10%	2,656	17.71%	17.48%
Beginning Farmers	2,200	17%	10%	3,614	24.10%	21.42%
Small Farmers	9,000	70%	40%	10,568	70.48%	41.41%

The 2012 USDA Ag census data (2012 is the latest USDA Ag census 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 33,636 reported farmers. Of these reported farmers, the following were classified as Young, Beginning or Small Farmers:

- 1,478 or 4.39 percent - Young
- 6,142 or 18.26 percent - Beginning

- 31,106 or 92.48 percent - Small

The 2012 Census are the most recent numbers we have for comparison but our customer and loan volume numbers are based on current year numbers as we see farmers entering the market. The following table reflects the loan volume and number of YBS loans in the loan portfolio for the Association at the end of 2016:

	Number of Loans	Amount of Loans
Young	2,656	$261,981
Beginning	3,614	$321,098
Small	10,568	$620,675

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

The Association makes a concerted and cooperative effort to meet the special credit needs of eligible YBS farmers. The Association's mission for the YBS program is:

> "To provide resources and education to assist Young, Beginning and Small farmers to be successful in agriculture, insuring an ongoing viable and stable agricultural economy in the western half of North Carolina."

In 2016, the Association, through specific marketing strategies, outreaches and financial support programs, conducted a program to help YBS farmers.

The Association currently has a high penetration in the YBS farmers' market. Education is at the heart of the Association's effort to continue to serve this segment of our market with the same enthusiasm that has led to our current high penetration levels and success. Seminars, speaking opportunities and training sessions are conducted throughout the year. These educational opportunities are both in-house, in the form of events held by the Association, and external, when the Association is a speaker or provider of educational materials for other ag-related organizations. The focal point of these educational opportunities is the Agricultural Leadership Institute, a three-day educational seminar for YBS families, conducted by the Association along with outside professional involvement.

During 2016, the Association partnered with AgCarolina Farm Credit, Cape Fear Farm Credit, Farm Credit of the Virginias and Colonial Farm Credit to conduct a multi-state project, Ag Biz Planner, which provides online financial management and business planning training to YBS producers. Each participant is paired with a Farm Credit loan officer who serves as a mentor as they work through ten online modules and create a business plan. In the fall of 2016, the Association started another group of Ag Biz participants through the online financial management program. This eighth class of Ag Biz Planner began the program in October and will finish in March of 2017 with a complete business plan for their operation.

The Association has worked with others across the state for the last couple of years to determine the needs of the Farmer Veteran community in the state. Many of these farmers fit the YBS profile and have needs for training and mentoring. The Association launched a pilot program in the fall of 2016 called Ag Biz Basics targeting Farmer Veterans. This program will be conducted with AgCarolina Farm Credit and Cape Fear Farm Credit and include four online modules, a loan officer mentor and begin with a day-long conference. The Farmer Veteran group and Ag Biz Planner groups will come together for a two-day conference with subject matter experts and networking, finishing the program in March of 2017.

During 2016 the Association's four summer interns' project centered around the YBS customer and the outreach and lending to this group. The team spent their time researching the needs of this group and examining programs that are presently available. Based on some of the research from this project, the association is currently testing an enhanced underwriting procedure to better meet the needs to this evolving segment.

Additionally, the Association conducts seminars on farm transition planning and financial management. The Association website, ***www.carolinafarmcredit.com***, includes a section of information and resources targeted to YBS visitors. During 2016 the Association used the Carolina Farm Credit Facebook page, Instagram, Twitter and a monthly email newsletter to reach into these markets by sharing important information about meetings and other educational opportunities, as well as recognizing outstanding accomplishments of members.

The Association provides sponsorship to local and statewide events such as 4-H and FFA, is an exhibitor for many industry and commodity trade shows and has established and funded scholarship programs at both of the State Land Grant Universities.

In 2016, Carolina Farm Credit awarded $145,000 in grants to 27 organizations and 8 scholarships from the Carolina Farm Credit Corporate Mission Fund. This is a grant program designed to help farmer organizations and rural communities. The Association has invested $6 million in this fund. 2016 was the second year grants and scholarships were awarded from the fund.

Finally, the Association provides financial support, which addresses the specific credit programs and partnerships that we have developed to help YBS farmers. This segment comprises programs such as those offered by the Farm Service Agency (FSA), which includes guaranteed and direct loans to qualifying borrowers. The Association is a 'preferred lender,' the highest status designated by the FSA.

The Chief Marketing Officer, Margaret G. Hamm, coordinates and oversees the Association's YBS efforts. The Association includes YBS goals in the annual strategic plan and reports on those goals and achievements to the Board of Directors on a quarterly basis.

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

* Young farmers are defined 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.

** Beginning farmers are defined 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 thousand in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

REGULATORY MATTERS

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

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

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

The following sets forth the new regulatory capital ratios:

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

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

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

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

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

FINANCIAL REGULATORY REFORM

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

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

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

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

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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*, in 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, borrower patronage or dividends, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics and concentrations of assets, and changes in patronage policies or practices, if any, is incorporated in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report.

Unincorporated Business Entities

The Association holds an investment at December 31, 2016 in each of the following Unincorporated Business Entities (UBEs) as an equity interest holder of the limited liability company (LLC). The LLCs were organized for the stated purpose of holding and managing unusual or complex collateral associated with former loans, until such time as the assets may be sold or otherwise disposed of pursuant to the terms of Operating Agreements of the respective LLCs.

Entity Name	Entity Type	Entity Purpose
CBF Holdings, LLC	LLC	Manage Acquired Property
Ethanol Holding Company, LLC	LLC	Manage Acquired Property
Sequoyah Marina & Resort, LLC	LLC	Manage Acquired Property

Description of Property

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

Location	Description	Form of Ownership
146 Victory Lane Statesville	Corporate	Owned
620 North First Street Albemarle	Branch	Owned
251 Rock Crusher Road Asheboro	Branch	Owned
701 Brevard Road Asheville	Branch	Owned
181 Meadowview Drive Boone	Branch	Owned
4960 Oldway Rd Brown Summit	Branch	Owned
502 West Main Street Burnsville	Branch	Owned
4444 US Hwy 15-501 Carthage	Branch	Owned
371 Old Salisbury-Concord Road Concord	Branch	Owned
1109 Conover Blvd E Conover	Branch	Owned
2186 US Hwy 220 North Ellerbe	Branch	Owned
225 North Main Street Graham	Branch	Owned
2549 Chimney Rock Hwy US 64E Hendersonville	Branch	Owned
545 East Main Street Jefferson	Branch	Owned

Location	Description	Form of Ownership
332 Morganton Boulevard Lenoir	Branch	Owned
222 West Center Street Lexington	Branch	Owned
526 North Greensboro Street Liberty	HLD Processing	Owned
813 West Hwy 150 Lincolnton	Branch	Owned
60 Derringer Drive Marshall	Vacant Building	Owned
2351 Concord Avenue Monroe	Branch	Owned
105 Hiwassee Street Murphy	Branch	Owned
698 South Key Street Pilot Mountain	Branch	Owned
607 Leasburg Road Roxboro	Branch	Owned
340 Bethania – Rural Hall Road Rural Hall	Branch	Owned
2810 Statesville Boulevard Salisbury	Branch	Owned
1216 Fallston Road Shelby	Branch	Owned
110 East Beaver Street Siler City	Branch	Owned
282 North Main Street Sparta	Branch	Owned
405 Oak Street Spindale	Branch	Owned
1704 Wilkesboro Road Statesville	Branch	Owned

Location	Description	Form of Ownership
1218 NC Hwy 90W Taylorsville	Branch	Owned
914 East Caswell Street Wadesboro	Vacant Building	Owned
1510 Asheville Road Waynesville	Branch	Owned
902 Curtis Bridge Road Wilkesboro	Branch	Owned
1001 South State Street Yadkinville	Branch	Owned
1159 NC 86 North Yanceyville	Branch	Owned
1816 Pembroke Rd, Suite 8 Greensboro	HLD Origination	Leased*
411 East Main Street Franklin	Outpost	Leased**

* *Month-to-month lease. Payments are $275 per month.*
** *Annual lease – payments are $1,000 per month.*

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 11, *Commitments and Contingencies*, in 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*, in 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 in 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 and their business experience for the past five years:

Senior Officer	Position
Vance C. Dalton, Jr.	***President and Chief Executive Officer since 2014.*** Since 2011, he has served as Executive Vice President and Chief Operating Officer and Executive Vice President and Chief Lending Officer; with Farm Credit since 1993. He serves on the North Carolina Foundation for Soil and Water Conservation, Inc. Board and as a member of the Executive Committee and as Nominating Committee Chair (service org.). He also serves as Vice-President of the NC 4-H Development Fund Board (education), NC Agribusiness Council Board (service org.), NC Rural Center Board (service org.), Catawba County Agricultural Foundation Board (education), and Catawba Valley Community College Board of Trustees (higher education).
Walter J. Cook, Jr.	***Executive Vice President and Chief Credit Officer since 2015.*** Since 2011, he has served as Senior Vice President and Chief Lending Officer and Senior Vice President and Chief Credit Officer; with Farm Credit since 1976. He serves as Past President of the Graham Optimist Club (civic), Chairman of the Graham Recreation and Parks Commission (recreation and parks management), and Chairman of the Friends of Graham (non-profit org.; corporate giving management).
James R. Crain	***Senior Vice President and Chief Risk Officer since 2015.*** Since 2011, he has served as Vice President of Credit Administration and Vice President and Capital Markets Manager; with Farm Credit since 2003.
Margaret G. Hamm	***Senior Vice President and Chief Marketing Officer since 2004,*** with Farm Credit since 1991. She serves on the NCSU College of Ag & Life Sciences (CALS) Alumni Board (alumni relations), NCSU Cooperative Extension Service Foundation Board (development), NCSU CALS Center for Environmental Farming Systems (promotion of ag research, extension, and education), NCSU CALS Ag Foundation (development/research), North Carolina Tobacco Trust Fund Commission (Ag and Rural Economic Dev.), Manager of Hollis Farm, LLC (Timber), and Treasurer of MM&C Farm and Real Estate, LLC (Timber).
Chad M. Puryear	***Senior Vice President and Chief Lending Officer since 2015.*** Since 2011, he has served as Senior Vice President and Chief Credit Officer, and Vice President and Regional Manager; with Farm Credit since 1996. He serves on the NC A&T State University College of Agriculture and Environmental Sciences Advisory Board (higher education).
Sarah J. Rachels	***Senior Vice President and Chief Human Resources Officer since 2016.*** Since 2011, she has served as Vice President and Human Resources Director and Human Resources Manager; with Farm Credit since 1998. She serves on the NC Society for Human Resource Management Board (professional org.) as Diversity Co-Chair, Friendz of Kenz, Inc. Board as Treasurer and Co-Founder (non-profit org. for special needs children), and the Statesville Family YMCA Board as Vice-Chair (community org.).
Christopher H. Scott	***Senior Vice President and Chief Financial Officer since 2014.*** Since 2011, he has served as Senior Vice President and Chief Risk and Operations Officer; with Farm Credit since 1996.

The total amount of compensation earned by the CEO and a group consisting of senior officers and other "highly compensated" employees (excluding the CEO) during the years ended December 31, 2016, 2015, and 2014 is as follows:

		Received Compensation			Perquisites and Other Compensation			
Name of Individual or Number in Group	**Year**	**Salary**	**Bonus**	**Total Received**	**Change in Pension Value ****	**Deferred/ Perq. ***	**Total Perq. and Other**	**Total Compensation**
Vance C. Dalton, Jr.	2016	$ 355,034	$ 88,755	$ 443,789	$ 545,672	$ 19,465	$ 565,137	$ 1,008,926
Vance C. Dalton, Jr.	2015	$ 330,012	$ 52,472	$ 382,484	$ 264,924	$ 18,472	$ 283,396	$ 665,880
Vance C. Dalton, Jr.	2014	$ 300,012	$ 57,294	$ 357,306	$ 485,103	$ 15,150	$ 500,253	$ 857,559
10 ***	2016	$ 961,976	$ 1,117,880	$ 2,079,856	$ 762,395	$ 58,622	$ 821,017	$ 2,900,873
8 ***	2015	$ 813,015	$ 751,288	$ 1,564,303	$ 231,671	$ 59,426	$ 291,097	$ 1,855,400
6 ***	2014	$ 772,788	$ 301,457	$ 1,074,245	$ 1,290,361	$ 50,268	$ 1,340,629	$ 2,414,874

** The Deferred/Perquisites amount disclosed in the above chart includes automobile allowance, deferred compensation, employer-match/employer-paid 401(k) contributions, life insurance, relocation reimbursement, and other compensation.*

*** (1) 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. System banks and associations were required to comply with the rule for compensation reported in the table for the fiscal year ending 2015, and could implement the rule retroactively. The Association applied the rule for all years presented in the table above.*

(2) This figure is a third party actuarial determination of the change in the present value of the estimated pension cash flows for employees as of December 31 for each year presented. This does not represent any actual cash compensation provided to any employee, but is simply a change in the calculation that is affected by a number of assumptions and inputs. See further discussion in Note 9, Employee Benefit Plans, of the Financial Statements.

**** The 2014 figures include 5 senior officers and 1 commission-based employee meeting the definition of "highly compensated", while the 2015 figures include 5 senior officers and 3 commission-based employees. The 2016 figures include 6 senior officers and 4 commission-based employees. These commissions are included in the Bonus column, above.*

The disclosure of information on the total compensation paid during 2016 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.

Pension Benefits Table
As of December 31, 2016

Name of Individual or Number in Group	**Year**	**Plan Name**	**Number of Years Credited Service**	**Actuarial Present Value of Accumulated Benefits**	**Payments During 2016**
CEO:					
Vance C. Dalton, Jr.	2016	AgFirst Defined Benefit Retirement Plan	24.6	$ 1,840,884	$ –
Vance C. Dalton, Jr.	2016	Supplemental Executive Retirement Plan	24.6	$ 226,850	$ –
Senior Officers and Highly Compensated Employees:					
5, excluding the CEO	2016	AgFirst Defined Benefit Retirement Plan	25.9 *	$ 5,332,131	$ –
2, excluding the CEO	2016	AgFirst Cash Balance Retirement Plan	11.7 *	$ 56,872	$ –
			Total	$ 5,389,003	$ –

** Represents the average years of credited service for the group. Employees not included in these plans are not included in the totals.*

In addition to base salary, all eligible employees, not including the CEO, can earn additional compensation under a Performance Bonus Plan. This plan is designed to motivate employees to exceed the business plan goals and specific performance targets as established by the Board of Directors. Criteria in the plan include profitability, credit quality, loan growth and customer service measures. Bonuses are shown in the year earned. Payment of the 2016 bonus was made in January of 2017. The percentage of bonus compensation ranged from 11.88 percent to 19.68 percent of eligible wages. The Association's commission-based mortgage loan originators do not participate in this plan.

Additionally, all employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

Directors

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

L. Kim Starnes, Chairman, is a row crop, poultry, and beef cattle farmer. He is President of the Rowan County Cattlemen's Association (commodity org.), Owner of Four S Farms, LLC (farming operation), Treasurer of the Miller Ferry Volunteer Fire Department Board, and serves on the Rowan County Agricultural Advisory Board (service org.) and NC Angus Association Board (service org.).

W. Rex Bell, Vice-Chairman, is a grain and hay farmer.

John M. Barnard serves as an Outside Director. He is the Principal Owner/President of John M. Barnard, CPA, PA. He is Co-Owner of LKE Properties, LLC (commercial real estate).

E. Bernard Beck is a beef cattle and hay farmer. He serves on the Randolph County Volunteer Agriculture District Board (service org.).

Mark A. Bray is a beef cattle, stocker/feeder calf, poultry, and dairy farmer. He is also operates a receiving station for livestock markets.

David M. Coltrane is a dairy farmer, and raises replacement heifers. He serves on the NCSU Dairy Farm Advisory Board (commodity org.), North Carolina Holstein Association Board as Past President (commodity org.), Coltrane Dairy, LLC (farming operation) as Vice-President, and Coltrane Properties, LLC (real estate) as Vice-President.

Susie J. Gambill is a beef cattle, silage, and hay farmer and serves as Alleghany County Clerk of the Superior Court. She serves on the Board of L&S Land Corporation (real estate), North Carolina Cooperative Extension Advisory Council Board of Alleghany County (service org.), and Alleghany County Agricultural Advisory Board (service org.) as secretary.

Joseph A. Lail is a grain and beef cattle farmer. He serves on the Cleveland County Farm Bureau Board (service org.).

Clark M. Newlin is a beef cattle, grain, and hay farmer. He serves as President of Newlin Dairy Farm, Inc. (farming operation).

Thomas E. Porter, Jr. is a swine, poultry, and beef cattle farmer. He is Manager of The Farm at Brusharbor, LLC (cattle & agritourism). He serves on the AgFirst Farm Credit Bank Board (ag funding bank), North Carolina Poultry Federation Board (commodity org.), Cabarrus Soil and Water Conservation District Board (service org.), is Chairman of the North Carolina Extension Advisory Board (service org.), Cabarrus County Voluntary Agricultural District Board (service org.), and Cabarrus Agricultural Advisory Board (service org.). Mr. Porter is President of Porter Farms Inc. (farming operation) and Cabarrus County Farm Bureau Board (service org.).

Tony L. Ragan is a poultry, cattle, and row crop farmer. He is Vice President of Ragan Lawn Care, Inc. (landscaping). He serves on the Lee County Soil and Water Conservation District Board (service org.).

D. Kaleb Rathbone is a beef cattle, hay, and corn farmer and is Superintendent of Mountain Research Station. He serves on the Haywood County Cattlemen's Association Board (service org.), Haywood 4-H Extension Advisory Board (service org.), and Haywood Economic Development Council Board (county service).

Lewis E. Smith is a feeder/stocker calf farmer.

Vickie N. Smitherman is a dairy farmer. She serves on the Board of the American Dairy Association of North Carolina (commodity org.), USDA Yadkin County Farm Service Agency (service org.), and Shady Grove Dairy, Inc. (farming operation) as Secretary/Treasurer.

Dr. Alton Thompson serves as an Outside Director. He is Executive Director of the Association of 1890 Research Directors. He serves on the Boards of the North Carolina Agriculture Hall of Fame (ag-related org.), Professional Agricultural Workers Conference (ag-related org.), Food Systems Leadership Institute (ag-related org.), Foundation for Food and Agriculture Research (ag-related org.), and National Association of University Forest Resources Program (ag-related org.).

Subject to approval by the Board, the Association may allow directors honoraria of $600 for attendance at meetings, committee meetings, or special assignments and $100 for telephone conference meetings. Directors are paid a quarterly retainer fee of $1,250, with the Chairman of the Board receiving $1,500 quarterly. Total compensation paid to directors as a group was $358,850 in 2016. No director received more than $5,000 in non-cash compensation during the year.

The following chart details committee assignments, the year the director began serving on the board, the current term expiration, the number of days served for Board meetings and other activities; and compensation for regular Board meetings and retainer, other activities (if applicable), as well as total cash compensation paid for 2016:

		Term of Office		Number of Days Served		Compensation		
Name of Director	Committee Assignments	Original Election Year	Current Term Expiration	Board Meetings	Other Official Activities*	Compensation Regular Board Meetings and Retainer	Compensation for Other Activities	Total Compensation Paid During 2016
L. Kim Starnes *Chairman*	Audit, Compensation, Executive	2007	2020	8	48	$10,200	$22,800	$33,000
W. Rex Bell, *Vice-Chairman*	Compensation, Executive	2007	2020	7	39	8,600	19,100	27,700
John M. Barnard+	Audit	2004	2017	7	25	8,600	12,800	21,400
E. Bernard Beck	Audit	2004	2018	8	32	9,200	16,000	25,200
Mark A. Bray	Audit	2003	2017	7	32	8,700	15,800	24,500
David M. Coltrane	Compensation	2009	2017	8	28	9,200	13,700	22,900
Susie J. Gambill	Governance	2011	2019	8	27	9,200	13,850	23,050
Joseph A. Lail	Audit, Compensation	1997	2018	7	24	8,700	11,700	20,400
Clark M. Newlin	Compensation, Governance	2002	2021	8	33	9,200	16,600	25,800
Thomas E. Porter, Jr.	Compensation, Governance	2002	2021	8	33	9,200	16,300	25,500
Tony L. Ragan	Compensation	1987	2017	8	29	9,200	14,500	23,700
D. Kaleb Rathbone	Governance	2012	2017	8	21	9,200	10,900	20,100
Lewis E. Smith	Audit	2009	2017	8	32	9,200	16,000	25,200
Vickie N. Smitherman	Governance	2009	2017	8	25	9,200	12,600	21,800
Dr. Alton Thompson+	Governance	2004	2020	8	18	9,200	9,400	18,600
Total						$136,800	$222,050	$358,850

\+ *Outside Director*

* *Includes Committee meetings and other Board activities other than regular Board meetings.*

Directors are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include 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 shareholders of the Association upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $231,332 for 2016, $126,041 for 2015, and $227,771 for 2014.

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.

Transactions Other Than Loans

There have been no transactions that occurred at any time during the year ended December 31, 2016, between the Association and senior officers or directors, their immediate family members or any organizations with which they are affiliated, which require reporting per FCA regulations. There were no transactions with any senior officer or director related to the purchase or retirement of preferred stock of the Association for the year ended December 31, 2016.

Involvement in Certain Legal Proceedings

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

Relationship with Independent Certified Public Accountants

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

Aggregate fees paid (or accrued) by the Association for services rendered by its independent certified public accountant for the year ended December 31, 2016 were as follows:

	2016
Independent Certified Public Accountants	
PricewaterhouseCoopers LLP	
Audit services	$ 70,700
Total	$ 70,700

Audit fees 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, 2017 and the report of management, which appear in this Annual Report are incorporated herein by reference.

Copies of the Association's annual and quarterly reports are available upon request free of charge by calling 1-800-521-

9952 or writing Christopher H. Scott, CFO, Carolina Farm Credit, ACA, P. O. Box 1827, Statesville, NC 28687-1827, or on our website, ***www.carolinafarmcredit.com***. The Annual Report is available on the website within 75 days after the end of the fiscal year, and is distributed to shareholders within 90 days after the end of the fiscal year. The Quarterly Report is available on the website 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 (System) institutions, their directors, officers and employees. These regulations provide System institutions clear guidelines for protecting their borrowers' nonpublic personal information.

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

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 can also be obtained 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. The Bank prepares an electronic version of the Quarterly Report, which is available on the Bank'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 Bank.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. No director who serves on the Committee is an employee of Carolina Farm Credit (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 certified public accountants for 2016, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with 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 the Association. 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 2016. The foregoing report is provided by the following independent directors, who constitute the Committee:

John M. Barnard, CPA
Chairman of the Audit Committee

Members of Audit Committee

E. Bernard Beck
Mark A. Bray
Joseph A. Lail
Lewis E. Smith
L. Kim Starnes

March 13, 2017

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Certified Public Accountants

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

We have audited the accompanying consolidated financial statements of Carolina Farm Credit, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2016, 2015 and 2014, 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.

Certified Public Accountants' 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 Carolina Farm Credit, ACA and its subsidiaries as of December 31, 2016, 2015 and 2014, 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

March 13, 2017

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)	2016	December 31, 2015	2014
Assets			
Cash	**$ 2,246**	$ 7,514	$ 2,913
Investment securities:			
Held to maturity (fair value of $1,637, $1,747, and $1,983, respectively)	**1,746**	1,852	2,099
Loans	**1,412,807**	1,384,220	1,371,191
Allowance for loan losses	**(7,348)**	(7,402)	(6,614)
Net loans	**1,405,459**	1,376,818	1,364,577
Loans held for sale	**4,862**	5,865	3,473
Accrued interest receivable	**14,179**	14,690	14,123
Investments in other Farm Credit institutions	**17,051**	16,974	16,658
Premises and equipment, net	**16,330**	16,766	17,107
Other property owned	**5,781**	6,069	2,892
Accounts receivable	**15,914**	15,957	23,419
Other assets	**18,641**	20,516	15,793
Total assets	**$ 1,502,209**	$ 1,483,021	$ 1,463,054
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 1,138,884**	$ 1,132,911	$ 1,128,326
Accrued interest payable	**2,475**	2,380	2,284
Patronage refunds payable	**13,688**	12,524	6,140
Accounts payable	**3,266**	2,667	2,166
Other liabilities	**31,098**	26,981	24,909
Total liabilities	**1,189,411**	1,177,463	1,163,825
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**8,361**	8,047	8,062
Retained earnings			
Allocated	**191,073**	187,593	183,568
Unallocated	**115,256**	111,139	108,928
Accumulated other comprehensive income (loss)	**(1,892)**	(1,221)	(1,329)
Total members' equity	**312,798**	305,558	299,229
Total liabilities and members' equity	**$ 1,502,209**	$ 1,483,021	$ 1,463,054

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

CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands)	2016	2015	2014
Interest Income			
Loans	**$ 75,991**	$ 74,549	$ 75,248
Investments	**92**	97	330
Total interest income	**76,083**	74,646	75,578
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**28,923**	26,958	26,504
Other	**—**	12	2
Total interest expense	**28,923**	26,970	26,506
Net interest income	**47,160**	47,676	49,072
Provision for (reversal of allowance for) loan losses	**(485)**	2,501	2,014
Net interest income after provision for (reversal of allowance for) loan losses	**47,645**	45,175	47,058
Noninterest Income			
Loan fees	**3,047**	2,795	1,856
Fees for financially related services	**160**	374	472
Patronage refunds from other Farm Credit institutions	**15,819**	15,973	22,560
Gains (losses) on sales of rural home loans, net	**2,706**	2,569	1,399
Gains (losses) on sales of premises and equipment, net	**592**	177	106
Gains (losses) on other transactions	**141**	(135)	577
Other noninterest income	**190**	128	115
Total noninterest income	**22,655**	21,881	27,085
Noninterest Expense			
Salaries and employee benefits	**27,028**	25,815	23,069
Occupancy and equipment	**2,577**	2,570	2,472
Insurance Fund premiums	**1,762**	1,336	1,282
(Gains) losses on other property owned, net	**393**	912	1,918
Other operating expenses	**6,774**	6,488	6,758
Total noninterest expense	**38,534**	37,121	35,499
Income before income taxes	**31,766**	29,935	38,644
Provision (benefit) for income taxes	**(6)**	7	3
Net income	**$ 31,772**	$ 29,928	$ 38,641

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the year ended December 31,		
(dollars in thousands)	2016	2015	2014
Net income	**$ 31,772**	$ 29,928	$ 38,641
Other comprehensive income net of tax			
Employee benefit plans adjustments	**(671)**	108	(897)
Comprehensive income	**$ 31,101**	$ 30,036	$ 37,744

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

(dollars in thousands)	Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2013	$ 7,927	$ 167,311	$ 105,259	$ (432)	$ 280,065
Comprehensive income			38,641	(897)	37,744
Capital stock/participation certificates issued/(retired), net	135				135
Patronage distribution					
Cash			(5,714)		(5,714)
Qualified allocated retained earnings		7,349	(7,349)		—
Nonqualified allocated retained earnings		5,985	(5,985)		—
Nonqualified retained earnings		15,798	(15,798)		—
Retained earnings retired		(13,098)			(13,098)
Patronage distribution adjustment		223	(126)		97
Balance at December 31, 2014	$ 8,062	$ 183,568	$ 108,928	$ (1,329)	$ 299,229
Comprehensive income			29,928	108	30,036
Capital stock/participation certificates issued/(retired), net	(15)				(15)
Patronage distribution					
Cash			(11,681)		(11,681)
Nonqualified retained earnings		15,210	(15,210)		—
Retained earnings retired		(12,187)			(12,187)
Patronage distribution adjustment		1,002	(826)		176
Balance at December 31, 2015	$ 8,047	$ 187,593	$ 111,139	$ (1,221)	$ 305,558
Comprehensive income			**31,772**	**(671)**	**31,101**
Capital stock/participation certificates issued/(retired), net	**314**				**314**
Patronage distribution					
Cash			**(12,603)**		**(12,603)**
Nonqualified retained earnings		**14,626**	**(14,626)**		**—**
Retained earnings retired		**(10,845)**			**(10,845)**
Patronage distribution adjustment		**(301)**	**(426)**		**(727)**
Balance at December 31, 2016	**$ 8,361**	**$ 191,073**	**$ 115,256**	**$ (1,892)**	**$ 312,798**

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31,		
(dollars in thousands)	**2016**	**2015**	**2014**
Cash flows from operating activities:			
Net income	**$ 31,772**	$ 29,928	$ 38,641
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**1,611**	1,684	1,487
Amortization (accretion) of net deferred loan costs (fees)	**(853)**	(703)	(498)
Premium amortization (discount accretion) on investments	**—**	(1)	(61)
Provision for (reversal of allowance for) loan losses	**(485)**	2,501	2,014
(Gains) losses on other property owned	**307**	866	1,476
(Gains) losses on sales of premises and equipment, net	**(592)**	(177)	(106)
(Gains) losses on sales of rural home loans, net	**(2,706)**	(2,569)	(1,399)
(Gains) losses on other transactions	**(141)**	135	(577)
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(199,636)**	(189,470)	(104,038)
Proceeds from sales of loans held for sale, net	**203,345**	189,646	105,100
(Increase) decrease in accrued interest receivable	**511**	(567)	(611)
(Increase) decrease in accounts receivable	**43**	7,462	8,667
(Increase) decrease in other assets	**1,875**	(4,723)	(1,659)
Increase (decrease) in accrued interest payable	**95**	96	(64)
Increase (decrease) in accounts payable	**599**	501	(1,672)
Increase (decrease) in other liabilities	**3,587**	2,046	3,410
Total adjustments	**7,560**	6,727	11,469
Net cash provided by (used in) operating activities	**39,332**	36,655	50,110
Cash flows from investing activities:			
Proceeds from maturities of or principal payments received on investment securities, held to maturity	**106**	248	1,443
Net (increase) decrease in loans	**(27,970)**	(20,326)	(14,265)
(Increase) decrease in investment in other Farm Credit institutions	**(77)**	(316)	(1,435)
Proceeds from payments received on other investments	**—**	—	12,136
Purchases of premises and equipment	**(1,332)**	(1,539)	(2,567)
Proceeds from sales of premises and equipment	**749**	373	339
Proceeds from sales of other property owned	**648**	2,244	3,660
Net cash provided by (used in) investing activities	**(27,876)**	(19,316)	(689)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**5,973**	4,585	(29,717)
Capital stock and participation certificates issued/(retired), net	**314**	(15)	135
Patronage refunds and dividends paid	**(12,166)**	(5,121)	(6,176)
Retained earnings retired	**(10,845)**	(12,187)	(13,098)
Net cash provided by (used in) financing activities	**(16,724)**	(12,738)	(48,856)
Net increase (decrease) in cash	**(5,268)**	4,601	565
Cash, beginning of period	**7,514**	2,913	2,348
Cash, end of period	**$ 2,246**	$ 7,514	$ 2,913
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	**$ 35**	$ 127	$ 19
Receipt of property in settlement of loans	**702**	6,414	4,466
Estimated cash dividends or patronage distributions declared or payable	**12,603**	11,681	5,714
Employee benefit plans adjustments (Note 9)	**671**	(108)	897
Supplemental information:			
Interest paid	**28,828**	26,874	26,570
Taxes (refunded) paid, net	**2**	—	—

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

Note 1 — Organization and Operations

A. **Organization:** Carolina Farm Credit, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Alamance, Alexander, Alleghany, Anson, Ashe, Avery, Buncombe, Burke, Cabarrus, Caldwell, Caswell, Catawba, Chatham, Cherokee, Clay, Cleveland, Davidson, Davie, Durham, Forsyth, Gaston, Graham, Guilford, Haywood, Henderson, Iredell, Jackson, Lee, Lincoln, McDowell, Macon, Madison, Mecklenburg, Mitchell, Montgomery, Moore, Orange, Person, Polk, Randolph, Richmond, Rockingham, Rowan, Rutherford, Stanly, Stokes, Surry, Swain, Transylvania, Union, Watauga, Wilkes, Yadkin and Yancey in the state of North Carolina.

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

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

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

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

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

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

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

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

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

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

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

Note 2 — Summary of Significant Accounting Policies

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

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

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

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

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

Loans are carried at their principal amount outstanding adjusted for charge-offs, premiums, discounts, deferred loan fees or costs, and derivative instruments and hedging valuation adjustments, if any. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. 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) 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 Consolidated 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). Purchase 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 $3,010, is included in Other Assets on the accompanying Consolidated Balance Sheet as of December 31, 2016.

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

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

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

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

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

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

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

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

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

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

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

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

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

In August, 2016, the FASB issued ASU 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). Stakeholders had indicated there was diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The Update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice.

The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments are to be applied using a retrospective transition method to each period presented. Application of this guidance is not expected to have a material impact on the Association's financial condition or results of operations.

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

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

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

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

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

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

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

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

Note 3 — Loans and Allowance for Loan Losses

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A summary of loans outstanding at period end follows:

	December 31, 2016	2015	2014
Real estate mortgage	$ 773,835	$ 729,528	$ 710,793
Production and intermediate-term	539,842	541,076	533,193
Loans to cooperatives	6,326	142	24
Processing and marketing	7,452	22,404	22,651
Farm-related business	3,872	5,777	5,744
Communication	4,069	6,291	8,786
Power, water and waste disposal	1,709	1,851	2,107
Rural residential real estate	70,857	76,345	87,893
International	4,845	806	–
Total Loans	$ 1,412,807	$ 1,384,220	$ 1,371,191

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

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

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

December 31, 2016	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 8,556	$ 2,675	$ –	$ –	$ –	$ –	$ 8,556	$ 2,675
Production and intermediate-term	21,096	109,489	9,441	–	–	–	30,537	109,489
Loans to cooperatives	6,326	–	9	–	–	–	6,335	–
Processing and marketing	7,031	432	–	–	–	–	7,031	432
Farm-related business	44	–	423	–	–	–	467	–
Communication	4,082	–	–	–	–	–	4,082	–
Power, water and waste disposal	1,734	–	–	–	–	–	1,734	–
International	4,857	–	–	–	–	–	4,857	–
Total	$ 53,726	$ 112,596	$ 9,873	$ –	$ –	$ –	$ 63,599	$ 112,596

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	$ 5,743	$ –	$ –	$ –	$ –	$ –	$ 5,743	$ –
Production and intermediate-term	19,299	93,638	7,699	4,000	–	–	26,998	97,638
Loans to cooperatives	–	–	11	–	–	–	11	–
Processing and marketing	21,501	650	–	–	–	–	21,501	650
Farm-related business	2,766	–	–	–	–	–	2,766	–
Communication	6,312	–	–	–	–	–	6,312	–
Power, water and waste disposal	1,880	–	–	–	–	–	1,880	–
International	809	–	–	–	–	–	809	–
Total	$ 58,310	$ 94,288	$ 7,710	$ 4,000	$ –	$ –	$ 66,020	$ 98,288

	December 31, 2014															
	Within AgFirst District				Within Farm Credit System				Outside Farm Credit System				Total			
	Participations Purchased		Participations Sold		Participations Purchased		Participations Sold		Participations Purchased		Participations Sold		Participations Purchased		Participations Sold	
Real estate mortgage	$	5,888	$	11,701	$	–	$	–	$	–	$	–	$	5,888	$	11,701
Production and intermediate-term		18,373		105,631		6,055		736		–		–		24,428		106,367
Loans to cooperatives		–		–		12		–		–		–		12		–
Processing and marketing		21,738		–		–		–		–		–		21,738		–
Farm-related business		1,852		–		–		–		–		–		1,852		–
Communication		8,812	$	–		–		–		–		–		8,812		–
Power, water and waste disposal		2,143		–		–		–		–		–		2,143		–
Total	$	58,806	$	117,332	$	6,067	$	736	$	–	$	–	$	64,873	$	118,068

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, 2016							
	Due less than 1 year		Due 1 Through 5 years		Due after 5 years		Total	
Real estate mortgage	$	18,784	$	102,784	$	652,267	$	773,835
Production and intermediate term		173,671		232,980		133,191		539,842
Loans to cooperatives		–		2,018		4,308		6,326
Processing and marketing		–		3,979		3,473		7,452
Farm-related business		1,142		1,077		1,653		3,872
Communication		–		4,069		–		4,069
Power, water and waste disposal		–		205		1,504		1,709
Rural residential real estate		11,759		14,682		44,416		70,857
International		–		4,336		509		4,845
Total Loans	$	205,356	$	366,130	$	841,321	$	1,412,807
Percentage		14.54%		25.91%		59.55%		100.00%

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

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

	December 31,		
	2016	2015	2014
Real estate mortgage:			
Acceptable	94.86%	92.54%	90.85%
OAEM	3.00	5.81	5.66
Substandard/doubtful/loss	2.14	1.65	3.49
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	87.61%	86.56%	87.93%
OAEM	5.68	8.54	4.71
Substandard/doubtful/loss	6.71	4.90	7.36
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	99.85%	100.00%	100.00%
OAEM	0.15	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	87.77%	99.84%	99.71%
OAEM	12.18	–	–
Substandard/doubtful/loss	0.05	0.16	0.29
	100.00%	100.00%	100.00%

	December 31,		
	2016	2015	2014
Communication:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Power, water and waste disposal:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	95.36%	95.22%	94.96%
OAEM	2.56	2.37	2.58
Substandard/doubtful/loss	2.08	2.41	2.46
	100.00%	100.00%	100.00%
International:			
Acceptable	100.00%	100.00%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	–%
Total Loans:			
Acceptable	92.18%	90.55%	90.24%
OAEM	3.97	6.53	4.93
Substandard/doubtful/loss	3.85	2.92	4.83
	100.00%	100.00%	100.00%

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

	December 31, 2016					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 2,308	$ 1,946	$ 4,254	$ 777,993	$ 782,247	$ –
Production and intermediate-term	2,170	4,399	6,569	538,641	545,210	–
Loans to cooperatives	–	–	–	6,337	6,337	–
Processing and marketing	–	–	–	7,463	7,463	–
Farm-related business	–	–	–	3,901	3,901	–
Communication	–	–	–	4,070	4,070	–
Power, water and waste disposal	–	–	–	1,713	1,713	–
Rural residential real estate	726	145	871	70,263	71,134	–
International	–	–	–	4,905	4,905	–
Total	$ 5,204	$ 6,490	$ 11,694	$ 1,415,286	$ 1,426,980	$ –

	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	$ 3,751	$ 1,662	$ 5,413	$ 732,938	$ 738,351	$ –
Production and intermediate-term	1,678	3,377	5,055	541,587	546,642	–
Loans to cooperatives	–	–	–	143	143	–
Processing and marketing	–	–	–	22,419	22,419	–
Farm-related business	–	–	–	5,808	5,808	–
Communication	–	–	–	6,291	6,291	–
Power, water and waste disposal	–	–	–	1,851	1,851	–
Rural residential real estate	355	601	956	75,638	76,594	–
International	–	–	–	806	806	–
Total	$ 5,784	$ 5,640	$ 11,424	$ 1,387,481	$ 1,398,905	$ –

	December 31, 2014					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 4,436	$ 1,408	$ 5,844	$ 713,665	$ 719,509	$ –
Production and intermediate-term	2,216	3,152	5,368	532,885	538,253	–
Loans to cooperatives	12	–	12	12	24	–
Processing and marketing	–	–	–	22,667	22,667	–
Farm-related business	–	–	–	5,771	5,771	–
Communication	–	–	–	8,789	8,789	–
Power, water and waste disposal	–	–	–	2,118	2,118	–
Rural residential real estate	926	205	1,131	87,045	88,176	–
Total	$ 7,590	$ 4,765	$ 12,355	$ 1,372,952	$ 1,385,307	$ –

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

	December 31,		
	2016	2015	2014
Nonaccrual loans:			
Real estate mortgage	$ 3,856	$ 4,957	$ 4,547
Production and intermediate-term	6,166	6,246	12,543
Farm-related business	–	–	–
Rural residential real estate	261	712	388
Total	$ 10,283	$ 11,915	$ 17,478
Accruing restructured loans:			
Real estate mortgage	$ 2,620	$ 1,866	$ 1,880
Production and intermediate-term	328	338	956
Farm-related business	475	521	572
Rural residential real estate	164	182	199
Total	$ 3,587	$ 2,907	$ 3,607
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 13,870	$ 14,822	$ 21,085
Other property owned	5,781	6,069	2,892
Total nonperforming assets	$ 19,651	$ 20,891	$ 23,977
Nonaccrual loans as a percentage of total loans	0.73%	0.86%	1.27%
Nonperforming assets as a percentage of total loans and other property owned	1.39%	1.50%	1.74%
Nonperforming assets as a percentage of capital	6.28%	6.84%	8.01%

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

	December 31, 2016	2015	2014
Impaired nonaccrual loans:			
Current as to principal and interest	$ 2,407	$ 4,949	$ 10,833
Past due	7,876	6,966	6,645
Total	10,283	11,915	17,478
Impaired accrual loans:			
Restructured	3,587	2,907	3,607
90 days or more past due	–	–	–
Total	3,587	2,907	3,607
Total impaired loans	$ 13,870	$ 14,822	$ 21,085
Additional commitments to lend	$ –	$ 21	57

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

	December 31, 2016			Year Ended December 31, 2016	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 211	$ 235	$ 50	$ 224	$ 19
Production and intermediate-term	217	220	201	230	19
Farm-related business	–	–	–	–	–
Rural residential real estate	109	119	89	116	10
Total	$ 537	$ 574	$ 340	$ 570	$ 48
With no related allowance for credit losses:					
Real estate mortgage	$ 6,265	$ 6,920	$ –	$ 6,652	$ 562
Production and intermediate-term	6,277	6,815	–	6,666	564
Farm-related business	475	473	–	504	43
Rural residential real estate	316	369	–	335	28
Total	$ 13,333	$ 14,577	$ –	$ 14,157	$ 1,197
Total:					
Real estate mortgage	$ 6,476	$ 7,155	$ 50	$ 6,876	$ 581
Production and intermediate-term	6,494	7,035	201	6,896	583
Farm-related business	475	473	–	504	43
Rural residential real estate	425	488	89	451	38
Total	$ 13,870	$ 15,151	$ 340	$ 14,727	$ 1,245

	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	$ 68	$ 81	$ 42	$ 99	$ 5
Production and intermediate-term	346	562	98	504	27
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 414	$ 643	$ 140	603	$ 32
With no related allowance for credit losses:					
Real estate mortgage	$ 6,755	$ 7,626	$ –	$ 9,819	$ 526
Production and intermediate-term	6,238	7,524	–	9,068	486
Farm-related business	521	520	–	758	41
Rural residential real estate	894	1,126	–	1,300	70
Total	$ 14,408	$ 16,796	$ –	$ 20,945	$ 1,123
Total:					
Real estate mortgage	$ 6,823	$ 7,707	$ 42	$ 9,918	$ 531
Production and intermediate-term	6,584	8,086	98	9,572	513
Farm-related business	521	520	–	758	41
Rural residential real estate	894	1,126	–	1,300	70
Total	$ 14,822	$ 17,439	$ 140	$ 21,548	$ 1,155

Impaired loans:	December 31, 2014 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2014 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 675	$ 812	$ 67	$ 782	$ 48
Production and intermediate-term	7,388	7,481	1,375	8,546	526
Farm-related business	–	–	–	–	–
Rural residential real estate	113	110	61	130	8
Total	$ 8,176	$ 8,403	$ 1,503	$ 9,458	$ 582
With no related allowance for credit losses:					
Real estate mortgage	$ 5,752	$ 7,683	$ –	$ 6,653	$ 409
Production and intermediate-term	6,110	9,710	–	7,069	435
Farm-related business	572	570	–	661	41
Rural residential real estate	475	544	–	550	34
Total	$ 12,909	$ 18,507	$ –	$ 14,933	$ 919
Total:					
Real estate mortgage	$ 6,427	$ 8,495	$ 67	$ 7,435	$ 457
Production and intermediate-term	13,498	17,191	1,375	15,615	961
Farm-related business	572	570	–	661	41
Rural residential real estate	588	654	61	680	42
Total	$ 21,085	$ 26,910	$ 1,503	$ 24,391	$ 1,501

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

	Year Ended December 31, 2016	2015	2014
Interest income which would have been recognized under the original loan terms	$ 1,846	$ 1,821	$ 2,485
Less: interest income recognized	1,245	1,155	1,501
Foregone interest income	$ 601	$ 666	$ 984

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power, water and waste disposal	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:								
Balance at December 31, 2015	$ 3,549	3,628	$ 65	$ 49	$ 7	$ 103	$ 1	$ 7,402
Charge-offs	(36)	(329)	–	–	–	(38)	–	(403)
Recoveries	93	645	64	–	–	32	–	834
Provision for loan losses	(474)	(103)	(85)	(18)	(3)	194	4	(485)
Balance at December 31, 2016	$ 3,132	3,841	$ 44	$ 31	$ 4	$ 291	$ 5	$ 7,348
Balance at December 31, 2014	$ 2,539	$ 3,693	$ 86	$ 59	$ 9	$ 228	$ –	$ 6,614
Charge-offs	(168)	(437)	(1,418)	–	–	(265)	–	(2,288)
Recoveries	66	502	–	–	–	7	–	575
Provision for loan losses	1,112	(130)	1,397	(10)	(2)	133	1	2,501
Balance at December 31, 2015	$ 3,549	3,628	$ 65	$ 49	$ 7	$ 103	$ 1	$ 7,402
Balance at December 31, 2013	$ 1,380	$ 3,979	$ 56	$ 22	$ 9	$ 114	$ –	$ 5,560
Charge-offs	(1,667)	(1,940)	–	–	–	(87)	–	(3,694)
Recoveries	1,584	1,081	3	–	–	66	–	2,734
Provision for loan losses	1,242	573	27	37	–	135	–	2,014
Balance at December 31, 2014	$ 2,539	$ 3,693	$ 86	$ 59	$ 9	$ 228	$ –	$ 6,614
Allowance on loans evaluated for impairment:							$	
Individually	$ 50	$ 201	$ –	$ –	$ –	$ 89	–	$ 340
Collectively	3,082	3,640	44	31	4	202	5	7,008
Balance at December 31, 2016	$ 3,132	3,841	$ 44	$ 31	$ 4	$ 291	$ 5	$ 7,348
Individually	$ 42	$ 98	$ –	$ –	$ –	$ –	–	$ 140
Collectively	3,507	3,530	65	49	7	103	1	7,262
Balance at December 31, 2015	$ 3,549	3,628	$ 65	$ 49	$ 7	$ 103	$ 1	$ 7,402
Individually	$ 67	$ 1,375	$ –	$ –	$ –	$ 61	$ –	$ 1,503
Collectively	2,472	2,318	86	59	9	167	–	5,111
Balance at December 31, 2014	$ 2,539	$ 3,693	$ 86	$ 59	$ 9	$ 228	$ –	$ 6,614
Recorded investment in loans evaluated for impairment:							$	
Individually	$ 3,856	$ 6,166	$ –	$ –	$ –	$ 261	–	$ 10,283
Collectively	778,391	539,044	17,701	4,070	1,713	70,873	4,905	1,416,697
Balance at December 31, 2016	$ 782,247	$ 545,210	$ 17,701	$ 4,070	$ 1,713	$ 71,134	$ 4,905	$ 1,426,980
Individually	$ 6,823	$ 6,584	$ 521	$ –	$ –	$ 894	–	$ 14,822
Collectively	731,528	540,058	27,849	6,291	1,851	75,700	806	1,384,083
Balance at December 31, 2015	$ 738,351	$ 546,642	$ 28,370	$ 6,291	$ 1,851	$ 76,594	$ 806	$ 1,398,905
Individually	$ 6,427	$ 13,498	$ 572	$ –	$ –	$ 588	$ –	$ 21,085
Collectively	713,082	524,755	27,890	8,789	2,118	87,588	–	1,364,222
Balance at December 31, 2014	$ 719,509	$ 538,253	$ 28,462	$ 8,789	$ 2,118	$ 88,176	$ –	$ 1,385,307

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented.

	Year Ended December 31, 2016				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Production and intermediate-term	$ –	$ 60	$ –	$ 60	
Rural residential real estate	–	24	29	53	
Total	$ –	$ 84	$ 29	$ 113	
Post-modification:					
Production and intermediate-term	$ –	$ 60	$ –	$ 60	$ –
Rural residential real estate	–	25	31	56	–
Total	$ –	$ 85	$ 31	$ 116	$ –

Outstanding Recorded Investment	Year Ended December 31, 2015 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Production and intermediate-term	$ –	$ 447	$ –	$ 447	
Total	$ –	$ 447	$ –	$ 447	
Post-modification:					
Production and intermediate-term	$ –	$ 360	$ –	$ 360	$ –
Total	$ –	$ 360	$ –	$ 360	$ –

Outstanding Recorded Investment	Year Ended December 31, 2014 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 1,348	$ 2,213	$ –	$ 3,561	
Production and intermediate-term	–	995	7,107	8,102	
Rural residential real estate	–	117	–	117	
Total	$ 1,348	$ 3,325	$ 7,107	$ 11,780	
Post-modification:					
Real estate mortgage	$ 1,343	$ 2,217	$ –	$ 3,560	$ –
Production and intermediate-term	–	993	7,107	8,100	–
Rural residential real estate	–	100	–	100	–
Total	$ 1,343	$ 3,310	$ 7,107	$ 11,760	$ –

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, 2016	2015	2014
Real estate mortgage	$ –	$ –	$ 626
Production and intermediate-term	57	–	–
Rural residential real estate	–	–	97
Total	$ 57	$ –	$ 723

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

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2016	2015	2014	2016	2015	2014
Real estate mortgage	$ 2,868	$ 2,905	$ 3,530	$ 248	$ 1,039	$ 1,649
Production and intermediate-term	485	607	8,938	157	269	7,983
Farm-related business	475	521	572	–	–	–
Rural residential real estate	216	182	291	52	–	92
Total Loans	$ 4,044	$ 4,215	$ 13,331	$ 457	$ 1,308	$ 9,724
Additional commitments to lend	$ –	$ –	$ 19			

The following table presents information as of period end:

	December 31, 2016
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	$ 135
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ 125

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, 2016, the Association held no RABs whose credit quality has deteriorated beyond the program limits.

A summary of the amortized cost and fair value of HTM investment securities follows:

	December 31, 2016				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 1,746	$ –	$ (109)	$ 1,637	5.04%

	December 31, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 1,852	$ –	$ (105)	$ 1,747	5.01%

	December 31, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 2,099	$ 6	$ (122)	$ 1,983	4.99%

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

	December 31, 2016		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	9	9	4.25
After five years through ten years	136	134	4.15
After ten years	1,601	1,494	5.12
Total	$ 1,746	1,637	5.04%

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

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

	December 31, 2016			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ –	$ –	$ 1,637	$ (109)

	December 31, 2015			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ –	$ –	$ 1,747	$ (105)

	December 31, 2014			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ 44	$ (1)	$ 1,795	$ (121)

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 $15,458 for 2016, $15,395 for 2015 and $15,119 for 2014. The Association owns 6.11 percent of the issued stock of the Bank as of December 31, 2016 net of any reciprocal investment. As of that date, the Bank's assets totaled $32.1 billion and shareholders' equity totaled $2.2 billion. The Bank's earnings were $342 million for 2016. In addition, the Association had an investment of $1,594 related to other Farm Credit institutions at December 31, 2016.

Note 5 — Real Estate and Other Property

Premises and Equipment
Premises and equipment consists of the following:

	December 31,		
	2016	2015	2014
Land	$ 4,495	$ 4,546	$ 4,515
Buildings and improvements	17,219	17,017	16,821
Furniture and equipment	7,947	7,872	7,580
	29,661	29,435	28,916
Less: accumulated depreciation	13,331	12,669	11,809
Total	$ 16,330	$ 16,766	$ 17,107

Depreciation expense for the years 2016, 2015 and 2014 was $1,611, $1,684 and $1,487, respectively.

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

	December 31,		
	2016	2015	2014
(Gains) losses on sale, net	$ 41	$ 25	$ 470
Carrying value unrealized (gains) losses	266	841	1,006
Operating (income) expense, net	86	46	442
(Gains) losses on other property owned, net	$ 393	$ 912	$ 1,918

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

Note 6 — Debt

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

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

The weighted average interest rates on the variable rate advances were 1.87 percent for LIBOR-based loans and 1.92 percent for Prime-based loans, and the weighted average remaining maturities were 2.8 years and 3.5 years, respectively, at December 31, 2016. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 2.78 percent, and the weighted average remaining maturity was 9.2 years at December 31, 2016. The weighted-average interest rate on all interest-bearing notes payable was 2.63 percent and the weighted-average remaining maturity was 8.2 years at December 31, 2016. Gross notes payable consist of approximately 16.61 percent variable rate and 83.39 percent fixed rate portions, representing a match-funding of the Association's loan volume at December 31, 2016. Notes Payable to AgFirst Farm Credit Bank, as reflected on the Consolidated Balance Sheets, also includes a credit which reduces the notes payable balance and corresponding interest expense. 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 follow.

A. **Protected Borrower Equity:** The Association had no protected borrower equity outstanding as of December 31, 2016.

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 thousand or 2.0 percent of the amount of the loan. The Board 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:** FCA regulations require that certain minimum standards for capital be achieved and maintained. These standards are measured based on capital as a percentage of risk-adjusted assets and off-balance-sheet commitments and surplus levels as a percentage of risk-adjusted assets.

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

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

	2016	2015	2014	Regulatory Minimum
Permanent capital ratio	21.88%	21.62%	20.54%	7.00%
Total surplus ratio	21.28%	21.03%	19.96%	7.00%
Core surplus ratio	18.84%	18.52%	17.36%	3.50%

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

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

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, 2016:

		Shares Outstanding	
Class	Protected	Number	Aggregate Par Value
C Common/Voting	No	1,456,058	$ 7,280
B Participation Certificates/Nonvoting	No	216,150	1,081
Total Capital Stock and Participation Certificates		1,672,208	$ 8,361

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, 2016, allocated members' equity consisted of $33,385 of qualified allocated surplus, $25,862 of nonqualified allocated surplus and $131,826 of nonqualified retained surplus.

Patronage Distributions

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available 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 or D Preferred Stock or on all classes of stock and participation certificates.

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

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. 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 Stocks, 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. Class C Common Stock and Class C Participation Certificates
2. Classes A and B Common Stock and Class B Participation Certificates
3. Classes A and D Preferred Stock

Liquidation

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

1. Holders of Classes A and D Preferred Stock
2. Holders of Classes A and B Common and Class B Participation Certificates
3. Holders of Class C Common Stock and Class C Participation Certificates
4. Holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro-rata by year of issuance, until all such allocated surplus has been distributed
5. Holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro-rata by year of issuances first, until all such allocated surplus has been distributed
6. All unallocated surplus issued after January 1, 1995, shall be distributed to Patrons of the Association from the period beginning January 1, 1995, through the date of liquidation on a patronage basis
7. Any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of stock and participation certificates in proportion to the number of shares or units of such class of stock or participation certificates held by such holders

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

Changes in Accumulated Other Comprehensive income by Component *(a)*

	For the years ended December 31,		
	2016	2015	2014
Employee Benefit Plans:			
Balance at beginning of period	$ (1,221)	$ (1,329)	$ (432)
Other comprehensive income before reclassifications	(747)	29	(1,082)
Amounts reclassified from AOCI	76	79	185
Net current period OCI	(671)	108	(897)
Balance at end of period	$ (1,892)	$ (1,221)	$ (1,329)

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*			
	2016	2015	2014	Income Statement Line Item
Employee Benefit Plans:				
Periodic pension costs	$ (76)	$ (79)	$ (185)	See Note 9.
Amounts reclassified	$ (76)	$ (79)	$ (185)	

(a) Amounts in parentheses indicate debits to AOCI.
(b) Amounts in parentheses indicate debits 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 of the Association's financial instruments within the fair value hierarchy (See Note 2) are as follows:

Level 1
Assets held in trust funds, related to deferred compensation plans, 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 determined by discounting estimated future cash flows using prevailing interest rates for similar instruments.

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

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

	At or for the Year ended December 31, 2016					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 3,010	$ 3,010	$ –	$ –	$ 3,010	
Recurring Assets	$ 3,010	$ 3,010	$ –	$ –	$ 3,010	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 13,530	$ –	$ –	$ 13,530	$ 13,530	$ 232
Other property owned	5,781	–	–	6,410	6,410	(307)
Nonrecurring Assets	$ 19,311	$ –	$ –	$ 19,940	$ 19,940	$ (75)
Other Financial Instruments						
Assets:						
Cash	$ 2,246	$ 2,246	$ –	$ –	$ 2,246	
Investment securities, held-to-maturity	1,746	–	–	1,637	1,637	
Loans	1,396,791	–	–	1,392,887	1,392,887	
Other Financial Assets	$ 1,400,783	$ 2,246	$ –	$ 1,394,524	$ 1,396,770	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,138,884	$ –	$ –	$ 1,124,697	$ 1,124,697	
Other Financial Liabilities	$ 1,138,884	$ –	$ –	$ 1,124,697	$ 1,124,697	

	At or for the Year ended December 31, 2015					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 2,963	$ 2,963	$ –	$ –	$ 2,963	
Recurring Assets	$ 2,963	$ 2,963	$ –	$ –	$ 2,963	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 14,682	$ –	$ –	$ 14,682	$ 14,682	$ (349)
Other property owned	6,069	–	–	6,756	6,756	(866)
Nonrecurring Assets	$ 20,751	$ –	$ –	$ 21,438	$ 21,438	$ (1,215)
Other Financial Instruments						
Assets:						
Cash	$ 7,514	$ 7,514	$ –	$ –	$ 7,514	
Investment securities, held-to-maturity	1,852	–	–	1,747	1,747	
Loans	1,368,001	–	–	1,383,705	1,383,705	
Other Financial Assets	$ 1,377,367	$ 7,514	$ –	$ 1,385,452	$ 1,392,966	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,132,911	$ –	$ –	$ 1,131,821	$ 1,131,821	
Other Financial Liabilities	$ 1,132,911	$ –	$ –	$ 1,131,821	$ 1,131,821	

	At or for the Year ended December 31, 2014					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 3,094	$ 3,094	$ –	$ –	$ 3,094	
Recurring Assets	$ 3,094	$ 3,094	$ –	$ –	$ 3,094	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 19,582	$ –	$ –	$ 19,582	$ 19,582	$ (1,056)
Other property owned	2,892	–	–	3,070	3,070	(1,475)
Nonrecurring Assets	$ 22,474	$ –	$ –	$ 22,652	$ 22,652	$ (2,531)
Other Financial Instruments						
Assets:						
Cash	$ 2,913	$ 2,913	$ –	$ –	$ 2,913	
Investment securities, held-to-maturity	2,099	–	–	1,983	1,983	
Loans	1,348,468	–	–	1,360,464	1,360,464	
Other Financial Assets	$ 1,353,480	$ 2,913	$ –	$ 1,362,447	$ 1,365,360	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,128,326	$ –	$ –	$ 1,119,937	$ 1,119,937	
Other Financial Liabilities	$ 1,128,326	$ –	$ –	$ 1,119,937	$ 1,119,937	

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	$ 19,940	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

Note 9 — Employee Benefit Plans

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

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

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

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.

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 Association's participation in the multiemployer defined benefit plans for the annual period ended December 31, 2016 is outlined in the table below. The "Percentage Funded to Projected Benefit Obligation" or "Percentage Funded to Accumulated Postretirement Benefit Obligation" represents the funded amount for the entire plan and the "Contributions" and "Percentage of Total Contributions" columns represent the Association's respective amounts.

Pension Plan	Percentage Funded to Projected Benefit Obligation			Contributions			Percentage of Total Contributions		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
AgFirst Farm Credit Retirement Plan	86.96%	85.73%	84.56%	$3,572	$6,862	$4,415	12.53%	11.88%	11.63%
AgFirst Farm Credit Cash Balance Retirement Plan	100.21%	102.72%	100.07%	$–	$–	$358	0.00%	0.00%	7.20%

Other Postretirement Benefit Plan	Percentage Funded to Accumulated Postretirement Benefit Obligation			Contributions			Percentage of Total Contribution		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plans	0.00%	0.00%	0.00%	$738	$702	$781	10.26%	10.31%	10.11%

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

Substantially all employees of the Association hired before November 4, 2014 are eligible to participate in either the FAP Plan or the CB Plan. These two plans are noncontributory and include eligible Association and other District employees. For participants hired prior to January 1, 2003, benefits are provided under the FAP Plan and are based on eligible compensation and years of service. For participants hired on or after January 1, 2003 through November 3, 2014, benefits are provided under the CB Plan and are determined using a percent of eligible compensation formula. Prior to January 1, 2015, when employer contributions were discontinued as discussed above, the employer contribution into the CB Plan was based on a formula of 3.00-5.00 percent of eligible compensation (depending on years of service) and interest credits as allocated to an employee's theoretical account balance. The actuarially-determined costs of these plans are allocated to each participating entity, including the Association, by multiplying the plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all plan participants. Plan expenses included in employee benefit costs were $5,850 for 2016, $5,751 for 2015, and $6,021 for 2014. The cumulative excess of amounts funded by the Association over the cost allocated to the Association is reflected as prepaid retirement expense, a component of Other Assets in the Consolidated Balance Sheets.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. Certain Association charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability. This plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs were $1,494 for 2016, $1,869 for 2015, and $1,120 for 2014. The cumulative excess of cost allocated to the Association over the amounts funded by the Association is reflected as postretirement benefits other than pensions, a component of Other Liabilities in the Association's Consolidated Balance Sheets.

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 $771, $635, and $608 for the years ended December 31, 2016, 2015, and 2014, respectively. Beginning in 2015, contributions include additional amounts related to the discontinuation of the CB Plan as discussed above.

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 2016, 2015, and 2014, $(671), $108, and $(897), respectively, has been recognized as a net debit, net credit and net debit to AOCI to reflect these elements.

The supplemental retirement plan is unfunded and had a projected benefit obligation of $3,846 and a net under-funded status of $3,846 at December 31, 2016. Net periodic pension cost was $258, $243, and $282 for 2016, 2015, and 2014, respectively. Assumptions used to determine the projected benefit obligation as of December 31, 2016 included a discount rate of 4.35 percent and a rate of compensation increase of 7.00 percent.

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

Note 10 — Related Party Transactions

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

Total loans to such persons at December 31, 2016 amounted to $13,763. During 2016, $11,264 of new loans were made and repayments totaled $10,251. In the opinion of management, none of these loans outstanding at December 31, 2016 involved more than a normal risk of collectibility.

Note 11 — Commitments and Contingencies

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

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

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2016, $172,802 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, 2016, standby letters of credit outstanding totaled $1,629 with expiration dates ranging from January 1, 2017 to August 1, 2020. The maximum potential amount of future payments that may be required under these guarantees was $1,629.

The total reserve for unfunded commitments, which is classified in Other Liabilities in the Consolidated Balance Sheets, was $371 at December 31, 2016. During 2016, the Association recorded a provision for unfunded commitments totaling $371.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2016	2015	2014
Current:			
Federal	$ (5)	$ 5	$ 2
State	(1)	2	1
Federal refunds	–	–	–
State refunds related to long-term lending	–	–	–
	(6)	7	3
Deferred:			
Federal	–	–	–
State	–	–	–
	–	–	–
Total provision (benefit) for income taxes	$ (6)	$ 7	$ 3

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

	December 31,		
	2016	2015	2014
Federal tax at statutory rate	$ 11,118	$ 10,477	$ 13,526
State tax, net	(1)	2	1
Patronage distributions	(4,411)	(4,088)	(4,572)
Tax-exempt FLCA earnings	(7,389)	(6,362)	(8,894)
Change in valuation allowance	634	(516)	(774)
Federal refund	–	–	–
State refunds related to long-term lending	–	–	–
Other	43	494	716
Provision (benefit) for income taxes	$ (6)	$ 7	$ 3

Deferred tax assets and liabilities are comprised of the following:

	December 31,		
	2016	2015	2014
Deferred income tax assets:			
Allowance for loan losses	$ 1,443	$ 1,517	$ 1,752
Annual leave	440	451	445
Nonaccrual loan interest	391	432	785
Pensions and other postretirement benefits	3,956	3,845	3,633
OPO Writedown	94	357	272
Loan fees	293	185	150
Reserve for unfunded commitments	140	–	–
Gross deferred tax assets	$ 6,757	6,787	7,037
Less: valuation allowance	(4,169)	(3,536)	(4,052)
Gross deferred tax assets, net of valuation allowance	2,588	3,251	2,985
Deferred income tax liabilities:			
Depreciation	(91)	(171)	(117)
Pensions and other postretirement benefits	(2,497)	(3,080)	(2,868)
Gross deferred tax liability	(2,588)	(3,251)	(2,985)
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2016, deferred income taxes have not been provided by the Association on approximately $8.9 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association maintained valuation allowances of $4,169, $3,536 and $4,052 as of December 31, 2016, 2015 and 2014, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

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

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

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2016				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	$ 11,481	$ 11,646	$ 12,008	$ 12,025	$ 47,160
Provision for (reversal of allowance for) loan losses	(642)	348	(395)	204	(485)
Noninterest income (expense), net	(5,398)	(5,401)	(5,500)	426	(15,873)
Net income	$ 6,725	$ 5,897	$ 6,903	$ 12,247	$ 31,772

	2015				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	$ 11,776	$ 11,611	$ 12,356	$ 11,933	$ 47,676
Provision for (reversal of allowance for) loan losses	214	519	367	1,401	2,501
Noninterest income (expense), net	(5,117)	(5,374)	(6,046)	1,290	(15,247)
Net income	$ 6,445	$ 5,718	$ 5,943	$ 11,822	$ 29,928

	2014				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	$ 12,155	$ 12,126	$ 12,359	$ 12,432	$ 49,072
Provision for (reversal of allowance for) loan losses	331	393	670	620	2,014
Noninterest income (expense), net	(5,277)	(5,339)	(5,098)	7,297	(8,417)
Net income	$ 6,547	$ 6,394	$ 6,591	$ 19,109	$ 38,641

Note 14 — Subsequent Events

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

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