

---

*AgSouth Farm Credit, ACA*

**THIRD QUARTER 2017**

**TABLE OF CONTENTS**

Report on Internal Control Over Financial Reporting .....2  
Management’s Discussion and Analysis of  
    Financial Condition and Results of Operations .....3  
Consolidated Financial Statements  
    Consolidated Balance Sheets ..... 13  
    Consolidated Statements of Income..... 14  
    Consolidated Statements of Comprehensive Income ..... 15  
    Consolidated Statements of Changes in Members’ Equity ..... 16  
Notes to the Consolidated Financial Statements..... 17

**CERTIFICATION**

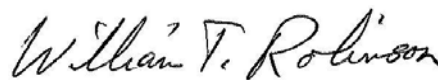
The undersigned certify that we have reviewed the September 30, 2017 quarterly report of AgSouth Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Pat Calhoun  
Chief Executive Officer



Alisa D. Gunter  
Chief Financial Officer



William T. Robinson  
Chairman of the Board

November 8, 2017

---

*AgSouth Farm Credit, ACA*

# Report on Internal Control Over Financial Reporting

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

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

The Association’s management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2017. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the “COSO” criteria.

Based on the assessment performed, the Association’s management concluded that as of September 30, 2017, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association’s management determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2017.



Pat Calhoun  
Chief Executive Officer



Alisa D. Gunter  
Chief Financial Officer

November 8, 2017

---

# AgSouth Farm Credit, ACA

## Management's Discussion and Analysis

### of Financial Condition and Results of Operations

*(dollars in thousands)*

The following commentary reviews the financial condition and results of operations of AgSouth Farm Credit, ACA (Association) for the period ended September 30, 2017. This information should be read in conjunction with the accompanying financial statements, notes to the financial statements, and the 2016 Annual Report of AgSouth Farm Credit, ACA. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

#### FORWARD LOOKING INFORMATION

This quarterly 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
- actions taken by the Federal Reserve System in implementing monetary policy.

#### 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. The Association's loan portfolio is diversified over a wide range of agricultural commodities produced in our region, including poultry (broilers, turkeys and eggs), timber, sod and nursery, feed grains, soybeans and hay, cotton, horses, blueberries, fruits, nuts and beef cattle. Loans to producers of these commodities total \$1,468,674 or 84.58 percent of the Association's portfolio. Farm size varies, and many of the Association customers have diversified farming operations. These factors, along with the numerous opportunities for non-farm income in the area, reduce to some degree the level of income dependency on any given commodity.

#### AGRICULTURE OVERVIEW

AgSouth experienced fairly favorable growing conditions during July and August and crops across the service area were in very good condition. September brought on Hurricanes Irma and Maria within two weeks of each other. The storms impacted the Georgia region to a greater degree than South Carolina as the path of Irma shifted more to the west. Damage was fairly limited given the intensity of the storm with some flooding, wind damage to pecan orchards, very limited structural damage to buildings and limited damage to cotton. Most corn had been harvested prior to the storm reaching the area, peanuts and soybeans did not appear to suffer much damage at all.

As of October 2, 2017, the National Agricultural Statistics Service (NASS) reported South Carolina Soil Moisture as being 69 percent adequate and Georgia as being 66 percent adequate. Corn harvest is complete and in South Carolina the yield is projected to be 135 bushels per acre which exceeds the 2016 average yield of 127 bushels per acre. Georgia corn production is forecasted to be 58.2 million bushels, up 4 percent over 2016. NASS reported the peanut crop condition in South Carolina as 94 percent good to excellent with those in Georgia being 76 percent good to excellent and 18 percent fair. Peanut production in Georgia is expected to be up 40 percent over 2016 at 3.90 billion pounds and up 18 percent in South Carolina at 677 million pounds.

Cotton harvest was reported by NASS to be 14 percent complete on October 2 and rated 97 percent good to excellent in South Carolina and Georgia with only 49 percent rated good to excellent with 34 percent fair. Georgia cotton suffered more damage from Hurricane Irma than South Carolina. The 2017 soybean harvest has not started, but NASS is rating the 2017

crop as 94 percent good to excellent in South Carolina and 68 percent good to excellent in Georgia. Soybean production is expected to be up 4 percent in Georgia and 6 percent in South Carolina over 2016 levels.

The blueberry season was impacted by a late spring freeze, but higher prices helped most growers offset lost production. However, there has been some deterioration in the credit quality of the blueberry portfolio.

The beef industry remains strong in both states. Nationally, the 2016 calf crop was smaller than expected which has cut the supply of cattle for 2017. Long term, beef demand is still expected to rise as the United States and foreign economies improve.

Domestic broiler growers placed 176 million chicks for meat production as of October 4<sup>th</sup>, which is up 3 percent from the comparable week in 2016. South Carolina chick placements were 4.4 million, which was down 6 percent from the same week in 2016. Georgia hatcheries placed 28 million chicks the last week of September. This is up 7 percent over the same week last year. No new instances of Avian Influenza have been reported nationally since the first quarter of 2017. Integrators in South Carolina and Georgia are still using intensive biohazard management practices to control any disease issues that may occur in poultry houses. Poultry remains our highest concentration paid from agricultural income.

Lumber prices in the South improved during the second half of the third quarter due to the weather effects of Hurricanes Harvey and Irma. Southern Pine Oriented Strand Board (OSB) and Southern Pine Plywood prices are up 20 percent from the previous quarter. Softwood pulp prices are up 12 percent and hardwood pulp prices increased over 35 percent since the beginning of 2017. As expected, stumpage prices increased across the South due to heavy rains impacting the available supply especially in those areas directly affected by the hurricanes. Pine sawtimber was up quarter over quarter for the first time since fourth quarter of 2015 and Pine pulpwood is up for the first time since first quarter of 2016.

The per ton timber stumpage prices are up slightly for most products - pine pulpwood (\$14-\$19), pine chip-n-saw (\$19-\$22), pine sawtimber (\$27-\$30), hardwood pulpwood (\$8-\$10) and hardwood sawtimber, varies greatly depending on species (\$24-\$38 per ton). The mills have raised stumpage prices slightly during the third quarter due to rainfall from Hurricane Irma and other systems. Southern Yellow Pine lumber prices have been mostly stable during the third quarter but rising since Hurricane Harvey made landfall; the composite Southern Yellow Pine lumber price for week 37 was at \$388/mbf, which is up slightly from 2017 starting point of \$378/mbf. A closer look at some of the prices since the beginning of the year:

- YTD Peak Price: \$440/mbf (April)
- YTD Low Price: \$368/mbf (July)
- YTD Average Price: \$398/mbf

A bright spot continues to be the export market. United States log and lumber exports were up 16 percent year to date through July compared to 2016. Exports to China were up 31 percent over the same period.

According to United States Census total, housing starts were up 3 percent through August compared to the same period in 2016. In the South, total housing starts were up 4 percent for the same time period compared to 2016. Residential remodeling activity is up compared to 2016. The Census reported remodeling and improvement expenditures at \$129 billion year to date through August, up \$23.1 billion or 22 percent from the same period in 2016.

Using 2010 as the base year of 100, the Conference Board Leading Economic Index (LEI) was 128.6 in September. This is a decrease of 0.2 from August which was 128.8. In July the LEI was 128.3. The United States economy continues to improve overall.

The United States unemployment rate dropped to 4.2 percent in September from 4.4 percent in August and 4.3 percent in July. Unemployment in South Carolina is at 4.0 percent as of August 2017. This is a slight increase after remaining at 3.9 percent for June and July. Unemployment in Georgia, while higher than in South Carolina, has been decreasing all of 2017 dropping to 4.7 percent and 4.3 percent in August and July respectively.

## ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of September 30, 2017, was \$1,736,400, an increase of \$104,455 or 6.40 percent as compared to \$1,631,945 at December 31, 2016. Net loans outstanding at September 30, 2017 were \$1,722,064 as compared to \$1,617,762 at December 31, 2016. Net loans accounted for 95.02 percent of total assets at September 30, 2017, as compared to 93.89 percent of total assets at December 31, 2016.

The increase in gross loan volume during the reporting period is attributed to new term loans and several large loans, as well as advances on operating lines of credit made during the reporting period. Competition for good, quality loans remains strong from some commercial banks, but the Association has remained competitive.

The Association typically structures loans to meet the needs of the borrower. Many term loans are made for ten years or less allowing the borrower to build equity faster and thus reducing the risk in the loan portfolio.

At December 31, 2016, the Association held Investment securities totaling \$7,057. These investments are Rural America Bonds made under the authority for Mission Related Investments granted by the Farm Credit Administration (FCA). At September 30, 2017, investment securities totaled \$5,593, a

decrease of \$1,464 from December 31, 2016. The 20.75 percent decrease is from payments and payoffs made year to date in 2017.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality is at an acceptable level and credit administration remains satisfactory. Nonaccrual loans decreased from \$17,143 at December 31, 2016, to \$16,647 at September 30, 2017. The balance of nonaccrual loans is decreased by liquidations, loans returning to accrual status, or transfer of assets to other property owned offset by transfers to nonaccrual status. Association staff is working diligently to work out all nonaccrual debt situations.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at September 30, 2017, was \$14,336 compared to \$14,183 at December 31, 2016, and was considered by management to be adequate to cover possible losses. The increase in the allowance account is the result of a provision entry to the general allowance, primarily as a result of portfolio growth. The reserve set aside for unfunded commitments is \$664; this is included in Other liabilities. The Asset/Liability Committee (ALCO) of the Association, which is comprised of members of senior management and staff assigned to special assets management, met in September to review the allowance account. The ALCO determined that the composition between the allowance for loan losses on the outstanding portfolio and the reserve required for unfunded commitments needed to be adjusted and that an additional general reserve was required. The ALCO considered the general economic conditions, the potential for deterioration in the existing portfolio, the loan growth in the portfolio, and the amount of outstanding loan commitments in determining the level of allowance.

As of the end of the third quarter of 2017 the Association had originated \$111,557 in loans for the secondary market. Originations for the same period 2016 were \$103,550. The 7.73 percent increase is the result of increased activity in purchase market and construction loans which are typically larger loans than refinance transactions, and an increase in staff over the past year that are now adding to production. As of September 30, 2017, the Association held \$2,289 in qualifying loans for sale. At December 31, 2016, loans held for sale totaled \$2,860.

Accrued Interest Receivable increased \$3,965 or 27.27 percent from \$14,538 to \$18,503. The increase is tied to the increase in loans outstanding and an increase in the weighted average interest rate on those loans.

Investments in other Farm Credit institutions increased from \$22,847 at December 31, 2016 to \$23,008 at September 30, 2017. The increase of \$161 or less than one percent is the result of a slightly higher balance of investment in other Farm Credit institutions related to participations sold on a patronage basis.

Premises and equipment net increased \$524 from \$18,753 at December 31, 2016 to \$19,277 at September 30, 2017. The increase of 2.79 percent is the result of the increase in the construction in progress account. In Statesboro, plans to consolidate all Administrative staff into one location are well underway. A building adjacent to the current branch office was purchased to allow for some temporary offices while a new building is constructed. This project will take through the majority of 2017 to complete. A renovation project in Spartanburg, South Carolina was completed in the second quarter of 2017.

Other property owned increased to \$4,019 at September 30, 2017 from \$3,289 at December 31, 2016. The increase of \$730 or 22.20 percent in other property owned is the result of transfers to other property owned exceeding sales and write-downs of existing other property owned during the reporting period. The Association is actively marketing all properties for sale. For details, please visit our website at [www.agsouthfc.com](http://www.agsouthfc.com) and click on *Property For Sale*.

Accounts receivable decreased \$11,681 from \$20,956 at December 31, 2016 to \$9,275 at September 30, 2017. The decrease is the result of the patronage distribution receivable at December 31, 2016 from AgFirst and other Farm Credit institutions, which totaled \$12,409 in regular distribution and \$8,178 in a special distribution. As of September 30, 2017, this line item included only three quarters of accrual of patronage from AgFirst and other Farm Credit institutions totaling \$9,031.

Other assets decreased \$2,925 from \$9,761 at December 31, 2016 to \$6,836 at September 30, 2017. The majority of other assets is made up of prepaid retirement expense which decreased \$3,223 between December 31, 2016 and September 30, 2017. This decrease was offset slightly by an increase in the asset held by the Association for the Nonqualified Deferred Benefit Plans.

On the liability side of the balance sheet, Notes payable to AgFirst Farm Credit Bank increased from \$1,342,601 at December 31, 2016 to \$1,433,586 at September 30, 2017. The \$90,985 or 6.78 percent increase is tied to the increase in loans outstanding.

Accrued interest payable increased \$362 or 11.97 percent from \$3,025 to \$3,387. The increase is tied to the increase in the notes outstanding balance and an increase in the weighted average interest rate on the notes payable balance outstanding.

Patronage refunds payable decreased \$8,482 from \$8,673 at December 31, 2016 to \$191 at September 30, 2017. The decrease is the result of the cash portion of the 2016 Patronage distribution on the Association's records at December 31, 2016 moving from Patronage refund payable to Other liabilities. This amount totaled \$8,545 at December 31, 2016. At September 30, 2017, no patronage distribution for 2017 has been declared.

Accounts payable decreased \$412 from \$2,470 at December 31, 2016 to \$2,058 at September 30, 2017. The 16.68 percent decrease is due to the payable established to pay the insurance premiums on loans to the Farm Credit System Insurance Corporation (FCSIC). At December 31, 2016 the payable related to the FCSIC totaled \$2,024, and at September 30, 2017 the payable was \$1,399.

Other liabilities decreased \$388 from \$27,514 at December 31, 2016 to \$27,126 at September 30, 2017. The 1.41 percent decrease is due to a lower accrual for incentive payments to employees. The accrual for incentive at December 31, 2016 was \$3,601 and the accrual for incentive as of September 30, 2017 was \$1,069. The December accrual represents a full fiscal year, while the September 30 accrual equates to approximately 50 percent of any potential earned incentive.

Protected borrower stock decreased \$2 between the two reporting periods to \$0.

Capital stock and participation certificates increased from \$8,493 at December 31, 2016 to \$8,980 at September 30, 2017. The increase of \$487 or 5.73 percent is due to new borrowers purchasing stock during the reporting period in excess of liquidations of stock when loans pay out.

Allocated surplus decreased from \$118,570 at December 31, 2016 to \$99,197 at September 30, 2017. This is a decrease of \$19,373 or 16.34 percent. The reduction is from the decision made by the Board of Directors to revolve the 2011 series of Allocated Surplus in February 2017. This revolvment totaled \$19,350. The checks and notices for this revolvment were generated and mailed in early March 2017.

Unallocated surplus increased \$25,992 or 12.26 percent from the December 31, 2016 balance of \$212,028. The balance of \$238,020 at September 30, 2017 includes the retention of a portion of 2016 fiscal year end earnings and earnings year to date in 2017.

## RESULTS OF OPERATIONS

### *For the three months ended September 30, 2017*

Net income for the three months ended September 30, 2017, totaled \$9,760 as compared to \$8,852 for the same period in 2016. This is an increase of \$908 or 10.26 percent. The following commentary explains the variance.

At September 30, 2017, interest income increased \$1,897 from \$23,548 at September 30, 2016 to \$25,445. This increase of 8.06 percent is primarily due to the increase in interest earning assets between the two reporting periods. Nonaccrual income, which is included in interest income, was \$336 for the three months ended September 30, 2017, as compared to \$288 for the same period in 2016.

For the three months ending September 30, 2016, interest income on investments totaled \$130 compared to \$94 for the three months ended September 30, 2017. Investment income declined \$36 or 27.69 percent due to the lower outstanding balance of investments between the two reporting periods.

Interest expense for the three months ended September 30, 2017 increased \$1,407 from \$8,919 at September 30, 2016 to \$10,326 at September 30, 2017. The variance is 15.78 percent and is tied to the increase in the direct note balance and an increase weighted average direct note rate between the two reporting periods.

Net interest income before the provision for loan loss increased \$490 for the three months ended September 30, 2017, as compared to the same period in 2016 due primarily to the increased earnings on a higher balance of average earning assets.

Net interest income after the provision for loan losses decreased \$612 during the quarter ending September 30, 2017. A net provision for loan losses of \$1,299 was made in the quarter ending September 30, 2017. The provision entry was necessary to increase the general allowance and the reserve for unfunded commitments. In the same period in 2016 a provision of \$197 was necessary.

Noninterest income decreased \$33 over the same period last year. The commentary that follows will detail the aggregate difference.

Loan fees increased \$38 or 5.20 percent due to fees earned on new and loan servicing actions. Fees for financially related services decreased \$119 from \$303 at September 30, 2016 compared to \$184 at September 30, 2017. The decrease of 39.27 percent is due to a decrease in commissions earned on the sale of crop insurance and lease commissions during the reporting period.

Patronage refunds from other Farm Credit institutions decreased \$151 from \$3,178 at September 30, 2016 to \$3,027 at September 30, 2017. The decrease of 4.75 percent is related to a decrease in patronage refund earned on loans sold to AgFirst and other Farm Credit Institutions. The outstanding balance of loans sold has declined due to payoffs and paydowns. See *Note 2* for more information.

Gains on the sale of rural home loans decreased \$64 from \$547 at September 30, 2016 compared to \$483 at September 30, 2017. While originations increased between the two reporting periods, the yield premium earned on the originations decreased slightly in the 2017 reporting period.

Gains on the sale of premises and equipment for the period ending September 30, 2017 totaled \$33 compared to \$16 for the period ending September 30, 2016. The gains are tied to sales of excess Association automobiles disposed of during the reporting period.

Gains on other transactions totaled \$131 at September 30, 2017. For the same period in 2016, losses on other transactions totaled \$109. In June 2016, the Association had accrued an amount related to potential liabilities and contingencies in connection with outstanding legal proceedings. The liability was subsequently satisfied during the first quarter of 2017.

Other noninterest income was \$28 during the three months ended September 30, 2017, compared to \$22 for the three months ending September 30, 2016. This line item captures the volume premium paid by AgFirst for secondary market loans sold to AgFirst. The volume premiums were slightly higher in 2017 when compared to 2016.

Noninterest expense for the three months ended September 30, 2017 totaled \$8,712 and decreased \$1,555 or 15.15 percent when compared to the same period of 2016. Salaries and employee benefits expense are the largest portion of noninterest expense and it totaled \$6,151 for the three months ended September 30, 2017. Salaries and employee benefits decreased \$761 between the two reporting periods. The decrease of 11.01 percent is tied to a decrease in expense related to the pension plan between the reporting periods and a lower expense in group health for employees.

Occupancy and equipment expense at September 30, 2017 was \$486 compared to \$554 for the same period in 2016. This is a decrease of \$68 or 12.27 percent. While utility expense has increased, it is offset by fewer purchases of furniture and equipment items between the reporting periods.

The Insurance Fund premiums at September 30, 2016 was \$551 and at September 30, 2017 it was \$488. The \$63 or 11.43 percent decrease is due to the lower premium on accruing loans offset by the increase in loan volume.

In the three months ending September 30, 2017, the Association experienced losses and expenses on the sale of Other Property Owned in the amount of \$13. During the same period of 2016, the Association booked losses and expenses on the sale of Other Property Owned of \$93. The losses and expenses incurred in 2016 included write-downs on some of the properties at sale or when a new appraisal was received justifying the write-down.

Other operating expenses decreased \$583 from \$2,157 at September 30, 2016, compared to \$1,574 at September 30, 2017. The decrease of 27.03 percent is attributed to a decrease in purchased services, travel, data processing, and public and member relations expenses between the reporting periods. Other operating expenses also include communications, printing and office supplies and all other expenses necessary to run the business.

#### ***For the nine months ended September 30, 2017***

Net income for the nine months ended September 30, 2017, totaled \$25,990 as compared to \$23,366 for the same period in 2016. This is an increase of \$2,624 or 11.23 percent. The following narrative will explain the variance.

At September 30, 2017, interest income increased \$3,865 compared to the same period in 2016. The increase was due to the amount of interest income earned on loans. Interest income on loans increased \$3,980. The increase is tied to the increase in accruing loan volume between the reporting periods and an increase in the overall weighted average interest rate earned. Nonaccrual income, which is included in interest income, was \$751 for the nine months ended September 30, 2017, as compared to \$597 for the same period in 2016. The increase of \$154 is the result of an increase in the recognition of interest income when nonaccrual loans pay off or pay down.

For the nine months ending September 30, 2016, interest income on investments totaled \$399 compared to \$284 for the same period ended September 30, 2017. Investment income declined \$115 or 28.82 percent due to the lower outstanding balance of investments between the two reporting periods.

Interest expense increased \$2,806 for the nine months ended September 30, 2017. The increase is attributable to the higher direct note balance between the reporting periods and a higher weighted average direct note rate.

Net interest income before the provision for loan loss increased \$1,059 or 2.47 percent for the nine months ended September 30, 2017 as compared to the same period in 2016 primarily due to the increase in loan volume. Net interest income after the provision for loan losses decreased \$357 for the period ending September 30, 2017 due to the increase in the provision.

The provision for loan loss amount in the 2016 reporting period totaled \$538 and there were provision entries totaling \$1,954 in the 2017 reporting period. In September 2017, the Association's ALCO made the decision that the allowance account required an increase, and a provision was booked. An adjustment to Other liabilities was also needed to cover the reserve for loss on unfunded commitment balances. These decisions were made after analyzing the risk in the current portfolio. The ALCO analysis included reviewing historical trends, loan size, loan performance and credit quality reports.

Noninterest income for the nine months ended September 30, 2017 decreased \$488 compared to the same period of 2016. Loan fees increased \$196 or 8.39 percent. In the first nine months of 2017, fees earned on loans sold in the secondary market were higher than the same period in 2016. The volume of loans sold increased as well. Loan fees on portfolio activity increased slightly between the two reporting periods.

Fees for financially related services decreased \$199 from \$760 at September 30, 2016 compared to \$561 at September 30, 2017. The 26.18 percent decrease in fees for financially related services is the result of a decrease in fee income earned on the sale of multi-peril crop insurance and lease commissions.

The patronage refunds from other Farm Credit institutions decreased \$523 from \$9,716 at September 30, 2016 to \$9,193 at September 30, 2017. The decrease is due to the decrease in

the balance of loans sold to AgFirst and other Farm Credit institutions which resulted in a lower patronage refund amount accrued.

Gains on the sale of rural home loans decreased \$56 from \$1,541 at September 30, 2016 to \$1,485 at September 30, 2017. Gains decreased slightly due to the reduced yield premium earned on each origination.

Gains on the sale of premises and equipment decreased \$56 from \$274 for the period ending September 30, 2016 to \$218 at September 30, 2017. The gains were recorded when Association automobiles were replaced and from the sale of the Carrollton, Georgia office building in the 2016 reporting period. The Carrollton branch relocated to Highway 27. The Association also sold the Spartanburg branch building on Asheville Highway and relocated that office to 101 North Town Drive in Spartanburg. This move was done in conjunction with the consolidation of Administrative staff to the Statesboro Headquarters location. The gain on the sale of the Spartanburg branch building in 2017 was \$162 compared to the gain on the sale of the Carrollton branch building which was \$180 in 2016.

Losses on other transactions totaled \$1,540 for the nine months ended September 30, 2017 compared to a loss of \$1,661 for the same period in 2016. The loss recorded in the 2017 reporting period is related to the payment for disputed claims that were litigated. Please reference *Note 8* for additional information. The loss recorded in 2016 was for the same legal proceedings which were subsequently settled in 2017.

Other noninterest income increased \$29 from \$75 at September 30, 2016 compared to \$104 at September 30, 2017. The variance of 38.67 percent is due to volume premiums paid by AgFirst for secondary market activity. In 2016, the Association earned \$54 in volume premiums and for the period ending September 30, 2017, the Association has earned \$77 in volume premiums.

Noninterest expense for the nine months ended September 30, 2017, decreased \$3,466 compared to the same period of 2016 from \$32,008 to \$28,542. Salaries and employee benefit expense decreased \$2,070 between the two reporting periods. The 9.23 percent decrease in salaries and employee benefits is tied to the decrease in the expense for pension funding and a lower accrual for incentive compensation. The Association booked an accrual for the 2017 incentive payment based upon plan results which is included in salary and benefit expense. The Association evaluated 2017 performance measures for incentive purposes and determined that some employees could earn incentive in 2017. Based upon this information, the Association accrued \$1,069 in incentive in June 2017. In September 2016, the accrual was \$1,474. Association results will be re-evaluated prior to the end of the fourth quarter 2017 to determine if an additional accrual is warranted.

Occupancy and equipment expense at September 30, 2017 was \$1,676 compared to \$1,780 for the same period in 2016. The decrease is from the normal cost of operations and some timing differences of expenses. The Association has started construction on an operations center in Statesboro to consolidate all accounting and human resource staff to that location. Some expenses to date are included in Occupancy and equipment expense.

The Insurance Fund premium decreased from \$1,473 at September 30, 2016 to \$1,399 at September 30, 2017. The decrease of \$74 or 5.02 percent is tied to the decrease in the premium on loans in accrual status offset by the increase in loan volume.

Losses on the sale or write-down of other property owned totaled \$14 for the nine months ending September 30, 2017. When compared to the same period in 2016, losses on other property owned totaled \$337. The losses or write-downs were required after new contracts, sale closings, and/or new appraisals were obtained and the book value needed to more accurately reflect the current market value. No significant write-downs or sales have occurred year to date September 2017.

Other operating expenses decreased \$895 from \$5,982 at September 30, 2016, compared to \$5,087 at September 30, 2017. The decrease is primarily due to a decrease in purchased services, data processing, and public and member relations expenses. These decreases were offset by increases in communications, printing and office supplies, and travel.

## FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. 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. The total notes payable to the Bank at September 30, 2017 was \$1,433,586 as compared to \$1,342,601 at December 31, 2016. The \$90,985 increase, or 6.78 percent, is tied to the increase in loan volume.

## CAPITAL RESOURCES

Total members' equity at December 31, 2016 totaled \$338,700. At September 30, 2017 total members' equity had increased by \$7,223 to \$345,923. The increase in total members' equity is due to the increase in unallocated retained earnings offset by a decrease in allocated retained earnings between the two



reporting periods. At December 31, 2016, allocated retained earnings totaled \$118,570 compared to \$99,197 at September 30, 2017. The decrease is due to the revolvment of the 2011 series of allocated surplus in the first quarter of 2017. At December 31, 2016, unallocated retained earnings totaled \$212,028. At September 30, 2017, the unallocated retained earnings had increased to \$238,020. The increase in unallocated retained earnings is due to the decision to retain a portion of the 2016 earnings for capital purposes and year to date 2017 earnings.

Total capital stock and participation certificates were \$8,980 on September 30, 2017, compared to \$8,495 on December 31, 2016. The increase is attributed to the purchase of new stock and participation certificates for new borrowing entities offset by the retirement of stock and participation certificates on loans liquidated in the normal course of business.

## REGULATORY MATTERS

### Capital

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

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

- Inclusion of off-balance-sheet commitments less than 14 months

- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

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

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

- The CET1 ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvment, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.  
The total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The tier 1 leverage ratio is tier 1 capital, divided by average assets less regulatory deductions to tier 1 capital.
- The UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvment less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions to tier 1 capital.

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

<b>Ratio</b>	<b>Minimum Requirement</b>	<b>Capital Conservation Buffer*</b>	<b>Minimum Requirement with Capital Conservation Buffer</b>	<b>Capital Ratios as of September 30, 2017</b>
<b>Risk-adjusted ratios:</b>				
CET1 Capital	4.5%	0.625%	5.125%	12.87%
Tier 1 Capital	6.0%	0.625%	6.625%	12.87%
Total Capital	8.0%	0.625%	8.625%	19.62%
Permanent Capital Ratio	7.0%	0.0%	7.0%	18.94%
<b>Non-risk-adjusted:</b>				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	12.24%
UREE Leverage Ratio	1.5%	0.0%	1.5%	12.05%

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

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

### Other Regulatory Matters

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

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

---

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2016 Annual Report to Shareholders for recently issued accounting pronouncements. Additional information is provided in the table below.

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

---

### ASU 2017-08 – Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): *Premium Amortization on Purchased Callable Debt Securities*

Summary of Guidance:

- Requires amortization of premiums to the earliest call date on debt securities with call features that are explicit, noncontingent and callable at fixed prices and on preset dates.
- Does not impact securities held at a discount; the discount continues to be amortized to the contractual maturity.
- Requires adoption on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption.

Effective Date and Potential Financial Statement Impact:

- The investment securities portfolio may include holdings of callable debt securities. The Association is currently evaluating the impact of the Update on the financial statements, which will be affected by any investments in callable debt securities carried at a premium at the time of adoption.
- The Association expects to adopt the guidance in first quarter 2019 using the modified retrospective method with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption.

---

### ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): *Measurement of Credit Losses on Financial Instruments*

Summary of Guidance:

- Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets.
- Changes the present incurred loss impairment guidance for loans to a current expected credit loss (CECL) model.
- The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit.
- Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on financial assets purchased with more than insignificant credit deterioration since origination.
- Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.

Effective Date and Potential Financial Statement Impact:

- The Association has begun implementation efforts by establishing a cross-discipline governance structure. The Association is currently identifying key interpretive issues, and assessing existing credit loss forecasting models and processes against the new guidance to determine what modifications may be required.
- The Association expects that the new guidance will result in an increase in its allowance for credit losses due to several factors, including:
  - The allowance related to loans and commitments will most likely increase to cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions,
  - An allowance will be established for estimated credit losses on debt securities,
  - The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans.
  - The extent of the increase is under evaluation, but will depend upon the nature and characteristics of the Association's portfolio at the adoption date, and the macroeconomic conditions and forecasts at that date.

- The Association expects to adopt the guidance in first quarter 2021 using the modified retrospective method with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption.

---

#### **ASU 2016-02 – Leases (Topic 842)**

---

##### Summary of Guidance:

- Requires lessees to recognize leases on the balance sheet with lease liabilities and corresponding right-of-use assets based on the present value of lease payments.
- Lessor accounting activities are largely unchanged from existing lease accounting.
- The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification.
- Expands qualitative and quantitative disclosures of leasing arrangements.
- Requires adoption using a modified cumulative-effect approach wherein the guidance is applied to all periods presented.

##### Effective Date and Potential Financial Statement Impact:

- The practical expedients allow entities to largely account for existing leases consistent with current guidance, except for the incremental balance sheet recognition for lessees.
- The Association has started its implementation of the Update which has included an initial evaluation of leasing contracts and activities.
- As a lessee the Association is developing its methodology to estimate the right-of use assets and lease liabilities, which is based on the present value of lease payments but does not expect a material change to the timing of expense recognition.
- Given the limited changes to lessor accounting, the Association does not expect material changes to recognition or measurement, but it is early in the implementation process and the impact will continue to be evaluated.
- The Association is evaluating existing disclosures and may need to provide additional information as a result of adoption of the Update.
- The Association expects to adopt the guidance in first quarter 2019 using the modified retrospective method and practical expedients for transition.

---

#### **ASU 2016-01 – Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities**

---

##### Summary of Guidance:

- The Update amends the presentation and accounting for certain financial instruments, including liabilities measured at fair value under the fair value option and equity investments.
- Requires certain equity instruments be measured at fair value, with changes in fair value recognized in earnings.
- The guidance also updates fair value presentation and disclosure requirements for financial instruments measured at amortized cost.

##### Effective Date and Potential Financial Statement Impact:

- The Association is currently evaluating any impacts to the financial statements. The Association's implementation efforts include the identification of securities within the scope of the guidance, the evaluation of the measurement alternative available for equity securities without a readily determinable fair value, and the related impact to accounting policies, presentation, and disclosures.
- Any investments in nonmarketable equity investments accounted for under the cost method of accounting (except for other Farm Credit Institution stock) will be accounted for either at fair value with unrealized gains and losses reflected in earnings or, if elected, using an alternative method. The alternative method is similar to the cost method of accounting, except that the carrying value is adjusted (through earnings) for subsequent observable transactions in the same or similar investment. The Association is evaluating which method will be applied to these nonmarketable equity investments.
- Additionally, for purposes of disclosing the fair value of loans carried at amortized cost, the Association is evaluating valuation methods to determine the necessary changes to conform to an "exit price" notion as required by the Standard. Accordingly, the fair value amounts disclosed for such loans may change upon adoption.
- The Association expects to adopt the guidance in first quarter 2018 with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption, except for changes related to nonmarketable equity investments, which is applied prospectively. The Association expects the primary accounting changes will relate to equity investments

---

#### **ASU 2014-09 – Revenue from Contracts With Customers (Topic 606) and subsequent related Updates**

---

##### Summary of Guidance:

- Requires that revenue from contracts with customers be recognized upon transfer of control of a good or service, and transfers of nonfinancial assets, in an amount equaling the consideration expected to be received.
- Changes the accounting for certain contract costs, including whether they may be offset against revenue in the Statements of Income, and requires additional disclosures about revenue and contract costs.
- May be adopted using a full retrospective approach or a modified, cumulative-effect approach wherein the guidance is applied only to existing contracts as of the date of initial application, and to new contracts transacted after that date.

##### Effective Date and Potential Financial Statement Impact:

- The Association's revenue is the sum of net interest income and noninterest income. The scope of the guidance explicitly excludes net interest income as well as many other revenues for financial assets and liabilities including loans, leases, securities, and derivatives. Accordingly, the majority of the Association's revenues will not be affected.
- The Association is performing an assessment of revenue contracts as well as working with industry participants on matters of interpretation and application. Accounting policies will not change materially since the principles of revenue recognition from the Update are largely consistent with existing guidance and current practices. The Association has not identified material changes to the timing or amount of revenue recognition.

- 
- The Association expects a minor change to the presentation of costs for certain underwriting activities which will be presented in expenses rather than the current presentation against the related revenues. The Association will provide qualitative disclosures of performance obligations related to revenue recognition and will continue to evaluate disaggregation for significant categories of revenue in the scope of the guidance.
  - The Association expects to adopt the guidance in first quarter 2018 using the modified retrospective method with a cumulative-effect adjustment to opening retained earnings.

**NOTE:** Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, [www.agfirst.com](http://www.agfirst.com). Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-633-9091, ext. 2663, writing Alisa D. Gunter, CFO, AgSouth Farm Credit, ACA, P.O. Box 718, Statesboro, GA 30459, or accessing the Association's website [www.agsouthfc.com](http://www.agsouthfc.com). The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual report to Shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

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

# AgSouth Farm Credit, ACA

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	<b>September 30, 2017</b> <i>(unaudited)</i>	<b>December 31, 2016</b> <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 1,407	\$ 5,160
Investment securities:		
Held to maturity (fair value of \$5,571 and \$6,820, respectively)	5,593	7,057
Loans	1,736,400	1,631,945
Allowance for loan losses	(14,336)	(14,183)
Net loans	1,722,064	1,617,762
Loans held for sale	2,289	2,860
Accrued interest receivable	18,503	14,538
Investments in other Farm Credit institutions	23,008	22,847
Premises and equipment, net	19,277	18,753
Other property owned	4,019	3,289
Accounts receivable	9,275	20,956
Other assets	6,836	9,761
Total assets	<b>\$ 1,812,271</b>	<b>\$ 1,722,983</b>
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 1,433,586	\$ 1,342,601
Accrued interest payable	3,387	3,025
Patronage refunds payable	191	8,673
Accounts payable	2,058	2,470
Other liabilities	27,126	27,514
Total liabilities	<b>1,466,348</b>	<b>1,384,283</b>
Commitments and contingencies (Note 8)		
<b>Members' Equity</b>		
Protected borrower stock	—	2
Capital stock and participation certificates	8,980	8,493
Retained earnings		
Allocated	99,197	118,570
Unallocated	238,020	212,028
Accumulated other comprehensive income (loss)	(274)	(393)
Total members' equity	<b>345,923</b>	<b>338,700</b>
Total liabilities and members' equity	<b>\$ 1,812,271</b>	<b>\$ 1,722,983</b>

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

# AgSouth Farm Credit, ACA

## Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
<b>Interest Income</b>				
Loans	\$ 25,351	\$ 23,418	\$ 72,620	\$ 68,640
Investments	94	130	284	399
Total interest income	<b>25,445</b>	23,548	<b>72,904</b>	69,039
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	10,224	8,910	28,766	26,039
Other	102	9	201	122
Total interest expense	<b>10,326</b>	8,919	<b>28,967</b>	26,161
Net interest income	<b>15,119</b>	14,629	<b>43,937</b>	42,878
Provision for loan losses	1,299	197	1,954	538
Net interest income after provision for loan losses	<b>13,820</b>	14,432	<b>41,983</b>	42,340
<b>Noninterest Income</b>				
Loan fees	769	731	2,533	2,337
Fees for financially related services	184	303	561	760
Patronage refunds from other Farm Credit institutions	3,027	3,178	9,193	9,716
Gains (losses) on sales of rural home loans, net	483	547	1,485	1,541
Gains (losses) on sales of premises and equipment, net	33	16	218	274
Gains (losses) on other transactions	131	(109)	(1,540)	(1,661)
Other noninterest income	28	22	104	75
Total noninterest income	<b>4,655</b>	4,688	<b>12,554</b>	13,042
<b>Noninterest Expense</b>				
Salaries and employee benefits	6,151	6,912	20,366	22,436
Occupancy and equipment	486	554	1,676	1,780
Insurance Fund premiums	488	551	1,399	1,473
(Gains) losses on other property owned, net	13	93	14	337
Other operating expenses	1,574	2,157	5,087	5,982
Total noninterest expense	<b>8,712</b>	10,267	<b>28,542</b>	32,008
Income before income taxes	<b>9,763</b>	8,853	<b>25,995</b>	23,374
Provision for income taxes	3	1	5	8
Net income	<b>\$ 9,760</b>	\$ 8,852	<b>\$ 25,990</b>	\$ 23,366

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

---

AgSouth Farm Credit, ACA

# Consolidated Statements of Comprehensive Income

*(unaudited)*

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
Net income	\$ 9,760	\$ 8,852	\$ 25,990	\$ 23,366
<b>Other comprehensive income net of tax</b>				
Employee benefit plans adjustments	40	37	119	111
Comprehensive income	\$ 9,800	\$ 8,889	\$ 26,109	\$ 23,477

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

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

*(unaudited)*

*(dollars in thousands)*

	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2015	\$ 2	\$ 7,972	\$ 116,777	\$ 200,380	\$ (512)	\$ 324,619
Comprehensive income				23,366	111	23,477
Capital stock/participation certificates issued/(retired), net		407				407
Retained earnings retired			(18,115)			(18,115)
Patronage distribution adjustment			(20)	29		9
Balance at September 30, 2016	\$ 2	\$ 8,379	\$ 98,642	\$ 223,775	\$ (401)	\$ 330,397
<b>Balance at December 31, 2016</b>	<b>\$ 2</b>	<b>\$ 8,493</b>	<b>\$ 118,570</b>	<b>\$ 212,028</b>	<b>\$ (393)</b>	<b>\$ 338,700</b>
<b>Comprehensive income</b>				<b>25,990</b>	<b>119</b>	<b>26,109</b>
<b>Protected borrower stock issued/(retired), net</b>	<b>(2)</b>					<b>(2)</b>
<b>Capital stock/participation certificates issued/(retired), net</b>		<b>487</b>				<b>487</b>
<b>Retained earnings retired</b>			<b>(19,372)</b>			<b>(19,372)</b>
<b>Patronage distribution adjustment</b>			<b>(1)</b>	<b>2</b>		<b>1</b>
<b>Balance at September 30, 2017</b>	<b>\$ —</b>	<b>\$ 8,980</b>	<b>\$ 99,197</b>	<b>\$ 238,020</b>	<b>\$ (274)</b>	<b>\$ 345,923</b>

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



---

## AgSouth Farm Credit, ACA

# Notes to the Consolidated Financial Statements

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

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

#### Organization

The accompanying financial statements include the accounts of AgSouth Farm Credit, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2016, are contained in the 2016 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

#### Basis of Presentation

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

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

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

#### Significant Accounting Policies

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

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

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

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

#### Accounting Standards Updates (ASUs) Issued During the Period

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

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

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

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

#### ***ASUs Pending Effective Date***

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

Potential effects of ASUs issued in previous periods:

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

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

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

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

#### ***Accounting Standards Effective During the Period***

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

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

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

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

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

#### **Note 2 — Loans and Allowance for Loan Losses**

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

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

A summary of loans outstanding at period end follows:

	September 30, 2017	December 31, 2016
Real estate mortgage	\$ 1,315,720	\$ 1,263,320
Production and intermediate-term	330,194	288,968
Processing and marketing	16,001	10,168
Farm-related business	15,623	12,706
Rural residential real estate	58,390	55,432
Other (including Mission Related)	472	1,351
Total Loans	<u>\$ 1,736,400</u>	<u>\$ 1,631,945</u>

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

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

		September 30, 2017							
		Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
		Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$	-	\$ 173,365	-	\$ 18,083	-	-	-	\$ 191,448
Production and intermediate-term		-	50,193	775	-	1,619	-	2,394	50,193
Processing and marketing		-	14,742	-	1,660	-	-	-	16,402
Farm-related business		-	12,500	-	1,350	-	-	-	13,850
Total	\$	-	\$ 250,800	\$ 775	\$ 21,093	\$ 1,619	\$ -	\$ 2,394	\$ 271,893

		December 31, 2016							
		Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
		Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$	-	\$ 193,381	-	\$ 19,432	-	-	-	\$ 212,813
Production and intermediate-term		-	87,233	911	-	1,781	-	2,692	87,233
Processing and marketing		-	7,066	-	41,395	-	-	-	48,461
Farm-related business		-	6,250	-	1,125	-	-	-	7,375
Total	\$	-	\$ 293,930	\$ 911	\$ 61,952	\$ 1,781	\$ -	\$ 2,692	\$ 355,882

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

		September 30, 2017			
		Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$	47,736	\$ 227,747	\$ 1,040,237	\$ 1,315,720
Production and intermediate-term		177,839	112,226	40,129	330,194
Processing and marketing		8,260	2,253	5,488	16,001
Farm-related business		435	11,577	3,611	15,623
Rural residential real estate		4,189	1,905	52,296	58,390
Other (including Mission Related)		-	-	472	472
Total Loans	\$	238,459	\$ 355,708	\$ 1,142,233	\$ 1,736,400
Percentage		13.73%	20.49%	65.78%	100.00%

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

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

	September 30, 2017	December 31, 2016		September 30, 2017	December 31, 2016
<b>Real estate mortgage:</b>			<b>Rural residential real estate:</b>		
Acceptable	96.85%	96.82%	Acceptable	97.50%	98.26%
OAEM	1.87	1.35	OAEM	1.00	1.09
Substandard/doubtful/loss	1.28	1.83	Substandard/doubtful/loss	1.50	0.65
	100.00%	100.00%		100.00%	100.00%
<b>Production and intermediate-term:</b>			<b>Other (including Mission Related):</b>		
Acceptable	95.37%	95.76%	Acceptable	100.00%	100.00%
OAEM	3.82	2.85	OAEM	—	—
Substandard/doubtful/loss	0.81	1.39	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
<b>Processing and marketing:</b>			<b>Total Loans:</b>		
Acceptable	95.93%	93.12%	Acceptable	96.59%	96.67%
OAEM	4.07	6.88	OAEM	2.24	1.64
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	1.17	1.69
	100.00%	100.00%		100.00%	100.00%
<b>Farm-related business:</b>					
Acceptable	97.40%	98.35%			
OAEM	2.58	1.62			
Substandard/doubtful/loss	0.02	0.03			
	100.00%	100.00%			

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

	September 30, 2017					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 6,364	\$ 5,502	\$ 11,866	\$ 1,316,028	\$ 1,327,894	\$ —
Production and intermediate-term	1,455	2,029	3,484	332,485	335,969	—
Processing and marketing	344	—	344	15,857	16,201	—
Farm-related business	2	1	3	15,683	15,686	—
Rural residential real estate	514	221	735	57,914	58,649	—
Other (including Mission Related)	—	—	—	474	474	—
Total	\$ 8,679	\$ 7,753	\$ 16,432	\$ 1,738,441	\$ 1,754,873	\$ —
	December 31, 2016					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 7,598	\$ 7,996	\$ 15,594	\$ 1,257,983	\$ 1,273,577	\$ —
Production and intermediate-term	1,874	1,460	3,334	289,533	292,867	—
Processing and marketing	—	—	—	10,261	10,261	—
Farm-related business	46	4	50	12,705	12,755	—
Rural residential real estate	1,016	149	1,165	54,458	55,623	—
Other (including Mission Related)	—	—	—	1,363	1,363	—
Total	\$ 10,534	\$ 9,609	\$ 20,143	\$ 1,626,303	\$ 1,646,446	\$ —

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

	September 30, 2017	December 31, 2016
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 12,742	\$ 12,842
Production and intermediate-term	3,538	4,023
Farm-related business	3	4
Rural residential real estate	364	274
Total	<u>\$ 16,647</u>	<u>\$ 17,143</u>
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 6,574	\$ 7,380
Production and intermediate-term	778	318
Rural residential real estate	205	212
Total	<u>\$ 7,557</u>	<u>\$ 7,910</u>
<b>Accruing loans 90 days or more past due:</b>		
Total	<u>\$ —</u>	<u>\$ —</u>
Total nonperforming loans	\$ 24,204	\$ 25,053
Other property owned	4,019	3,289
Total	<u>\$ 28,223</u>	<u>\$ 28,342</u>
Nonaccrual loans as a percentage of total loans	0.96%	1.05%
Nonperforming assets as a percentage of total loans and other property owned	1.62%	1.73%
Nonperforming assets as a percentage of capital	<u>8.16%</u>	<u>8.37%</u>

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

	September 30, 2017	December 31, 2016
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 7,690	\$ 4,951
Past due	8,957	12,192
Total	<u>\$ 16,647</u>	<u>\$ 17,143</u>
<b>Impaired accrual loans:</b>		
Restructured	\$ 7,557	\$ 7,910
90 days or more past due	—	—
Total	<u>\$ 7,557</u>	<u>\$ 7,910</u>
Total impaired loans	<u>\$ 24,204</u>	<u>\$ 25,053</u>
Additional commitments to lend	<u>\$ —</u>	<u>\$ 1</u>

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

	September 30, 2017			Quarter Ended September 30, 2017		Nine Months Ended September 30, 2017	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>Impaired loans:</b>							
<b>With a related allowance for credit losses:</b>							
Real estate mortgage	\$ 1,341	\$ 1,407	\$ 50	\$ 1,380	\$ 25	\$ 1,438	\$ 60
Production and intermediate-term	406	509	123	417	7	435	18
Farm-related business	—	—	—	—	—	—	—
Rural residential real estate	—	—	—	—	—	—	—
Total	<u>\$ 1,747</u>	<u>\$ 1,916</u>	<u>\$ 173</u>	<u>\$ 1,797</u>	<u>\$ 32</u>	<u>\$ 1,873</u>	<u>\$ 78</u>
<b>With no related allowance for credit losses:</b>							
Real estate mortgage	\$ 17,975	\$ 21,578	\$ —	\$ 18,489	\$ 329	\$ 19,270	\$ 798
Production and intermediate-term	3,910	5,073	—	4,023	72	4,193	174
Farm-related business	3	90	—	3	—	3	—
Rural residential real estate	569	701	—	584	10	609	25
Total	<u>\$ 22,457</u>	<u>\$ 27,442</u>	<u>\$ —</u>	<u>\$ 23,099</u>	<u>\$ 411</u>	<u>\$ 24,075</u>	<u>\$ 997</u>
<b>Total:</b>							
Real estate mortgage	\$ 19,316	\$ 22,985	\$ 50	\$ 19,869	\$ 354	\$ 20,708	\$ 858
Production and intermediate-term	4,316	5,582	123	4,440	79	4,628	192
Farm-related business	3	90	—	3	—	3	—
Rural residential real estate	569	701	—	584	10	609	25
Total	<u>\$ 24,204</u>	<u>\$ 29,358</u>	<u>\$ 173</u>	<u>\$ 24,896</u>	<u>\$ 443</u>	<u>\$ 25,948</u>	<u>\$ 1,075</u>

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

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Rural Residential Real Estate	Other (including Mission Related)	Total
<b>Activity related to the allowance for credit losses:</b>						
Balance at June 30, 2017	\$ 10,006	\$ 2,499	\$ 213	\$ 431	\$ 4	\$ 13,153
Charge-offs	(101)	(150)	—	(14)	—	(265)
Recoveries	22	123	1	—	3	149
Provision for loan losses	831	365	47	59	(3)	1,299
Balance at September 30, 2017	\$ 10,758	\$ 2,837	\$ 261	\$ 476	\$ 4	\$ 14,336
Balance at December 31, 2016	\$ 11,297	\$ 2,271	\$ 178	\$ 426	\$ 11	\$ 14,183
Charge-offs	(1,826)	(209)	—	(67)	—	(2,102)
Recoveries	152	133	3	—	13	301
Provision for loan losses	1,135	642	80	117	(20)	1,954
Balance at September 30, 2017	\$ 10,758	\$ 2,837	\$ 261	\$ 476	\$ 4	\$ 14,336
Balance at June 30, 2016	\$ 10,572	\$ 2,381	\$ 162	\$ 423	\$ 20	\$ 13,558
Charge-offs	(23)	(22)	—	—	—	(45)
Recoveries	45	5	1	—	5	56
Provision for loan losses	400	(183)	2	(14)	(8)	197
Balance at September 30, 2016	\$ 10,994	\$ 2,181	\$ 165	\$ 409	\$ 17	\$ 13,766
Balance at December 31, 2015	\$ 10,369	\$ 2,177	\$ 92	\$ 423	\$ 38	\$ 13,099
Charge-offs	(101)	(58)	—	—	—	(159)
Recoveries	149	121	3	—	15	288
Provision for loan losses	577	(59)	70	(14)	(36)	538
Balance at September 30, 2016	\$ 10,994	\$ 2,181	\$ 165	\$ 409	\$ 17	\$ 13,766
<b>Allowance on loans evaluated for impairment:</b>						
Individually	\$ 50	\$ 123	\$ —	\$ —	\$ —	\$ 173
Collectively	10,708	2,714	261	476	4	14,163
Balance at September 30, 2017	\$ 10,758	\$ 2,837	\$ 261	\$ 476	\$ 4	\$ 14,336
Individually	\$ 1,612	\$ 41	\$ —	\$ —	\$ —	\$ 1,653
Collectively	9,685	2,230	178	426	11	12,530
Balance at December 31, 2016	\$ 11,297	\$ 2,271	\$ 178	\$ 426	\$ 11	\$ 14,183
<b>Recorded investment in loans evaluated for impairment:</b>						
Individually	\$ 19,372	\$ 4,326	\$ 3	\$ 569	\$ —	\$ 24,270
Collectively	1,308,522	331,643	31,884	58,080	474	1,730,603
Balance at September 30, 2017	\$ 1,327,894	\$ 335,969	\$ 31,887	\$ 58,649	\$ 474	\$ 1,754,873
Individually	\$ 20,166	\$ 4,353	\$ 4	\$ 487	\$ —	\$ 25,010
Collectively	1,253,411	288,514	23,012	55,136	1,363	1,621,436
Balance at December 31, 2016	\$ 1,273,577	\$ 292,867	\$ 23,016	\$ 55,623	\$ 1,363	\$ 1,646,446

\*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.

Three months ended September 30, 2017					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
<b>Pre-modification:</b>					
Real estate mortgage	\$ 509	\$ 1,032	\$ –	\$ 1,541	
Production and intermediate-term	–	160	–	160	
Total	\$ 509	\$ 1,192	\$ –	\$ 1,701	
<b>Post-modification:</b>					
Real estate mortgage	\$ 522	\$ 1,049	\$ –	\$ 1,571	\$ –
Production and intermediate-term	–	162	–	162	–
Total	\$ 522	\$ 1,211	\$ –	\$ 1,733	\$ –

Nine months ended September 30, 2017					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
<b>Pre-modification:</b>					
Real estate mortgage	\$ 509	\$ 2,050	\$ –	\$ 2,559	
Production and intermediate-term	–	846	–	846	
Rural residential real estate	37	–	–	37	
Total	\$ 546	\$ 2,896	\$ –	\$ 3,442	
<b>Post-modification:</b>					
Real estate mortgage	\$ 522	\$ 2,064	\$ –	\$ 2,586	\$ –
Production and intermediate-term	–	858	–	858	–
Rural residential real estate	37	–	–	37	–
Total	\$ 559	\$ 2,922	\$ –	\$ 3,481	\$ –

Three months ended September 30, 2016					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
<b>Pre-modification:</b>					
Real estate mortgage	\$ 408	\$ 355	\$ –	\$ 763	
Production and intermediate-term	443	105	–	548	
Farm-related business	–	29	–	29	
Total	\$ 851	\$ 489	\$ –	\$ 1,340	
<b>Post-modification:</b>					
Real estate mortgage	\$ 414	\$ 355	\$ –	\$ 769	\$ –
Production and intermediate-term	451	108	–	559	–
Farm-related business	–	29	–	29	–
Total	\$ 865	\$ 492	\$ –	\$ 1,357	\$ –

Nine months ended September 30, 2016					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
<b>Pre-modification:</b>					
Real estate mortgage	\$ 2,356	\$ 2,037	\$ –	\$ 4,393	
Production and intermediate-term	616	1,159	–	1,775	
Farm-related business	–	29	–	29	
Total	\$ 2,972	\$ 3,225	\$ –	\$ 6,197	
<b>Post-modification:</b>					
Real estate mortgage	\$ 2,280	\$ 2,047	\$ –	\$ 4,327	\$ –
Production and intermediate-term	608	820	–	1,428	–
Farm-related business	–	29	–	29	–
Total	\$ 2,888	\$ 2,896	\$ –	\$ 5,784	\$ –

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



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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Real estate mortgage	\$ 1	\$ 1,024	\$ 36	\$ 1,993
Production and intermediate-term	—	376	628	414
Rural residential real estate	7	43	24	43
Total	\$ 8	\$ 1,443	\$ 688	\$ 2,450

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

	Total TDRs		Nonaccrual TDRs	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Real estate mortgage	\$ 11,435	\$ 12,525	\$ 4,861	\$ 5,145
Production and intermediate-term	1,776	1,534	998	1,216
Farm-related business	3	4	3	4
Rural residential real estate	308	370	103	158
Total Loans	\$ 13,522	\$ 14,433	\$ 5,965	\$ 6,523
Additional commitments to lend	\$ —	\$ —		

The following table presents information as of period end:

	September 30, 2017
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ —
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ 180

### Note 3 — 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 September 30, 2017, the Association held no RABs whose credit quality had deteriorated beyond the program limits.

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

	September 30, 2017				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 5,593	\$ 124	\$ (146)	\$ 5,571	6.34%

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

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

	September 30, 2017		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ —	\$ —	—%
After one year through five years	—	—	—
After five years through ten years	—	—	—
After ten years	5,593	5,571	6.34
Total	\$ 5,593	\$ 5,571	6.34%

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

An investment is considered impaired if its fair value is less than its cost. 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 position for an investment is measured from the date the impairment was first identified.

		September 30, 2017			
		Less than 12 Months		12 Months or Greater	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs		\$ -	\$ -	\$ 1,099	\$ (146)

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

The recording of an impairment 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***

The Association is required to maintain ownership in AgFirst Farm Credit Bank (AgFirst or the Bank) of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 7.12 percent of the issued stock of the Bank as of September 30, 2017 net of any reciprocal investment. As of that date, the Bank's assets totaled \$32.1 billion and shareholders' equity totaled \$2.5 billion. The Bank's earnings were \$247 million for the first nine months of 2017. In addition, the Association held investments of \$4,923 related to other Farm Credit institutions.

#### **Note 4 — Debt**

##### ***Notes Payable to AgFirst Farm Credit Bank***

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

## Note 5 — Members' Equity

### Accumulated Other Comprehensive Income (AOCI)

	Changes in Accumulated Other Comprehensive Income by Component (a)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
<b>Employee Benefit Plans:</b>				
Balance at beginning of period	\$ (314)	\$ (438)	\$ (393)	\$ (512)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	40	37	119	111
Net current period other comprehensive income	40	37	119	111
Balance at end of period	\$ (274)	\$ (401)	\$ (274)	\$ (401)

	Reclassifications Out of Accumulated Other Comprehensive Income (b)				
	Three Months Ended September 30,		Nine Months Ended September 30,		Income Statement Line Item
	2017	2016	2017	2016	
<b>Defined Benefit Pension Plans:</b>					
Periodic pension costs	\$ (40)	\$ (37)	\$ (119)	\$ (111)	See Note 7.
Net amounts reclassified	\$ (40)	\$ (37)	\$ (119)	\$ (111)	

(a) Amounts in parentheses indicate debits to AOCI.

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

## Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

At or for the Nine Months Ended September 30, 2017						
Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings	
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in Trust funds	\$ 1,950	\$ 1,950	\$ –	\$ –	\$ 1,950	
Recurring Assets	\$ 1,950	\$ 1,950	\$ –	\$ –	\$ 1,950	
<b>Liabilities:</b>						
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 1,574	\$ –	\$ –	\$ 1,574	\$ 1,574	\$ (322)
Other property owned	4,019	–	–	4,154	4,154	6
Nonrecurring Assets	\$ 5,593	\$ –	\$ –	\$ 5,728	\$ 5,728	\$ (316)
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 1,407	\$ 1,407	\$ –	\$ –	\$ 1,407	
Investment securities, held-to-maturity	5,593	–	–	5,571	5,571	
Loans	1,722,779	–	–	1,725,290	1,725,290	
Other Financial Assets	\$ 1,729,779	\$ 1,407	\$ –	\$ 1,730,861	\$ 1,732,268	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 1,433,586	\$ –	\$ –	\$ 1,425,577	\$ 1,425,577	
Other Financial Liabilities	\$ 1,433,586	\$ –	\$ –	\$ 1,425,577	\$ 1,425,577	

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	
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in Trust funds	\$ 1,660	\$ 1,660	\$ –	\$ –	\$ 1,660	
Recurring Assets	\$ 1,660	\$ 1,660	\$ –	\$ –	\$ 1,660	
<b>Liabilities:</b>						
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans*	\$ 2,861	\$ –	\$ –	\$ 2,861	\$ 2,861	\$ (1,641)
Other property owned	3,289	–	–	3,335	3,335	(637)
Nonrecurring Assets	\$ 6,150	\$ –	\$ –	\$ 6,196	\$ 6,196	\$ (2,278)
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 5,160	\$ 5,160	\$ –	\$ –	\$ 5,160	
Investment securities, held-to-maturity	7,057	–	–	6,820	6,820	
Loans*	1,617,761	–	–	1,613,871	1,613,871	
Other Financial Assets	\$ 1,629,978	\$ 5,160	\$ –	\$ 1,620,691	\$ 1,625,851	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 1,342,601	\$ –	\$ –	\$ 1,324,126	\$ 1,324,126	
Other Financial Liabilities	\$ 1,342,601	\$ –	\$ –	\$ 1,324,126	\$ 1,324,126	

\*Subsequent to the issuance of the 2016 Annual Report, management identified errors in the reporting of certain loans measured at fair value on a non-recurring basis using Level 3. Management has evaluated the impact of the errors on the disclosure in this note and concluded that individually and in the aggregate, the errors do not result in a material misstatement of the previously issued financial statements. The Level 3 fair values of impaired loans and loans reported for December 31, 2016 have been revised from the previously reported amounts of \$23,400 and \$1,593,332, to \$2,861 and \$1,613,871, respectively.

## SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and

assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the

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

#### Investment Securities

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

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

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

#### Inputs to Valuation Techniques

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

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

#### Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 5,728	Appraisal	Income and expense Comparable sales Replacement cost Comparability adjustments	* * * *

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

#### Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
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 7 — Employee Benefit Plans

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Pension	\$ 1,139	\$ 1,524	\$ 3,416	\$ 4,571
401(k)	221	208	738	662
Other postretirement benefits	175	340	602	1,020
Total	\$ 1,535	\$ 2,072	\$ 4,756	\$ 6,253

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

	Actual YTD Through 9/30/17	Projected Contributions For Remainder of 2017	Projected Total Contributions 2017
Pension	\$ 102	\$ 3,841	\$ 3,943
Other postretirement benefits	601	215	816
Total	\$ 703	\$ 4,056	\$ 4,759

---

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

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

#### **Note 8 — Commitments and Contingent Liabilities**

From time to time, legal actions are pending against the Association in which claims for monetary 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.

#### **Note 9 — Subsequent Events**

The Association evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through November 8, 2017, which was the date the financial statements were issued.

In October 2017, a new appraisal was received on a piece of other property owned. The analysis led to an additional write-down of the other property owned. The amount was not material to the overall financial statements of the Association and will be recorded in the fourth quarter of 2017.

On October 16, 2017, AgFirst's Board of Directors indicated an intention to declare, in December 2017, a special patronage distribution. The Association will receive between \$10,358 and \$12,429 which will be recorded as patronage refunds from other Farm Credit institutions.